Net Zero 2050 Roadmap

2023

Australian Retirement Trust

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Net Zero 2050 Roadmap

Climate change represents one of the most significant challenges of our time. As a global investor, Australian Retirement Trust (ART) is committed to doing our part towards investing in a low carbon economy and creating a more sustainable future for all Australians.

ART acknowledges the science of climate change. As a systemic risk, if climate change is left unabated, it will create significant impacts on the global economy and society. This means that to help protect members' future financial wellbeing, we look to consider climate change throughout all aspects of the investment approach and decision-making where appropriate.

Our views are supported by the increasing attention that governments, regulators, communities and many of our beneficiaries are placing on this issue and the role our capital can have, along with that of other investors, in seeking to affect the transition to a net zero economy.

For the global economy to decarbonise, we need to play our part. By encouraging our investee companies to transition, our investment portfolio will also progress towards a net zero greenhouse gas emissions investment portfolio by 2050 (NZE2050).[1] Our actions to help achieve this include our approach to stewardship, how we invest and working with other organisations to learn, share knowledge and advocate for change.

We believe that guiding the ART portfolio to this path will help us avoid unrewarded risks as businesses and economies transition to a low-carbon future, which aims to achieve better outcomes for our members. Interim climate-related targets have been developed as milestones to measure our progress in achieving our NZE2050 target.

ART has adopted a target of a net zero greenhouse gas emissions investment portfolio by 2050 (NZE2050),[1] aligned with the Paris Agreement goal of limiting global warming to well below 2°C. This supports our view that such targets will increasingly be accepted by markets as the base case through which economies will operate.

Australian Retirement Trust acknowledges the Traditional Owners of this land, recognising their connection to land, waters and community. We pay our respects to Australia's First Peoples, and to their Elders past, present and future.

1. Scope 3 category 15 (investments) emissions. PCAF (2022). **The Global GHG Accounting and Reporting Standard Part A: Financed Emissions**. Second Edition.

We are proud to introduce our Net Zero 2050 Roadmap. Climate change poses challenges and opportunities to the way we invest members' money. A sustainable future is not about just managing risks of climate change, but also making profitable investments in areas that will be part of the solution to changing world dynamics.

While climate change poses risks to the planet and the welfare of the people who live on it, the risks are also ultimately financial. For this reason, it is certainly in our members' best financial interests that we understand the reality and address the impact of climate change in our activities and seek out opportunities as our world changes around us.

Ian Patrick
Chief Investment Officer

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The global challenge

Climate change is a risk that will impact all sectors of the economy.

With current global temperatures around 1.1°C above the late 1800s, the Paris Agreement was a turning point for global governments to strengthen and accelerate their response to climate change.[1]
In 2015, the Paris Agreement committed signatory governments to limit global warming to 'well below' 2°C and encourage the pursuit of 1.5°C, compared with pre-industrial levels.[1]

The Australian Prudential Regulation Authority (APRA), which is a key regulator of superannuation funds, has clearly stated that climate change poses risks to the financial system. APRA has provided guidance to its regulated entities, including superannuation funds like ART, on how a prudent organisation should consider the financial implications of climate change risks and opportunities for its investment portfolio.[2]

The financial risks of climate change include (Figure 1):

The Paris Agreement

The Paris Agreement is a legally binding treaty on climate change with 196 nation signatories, including Australia. It is considered a landmark agreement as it's the first time a binding agreement has been globally ratified to combat climate change and its impacts. The Paris Agreement works on a five-year cycle where member countries set an initial climate target then continue to increase their ambitions. Read more here - **The Paris Agreement | UNFCCC**.

Physical risk

- Changing climate conditions
- Extreme weather events

Direct damage to assets or property

- Lower asset values
- Increased insurance claims
- Supply chain disruption

Transition risk

- Policy change
- Technological innovation
- Social adaptation

Disruption from adjustment to low-emissions economy

- Impacts on pricing and demand
- Standard assets
- Defaults on loans

Liability risk

- Stakeholder litigation
- Regulatory enforcement

Not considering or responding to the impacts of climate change

- Business disruption resulting from litigation
- Penalties resulting from litigation

Figure 1: APRA's view of the risks and financial effects of climate change

1. **Key aspects of the Paris Agreement**.
2. **APRA CPG 229 Climate Change Financial Risks**.

Transition risks flow from the major policy, legal, technological and market changes associated with attempts to mitigate climate change or adapt to its impacts. Transition risks are most often assessed in their two main forms; the risk of a price introduced on carbon emissions and the risk of fossil fuel reserves becoming stranded as their extraction proves uneconomic due to changes in the market and regulation. Transition risks can also be assessed in terms of impacts on revenues and costs, namely capital and operational expenditures. These include:

- Policy shifts creating a collapse in demand for products.
- Input prices being permanently changed by climate change.
- Technological innovation and business models failing to accommodate changing technologies

Physical risks are the physical impacts of climate change, relating to either extreme weather events or longer-term changes in climate patterns. These include:

- Direct damage to assets from extreme weather events linked to climate change.
- Increased insurance claims or inability to obtain insurance.
- Resources or supply chains being permanently damaged by climate change.

Liability risks due to failure to foresee and mitigate losses from either transition or physical risks resulting in litigation or penalties. These include:

- Stakeholder litigation.
- Regulatory enforcement.

Despite the significant risks posed by climate change, there are also opportunities presented by the transition to a low carbon economy. The transition requires significant investment in climate solutions and climate transition (decarbonisation of existing industries) across multiple sectors including renewables, electrified transport, hydrogen and battery storage. The capital required has been estimated at over US$125 trillion investment in climate solutions to 2050, with over US$30 trillion needed in the 2020s.[1] Consistent with the views of governments and regulators, adapting to the changing climate is expected to bring new business opportunities which we believe may help achieve better financial outcomes for our members.

1. **https://www.iigcc.org/resources/climate-investment-roadmap**.

Transitioning our investment portfolio – our Net Zero 2050 Roadmap

As a superannuation fund that is invested in the global economy, we will seek to manage transition and physical risks and take advantage of opportunities to deploy capital to new climate-related investments where appropriate.

The Net Zero 2050 Roadmap (Roadmap) outlines how we plan to transition our investment portfolio and accelerate actions towards NZE2050. The focus of this Roadmap is to establish guiding principles, our approach to setting interim targets and the two-year action plan for our investment portfolio.

Our initial focus is on our superannuation investments given this is where we can have the most impact and influence.[1] Whilst we also recognise other topics such as biodiversity and its intersection with climate change, this Roadmap remains focused on actions directly concerning NZE2050 in relation to our investment portfolio.[2]

The statements contained within this Roadmap are based on circumstances and information that is available to ART as at September 2023, which are set out in further detail below, including the assumptions that have been relied on. These assumptions and information are subject to change as further data becomes available or if circumstances impact on targets being achieved. If necessary, this Roadmap (including targets and assumptions) will be updated accordingly.

1. Out of scope are the operations of ART.
2. Biodiversity has been identified as a priority ESG topic under the ART Sustainable Investment Policy.

Guiding principles and actions

We have developed guiding principles that direct our approach to achieving NZE2050 (Table 1). Importantly, the guiding principles recognise our legal duties to our members.

Table 1 includes the key actions that we consider will contribute the most to managing climate-related investment risks and opportunities. Further actions to assist in transitioning the investment portfolio to NZE2050 are outlined in the remainder of this Roadmap.

A public report will be prepared outlining our approach to measuring, monitoring and reporting on our progress, including our targets, on an annual basis using recognised voluntary or future mandatory standards. Publicly reporting on progress against this Roadmap shows consistency with what we ask of our investee companies and keeps our members informed.

This Roadmap and associated targets will be reviewed on a two-yearly cycle or amended and updated as required within this timeframe.

Table 1. Guiding principles and actions

Guiding principles	Actions
Managing the physical and transition risks, and opportunities of climate change can help us meet our legal duty to act in members' best financial interests.	We have adopted a target of a net zero investment portfolio by 2050. Our Net Zero 2050 Roadmap outlines our approach to delivering on this commitment.
A reduction in real-world emissions is required by 2030 if there is any chance of meeting net zero by 2050.	We have set a carbon intensity emissions reduction target of 43% by 2030 of our investee companies in listed equities, infrastructure and real estate asset classes.
Stewardship of investee companies is an important activity to support our emissions reduction targets and an equitable transition, and to manage risk in our investment portfolio.	We have set a target for engagement with a selection of companies within the listed equities portfolio. This will include objectives, timeframes and potential use of escalation measures for direct engagements where investee companies are not meeting the key objectives.
Working with our investment managers positions us to better manage climate risk and capture opportunities.	Climate change will be considered systematically and explicitly included in the process for the selection, appointment and monitoring of our investment managers.
Capital is required for existing and new investments that support real-world decarbonisation.	We will adopt a target for investment in climate-related opportunities. This may include investment in climate solutions and supporting hard-to-abate sectors to transition.
We cannot achieve an NZE2050 investment portfolio alone.	We will partner with other organisations and initiatives to learn, share knowledge and advocate for change where it supports our Net Zero 2050 Roadmap.
Measuring, monitoring and reporting climate-related outcomes are important for demonstrating progress to stakeholders, including members.	A public report outlining our progress will be prepared on an annual basis using recognised voluntary or future mandatory standards.
Understanding of climate change is rapidly evolving. Climate change strategies should be reviewed regularly to respond to the changing landscape.	Our Net Zero 2050 Roadmap will be reviewed on at least a two-yearly cycle.

2030 interim climate-related targets

ART has adopted a target of a net zero greenhouse gas emissions investment portfolio by 2050:

- Aligned with the Paris Agreement goal of limiting global warming to well below 2°C.
- Our net zero target refers to the Scope 3 category 15 (investments) emissions.[1]
- This includes scope 3 emissions associated with our investments and loans. For ART, this could include Scope 1, 2 and / or Scope 3 financed emissions from investee companies.

Interim climate-related targets have been developed as milestones to measure our progress in achieving our NZE2050 target (Table 2). These are currently focused on asset classes where we can measure emissions and have available data.

Table 2. Interim climate-related targets

1	**43% reduction in emissions intensity by 2030**	
	• Target is based on emissions intensity metric (tCO_2e / $M invested). • Our 2030 target relates to the Scope 1 and Scope 2 financed emissions. This can also be referred to as ART's Scope 3 category 15 (investments) emissions.[1] • The target covers listed equities, infrastructure and real estate asset classes, representing 54% of the ART portfolio as of 30 June 2021.	• An emissions intensity metric enables comparison of investment portfolios emissions, regardless of size. We will use this metric to compare our portfolio emissions each year and track our progress, even when we grow. • We use a FY21[2] baseline (listed equities, infrastructure and real estate asset classes).
	2030: 43% against the FY21 baseline **Baseline:** FY21: 62.7 tCO_2e per AUD $M invested	
2	**Engage with 100% of our 'priority companies' within listed equities by 2030**	
	• 'Priority companies' are defined as companies that together contribute 70% of our listed equities financed emissions. • We review our 'priority companies' on an annual basis.	• Engagement can occur through direct, collaborative or service providers. • Objectives, timeframes and escalation measures are set for direct engagements.
	2030: 100% **Baseline:** FY22 – 74%	
3	**Portfolio alignment with 50% 'priority companies' to be 'net zero' or 'aligned' within listed equities by 2030**	
	• Assesses the position of priority companies within the listed equities portfolio on the pathway towards NZE2050.	• Our investee companies are classified as either - achieving net zero; - aligned to a net zero pathway; - aligning towards a net zero pathway; - committed to aligning; - not aligned; or - not assessed (due to insufficient information).
	2030: 50% **Baseline:** FY22: 8%	
4	**Climate-related investments**	
	• Adopt a target for climate-related opportunities.	• Investment in climate solutions and supporting hard-to-abate sectors to transition.
	2030: Seek to establish interim target by FY24 **Baseline:** In progress	

1. **PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition**.
2. All references to FY indicate financial year, starting 1 July to 30 June the following year.

How we set our targets

We are required to have a reasonable basis for making a sustainability target and explain how that target will be measured and achieved.

Our overarching target is to achieve a net zero greenhouse gas emissions investment portfolio by 2050 (NZE2050) (Scope 3 category 15 (investments) emissions).

We have developed several climate-related interim targets as milestones to measure our progress to achieving this ambitious outcome. This includes an emission intensity reduction target for 2030 (climate-related interim target) as a milestone for measuring progress towards our NZE2050 investment portfolio objective.

Establishing the emissions baseline (listed equities, infrastructure and real estate asset classes)

As the first step towards establishing a 2030 climate-related interim target, financed emissions for our baseline year of FY21 were calculated. This equated to 62.7 tonnes of CO_2e per million Australian dollars invested. FY21 was selected per the draft recommendations from the International Sustainability Standards Board suggesting alignment with the financial reporting year.[1,2]

A global standard for attributing emissions to our investment portfolio was used to calculate the emissions baseline. The method we used to calculate emissions and formulas is outlined in **Appendix A**.

We have reported on two metrics as at 30 June 2021: financed emissions and emissions intensity (carbon footprint) (see Table 3)

- Financed emissions for the portfolio was 6,726,724 tonnes.
- Emissions intensity (carbon footprint) was 62.7 tonnes CO_2e per million Australian dollars invested.

We acknowledge this baseline covers 54% of the investment portfolio and a gap exists where we do not have emissions data across other asset classes in which we invest. Actions in this Roadmap include seeking increased coverage of emissions data across the broader investment portfolio, commencing with private equity and corporate fixed income asset classes.

We use an emissions intensity metric to report emissions. This metric enables comparison of investment portfolios emissions, regardless of size. We will use this metric to compare our portfolio emissions each year and track our progress, even when we grow.

	Listed shares[6]	Infrastructure[7]	Real estate[8]	Total
Asset class greenhouse gas emissions coverage[3]	90.0%	100.0%	100.0%	N/A
Data reported / estimated	87.0%	99.0%	78.8%	N/A
Data proxy[4]	3.0%	0.98%	21.2%	N/A
Excluded[5]	10.0%	-	-	N/A
Financed emissions (tCO_2e)	5,892,294	741,234	93,196	6,726,724
Emissions intensity (tCO_2e / $ million invested)	73.7	47.8	7.9	62.7
$M invested	**79,928**	**15,518**	**11,774**	**107,220**
Emissions Intensity carbon footprint (financed emissions (tCO_2e) / $M invested)	**73.7**	**47.8**	**7.9**	**62.7**

Table 3: Total emissions baseline and asset class breakdown as at 30 June 2021

We convert greenhouse gas emissions (GHG) to tonnes of carbon dioxide-equivalent tCO2e. For this reason, the terms "greenhouse gas", "GHG" and "carbon" are used interchangeably.

Adopting the 2030 reduction in emissions intensity target (listed equities, infrastructure and real estate asset classes)

Following the establishment of the FY21 emissions intensity baseline, the 2030 emissions intensity reduction target was determined for the listed equities, infrastructure and real estate asset classes.

The emissions intensity reduction target was adopted from the 2022 Intergovernmental Panel on Climate Change (IPCC) report with a median reduction of 43% [34%-60% being 5th to 95th percentiles].[9] This target was selected as it is the most recent information from the leading global scientific body on climate change and their 2019 baseline was also the closest to our FY21 baseline.[10]

1. International Sustainability Standards Board Climate Related Disclosures.
2. The date was the closest financial year before the merger of Sunsuper and QSuper to become ART on 28 February 2022, and where aggregated fund data was available for asset classes where we could measure emissions: in listed equity, infrastructure and real estate.
3. Coverage by portfolio weight.
4. Data proxied by Sustainable investments team at each asset class level by either median or average emissions.
5. Derivatives were excluded for listed equities.
6. Equities data (both reported and estimated) sourced from MSCI.
7. Data sourced from investment managers.
8. Data sourced from investment managers.
9. GHG emissions reductions from 2019 % C1 [97] limit warming to 1.5 degrees (>50% probability) with no or limited overshoot. **https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SummaryForPolicymakers.pdf** (page 18).
10. In comparison to the 2018 IPCC report that stated to limit further global warming to 1.5°C (limited or no overshoot), carbon.

IPCC. Intergovernmental Panel on Climate Change (IPCC) is the leading global scientific body for climate change under the auspices of the United Nations. It was established in 1988 to provide policymakers with the most current knowledge on the science, social, economic impacts of climate change. It has released six assessment reports during this time. For more information see **About — IPCC**.

A 43% emissions intensity reduction target by 2030 implies that carbon intensity needs to reduce on average by 6.05% each year from the baseline. This is equivalent to 62.7 tCO_2/$m in FY21 to 35.8 tCO_2/$m invested by 2030.

To test the potential transition pathway of our current investments towards this 2030 target, we modelled the emissions reduction of our investee companies.[1] This was based on investee companies achieving emissions reductions in line with their current targets from our FY21 baseline year through to 2030. The results of this modelling demonstrated the decarbonisation potential of our transition pathway would amount to a 21% reduction in emissions intensity from the FY21 baseline by 2030.

This modelled reduction highlights the importance of investee companies setting targets and actionable climate transition pathways to reduce emissions. Stewardship (engagement and proxy voting) is therefore a key mechanism to influence our investee companies, where we can, towards a net zero 2050 economy.

The result of the modelling also implies a linear emissions reduction pathway. Emission reductions, however, may increase and decrease over time. This is because we may choose to stay invested in companies that have high emissions and / or hold investments in sectors that may take longer to transition if it's considered to be in members' best financial interests to do so. We have therefore defined guardrails around the expected 2030 interim emission intensity reduction target transition pathway. These guardrails have been informed by the 5th to 95th percentiles from the IPCC report 43% [34%-60%], respectively. The guardrails will be used in annual reporting.

Engagement and Portfolio Alignment targets (listed equities)

Engagement, as part of our approach to stewardship, is a key component of this Roadmap. We know that change doesn't occur through our influence alone, but as a large superannuation fund, we should seek to use our size and scale to contribute to affect change to the extent that we can. Our Engagement and Portfolio Alignment targets reflects our focus in this area. Whilst these targets primarily focus on transition risk, investee exposure to physical risk will be assessed in engagement discussions, where relevant.

Engagement and Portfolio Alignment targets have been developed for certain companies within our Australian and international listed equities portfolio. This reflects firstly, the concentration of emissions in the listed equities asset class and, secondly, limited data availability across other asset classes to undertake the type of in-depth analysis required to assess alignment and develop targets.

The targets are based on companies that together contribute 70% of our listed equities financed emissions. This group of companies is referred to as priority companies and as at 30 June 2022 represents 88 companies.[2] This number may change over time with changes in the listed equities portfolios and will be reviewed on an annual financial-year basis. These targets help manage transition risk within the investment portfolio through encouraging our investee companies to transition towards a net zero economy.

1. Listed equities, infrastructure and real estate.
2. This approach has been informed by **Paris Aligned Investment Initiative** Net Zero Asset Owners Framework.

Engagement target

As at 30 June 2022, we engaged with 74% of our priority companies in our listed equity portfolio either directly, through collaborative initiatives or through service providers. Our aim by 2030 is that we are engaging with 100% of our priority companies.

Portfolio Alignment target

We have developed a Portfolio Alignment target that assesses the position of priority companies within the listed equities portfolio on the pathway towards NZE2050. This is done by classifying investee companies as either 1) achieving net zero, 2) aligned to a net zero pathway, 3) aligning towards a net zero pathway, 4) committed to aligning, 5) not aligned or 6) not assessed (due to insufficient data).[1] This assessment criteria was informed by international guidance and tailored internally to be suitable for our investment portfolio (Table 4).[2]

<table>
<tr><th>Criteria</th><th>Not assessed</th><th>Not aligned</th><th>Committed</th><th>Aligning</th><th>Aligned</th><th>Achieving net zero</th></tr>
<tr><td>1. A commitment to net zero</td><td rowspan="6">Insufficient data to assess company</td><td>–</td><td>✔</td><td>✔</td><td>✔</td><td rowspan="6">✔ Company’s emissions at/close to net zero
✔ Business plan/model to remain net zero</td></tr>
<tr><td>2. Short and medium-term targets</td><td>–</td><td>–</td><td>✔</td><td>✔</td></tr>
<tr><td>3. Decarbonisation performance against targets</td><td>–</td><td>–</td><td>–</td><td>✔</td></tr>
<tr><td>4. Disclosure of emissions</td><td>–</td><td>–</td><td>✔</td><td>✔</td></tr>
<tr><td>5. Detailed transition plan</td><td>–</td><td>–</td><td>✔</td><td>✔</td></tr>
<tr><td>6. Capital allocation aligned to plans</td><td>–</td><td>–</td><td>–</td><td>✔</td></tr>
<tr><td>FY22 baseline assessment (% of priority companies)</td><td>27.0%</td><td>22.5%</td><td>30.3%</td><td>12.4%</td><td>7.9</td><td>0.0%</td></tr>
</table>

Table 4: Portfolio Alignment assessment criteria

Information was only available for a subset of the ‘priority companies’ (65 in total), and therefore some companies have not been assessed (27%). We expect relevant information will be easier to obtain and analyse over time through engagement with these companies and the development of climate related disclosure laws.

1. A criteria-based framework informed by the PAII was used to develop classification based on information from Climate Action 100+ (CA100+) Net Zero Company Benchmark and the Transition Pathway Initiative (TPI).
2. This approach has been informed by **Paris Aligned Investment Initiative** Net Zero Asset Owners Framework.

The Portfolio Alignment FY22 baseline indicated that 7.9% of priority companies within the listed equities portfolio are considered 'aligned to a net zero pathway'; 12.4% aligning towards a net zero pathway; 30.3% committed to aligning; and 22.5% not aligned. None are currently achieving net zero (Figure 2).

The 2030 target of '50% priority companies 1) achieving net zero, or 2) aligned to a net zero pathway' is an estimated trajectory informed by, and adapted, from international guidance.[1] Both the coverage and criteria are expected to evolve over time.

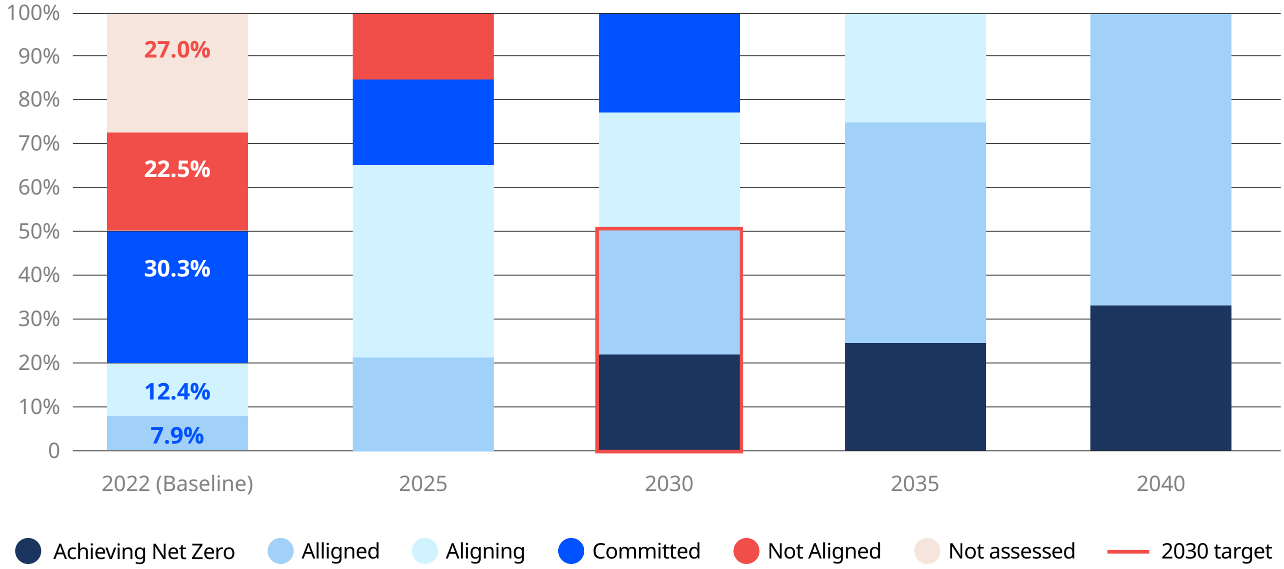

Figure 2. Portfolio Alignment baseline and 2030 target

As more reliable information becomes available, over the coming two years, it is intended that Engagement and Portfolio Alignment targets, where feasible, will be extended to appropriate holdings within our infrastructure and real estate asset classes.

1. **Paris Aligned Investment Initiative** Net Zero Asset Owners Framework. The target of 100% companies by 2040 either 'achieving net zero' or 'aligned to net zero pathway.'

Demonstrating emissions reduction through Engagement and Portfolio Alignment targets

To demonstrate possible emissions intensity reduction, we modelled our emissions transition pathway from our FY21 baseline of the top 30 priority companies. If these companies set new interim targets in line with a 45% emission reduction target by 2030, this alone could result in reduced emissions intensity by a further 10% (in addition to the 21% referred to above). This could also result in a further 14% of priority companies being classified as 'aligned to a net zero pathway' against the Portfolio Alignment target.

To meet the full 43% emissions intensity reduction target however, a suite of actions in addition to stewardship is required, including investment in the climate transition and solutions.

Establishment of a climate-related investment target by FY24

Every sector needs to be investing, to some degree, in transitioning towards net zero emissions. A significant amount of additional money is required beyond this to drive the change that's needed towards a net zero economy.

We acknowledge there are companies and assets that may not yet be adequately positioned for a net-zero 2050 economy, but with the right investment they could be. This creates an opportunity to support these organisations that need capital to transition, as well as investing in other parts of the net zero economy, such as climate solutions, when doing so will align with members' best financial interests.

A climate-related investment target will help us focus on deploying capital towards these opportunities. We are in the process of defining climate-related investments so we can establish a baseline of our current portfolio.

Net Zero 2050 Roadmap action plan

We have outlined several actions intended to accelerate our progress on managing climate risks and help contribute to achieving our NZE2050 target. Appropriate governance and risk management is the start and an important foundation.

Governance and risk management

We have a comprehensive and transparent governance structure for climate change. The Trustee is at all times responsible for our investments. The ART Board has oversight of sustainable investment activities, including approval of the Sustainable Investment Policy, along with climate change considerations for investments. This includes responsibility for approval of this Roadmap and climate-related targets. The governance structure leverages governance in place for other investment-related activities to ensure integration with other investment matters and adopts a delegated authority approach (Figure 3).

Board delegations outline the responsibilities for oversight of sustainable investment to the Board's Investment Committee. The Chief Investment Officer (CIO) has authority from the Investment Committee to implement portfolio activities related to sustainable investment, including in relation to climate change and activities related to this Roadmap. The Investment Committee is responsible for ensuring effective implementation of this Roadmap and receives twice yearly updates on its progress from the CIO.

The CIO has established various management committees for investment decision-making and portfolio resilience. As part of the scope, these committees oversee implementation of actions outlined in this Roadmap, including recommending climate-related targets for endorsement by the Investment Committee and Board approval.

The Head of Sustainable Investment is responsible for developing the overarching climate change approach in consultation with the Investment and Investment Risk teams, along with ensuring appropriate training and capacity-building within these teams. The investment teams are responsible for implementing actions that relate to their roles, including requirements that relate to investment managers, service providers and advisers to ART.

ART has developed and implemented a comprehensive risk management framework, which focuses on the identification, analysis, evaluation, treatment, monitoring and communication of risks. The Risk Management Framework has been approved by the Board and forms part of the governance arrangements of the Investment team. In line with this, processes are established to give effect to this Roadmap, including with respect to the preparation and publication of reporting on sustainable investment activities, including climate change.

Annual training is provided to the Board or its sub-committees and the Investment team on relevant climate-related topics.

For investment team members, climate change related measures may be included in an individual's annual performance planning, where appropriate. Individual performance may contribute to a portion of variable remuneration through short-term incentives.

Key actions and timeframes are outlined in Table 5.

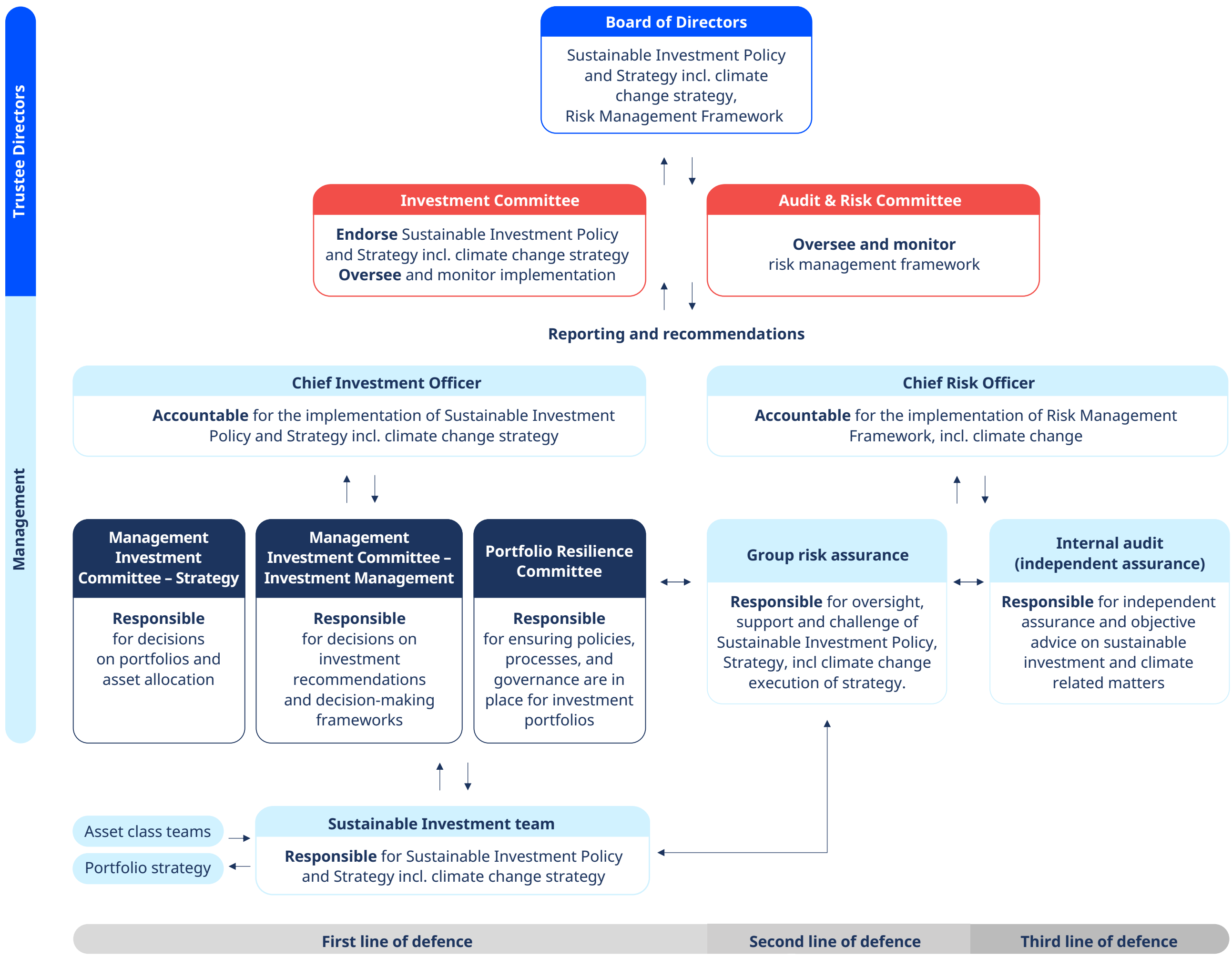

Figure 3. Sustainable Investment (inc. climate change) governance

Table 5. Key governance actions and timeframes

Focus area		Action and timeframe		
	Jun - Dec 2023	Jan -Jun 2024	Jul -Dec 2024	Jan - Jun 2025
Governance				
Principles	Adopt new guiding principles and associated actions			
Accountability	Review Board and Management responsibilities			
	Review delegations to enhance climate change oversight, as required			
	Review reporting frequency to Board and Management Committees			
Audit and risk management				
Internal audit	Internal audit to assess the management and disclosure of investment climate related financial risks			
Risk management		Review internal climate risk controls		
Training		Annual training to Board and Investment team (Management)		Annual training to Board and Investment team (Management)
Target setting				
2030 interim targets	Adopt GHG emissions intensity target for asset class with available data			
	Adopt Portfolio Alignment target for listed equities		Extend Portfolio Alignment target to unlisted material infrastructure and real estate	
	Adopt Engagement target for listed equities		Extend Engagement target to unlisted material infrastructure and real estate	
	Define and measure baseline for climate-related opportunities	Define investment target for climate-related opportunities		

Focus area		Action and timeframe		
	Jun - Dec 2023	Jan -Jun 2024	Jul -Dec 2024	Jan - Jun 2025
Data & analytics				
Emissions baseline	Calculate financed emissions annually across listed equities, real estate, infrastructure, private equity and corporate fixed income		Calculate financed emissions annually across listed equities, real estate, infrastructure, private equity and corporate fixed income	
				Expand financed emissions calculations across sovereign fixed income, private debt and alternatives as methodologies mature
	Commence capturing asset and company climate change targets (both 2050 and interim) for listed equities, real estate, infrastructure and other asset classes if available			
Data		Assess and enhance climate related data and tools for investment portfolio		
Review and disclosure				
Review				Net Zero 2050 Roadmap two yearly review
				Climate-related targets review
Disclosure	Publish interim targets and Net Zero 2050 Roadmap			
	Annual external climate change reporting		Annual external climate change reporting	

Our approach to stewardship

Stewardship is an important tool to help manage climate risk within the boundaries of our investment portfolio.

Stewardship aims to assist investee companies transition towards a pathway of net zero emissions by 2050 and is a guiding principle for this Roadmap.

We know that any influence on investee companies by investors (including ART) will take time and therefore the results of any reduction in emissions that might result from engagement will occur over the medium term rather than immediately.

A formal approach is in place for engagement with priority companies including when it is most appropriate to engage directly, collaboratively or through a service provider. Where we engage directly, formal objectives will be set for those companies in conjunction with an escalation framework for when companies aren't responding to stewardship. This will also incorporate Equitable (Just) Transition[1] into relevant direct company engagements.

1. **International Labour Organisation** defines Equitable (Just) Transition as greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.

Progress for engagements with priority companies will be tracked over a three-year period to determine whether meaningful change has or can take place. This includes developing an escalation process that would apply when change does not occur as expected. In these circumstances, potential options could ultimately include divestment from a company, when in members' best financial interest to do so.

We are cognisant that any change by our investee companies that is influenced by stewardship would be a result of actions by multiple investors and not one organisation alone. This is of most relevance in asset classes such as listed equities, where there are many investors that own a company. In private markets, such as infrastructure and real estate, we may own a sizable portion of the asset and have governance rights, meaning we may have more influence than other investments we hold. Development of a stewardship program will commence within the two-year period following the date of this Roadmap for a selection of infrastructure and real estate assets.

Proxy voting is another important tool that supports stewardship outcomes for listed equities. Our Sustainable Investment Policy outlines our overall approach to proxy voting for investee companies. Further to this approach we intend to actively vote:

- At annual general meetings for all priority companies from their first AGMs, after 1 July 2024.
- On all climate-related shareholder proposals within the Australian market.

Key actions and timeframes are outlined in Table 6.

Table 6. Stewardship actions and timeframes

Focus area		Action and timeframe		
	Jun - Dec 2023	**Jan -Jun 2024**	**Jul -Dec 2024**	**Jan - Jun 2025**
Stewardship				
Engagement	Formalise engagement objectives for 'priority companies' under direct engagement			
		Develop approach to assessing participation in collaborative engagement initiatives		
	Incorporate Equitable Transition principles into engagements			
Proxy voting	Develop governance approach for *priority companies* and climate related shareholder resolutions			
	Actively vote AGMs for all 'priority companies' from their first AGMs in FY24			

How we invest

The investment decisions we make now and in the future impact how our investment portfolio transitions to net zero emissions by 2050.

As many of our investments are externally managed, this Roadmap has several actions related to our external investment managers.

The approach of our existing investment managers to climate change will be reviewed, in depth over the next two years, for relevant asset classes.[1] This information will enable us to establish requirements, monitor improvements over time and work with investment managers that are considered below the average for their asset class.

Climate change considerations will continue to be incorporated into the selection and appointment of new managers, with our approach enhanced where necessary. Depending on the asset class and strategy, this could include incorporation of explicit climate-related provisions into investment management contracts.

In addition to a focus on investment managers, a range of actions have been developed for each relevant asset class.

We recognise that each asset class is at a different stage of their climate change journey. The level of progress depends on a range of factors including if the asset class is in public or private markets, if investments within the asset class are passive or active (or a mixture of both) and if the relationship with the manager is bilateral or in a pooled fund with many other investors.

Measuring emissions remains a priority with a focus on increasing disclosure of emissions. For more progressive asset classes, such as listed equities, target and transition plan reporting is a focus for investee priority companies (see Stewardship).

A formal position on exclusions or divestment will be developed under this Roadmap. For physical risks associated with climate change, the initial focus will be on the infrastructure and real estate asset classes where data is more readily available.

We will also examine ways to incorporate medium and longer-term climate scenario analysis into portfolio assessments using either qualitative or quantitative approaches. Annual stress testing of selected options will continue using International Energy Agency (IEA) scenarios[2] to model expected portfolio return impacts for 2030.

Key actions and timeframes are outlined in Table 7.

1. Relevant asset classes may include listed equities, fixed income, infrastructure, real estate, private equity, private debt.
2. International Energy Agency scenarios include Current Path (4 degrees); Sustained Action (2 degrees) and Net Zero by 2050 (1.5 degrees).

Table 7. Investments actions and timeframes

Focus area	Action and timeframe			
	Jun - Dec 2023	**Jan -Jun 2024**	**Jul -Dec 2024**	**Jan - Jun 2025**
Investment portfolio				
Investment strategy and resilience			Undertake qualitative scenarios analysis on 3 degree and net zero scenarios	
	Annual stress testing of selected options to assess long term return impacts		Annual stress testing of selected options to assess long term return impacts	
			Assess opportunity to incorporate climate metrics into capital market assumptions	
External managers		Benchmark existing external managers on climate change	Develop engagement plan with relevant managers	
	Enhance approach to incorporate climate change into selection and appointment of new managers			
Listed equities				Review climate change index for passive listed equities
	Harmonisation of listed equity climate change approaches across the investment portfolio			
		Establishing a policy position on exclusions relating to climate change		
	Measure and report Scope 3 emissions of investee listed equities companies			

Focus area		Action and timeframe		
	Jun - Dec 2023	**Jan -Jun 2024**	**Jul -Dec 2024**	**Jan - Jun 2025**
Investment portfolio				
Fixed interest		Explore opportunities to invest in sovereign and corporate green bonds, if appropriate	Assess use of climate related frameworks for sovereign bonds	
			Explore opportunities to engage with issuers	
Infrastructure and real estate		Define minimum climate-related requirements for new and existing infrastructure and real estate investments		
		Embed climate change expectations into asset management process and baseline current assets maturity		
		Analyse existing infrastructure and real estate assets exposure to physical / transition risk and ability to transition to NZE2050		
			Develop infrastructure and real estate climate stewardship program to support the Engagement and Portfolio Alignment interim targets	
Private equity and credit	Commence collection of emissions data from fund managers and investee companies			

Partners

Working with other organisations and initiatives to learn, share knowledge and advocate for change can be beneficial in seeking to address systemic risks such as climate change.

It can also be an efficient and effective use of resourcing.

We are a member of several organisations including:

PRI
https://www.unpri.org/

ACSI
https://acsi.org.au/

IGCC
https://igcc.org.au/

GRESB
https://www.gresb.com/nl-en/

Climate Action 100+
https://www.climateaction100.org/

ASFI
https://www.asfi.org.au/

A framework will be developed to guide when we actively participate in member organisations and associated working groups. Considerations will include when participation is an effective way to use our limited resources, supports this Roadmap and is in members' best financial interests.

Policy advocacy will be focused on advocating for an orderly transition, including:

- Enhanced climate-related disclosure by investee companies for better investment decision-making, and
- Equitable (Just) Transition for communities and workers.

Use of offsets

It is not currently intended that offsets will be used by ART to reduce our portfolio emissions or help us to meet climate-related targets.

Information to inform our positions on carbon pricing and the use of offsets by investee companies will be accessed through various mechanisms such as partnering with investment managers, member organisations, or seeking other third-party expertise, as required.

Key actions and timeframes are outlined in Table 8.

Table 8. Partner actions and timeframes

Focus area	Action and timeframe			
	Jun - Dec 2023	Jan -Jun 2024	Jul -Dec 2024	Jan - Jun 2025
Partners				
Member organisations and industry forums	Develop an evaluation framework for assessing climate-related initiatives and collaborations			
	Actively participate in member organisations and forums that meet the evaluation framework			
Positions		Review carbon markets, offsets and pricing to build investment team knowledge for due diligence, asset management and stewardship		
			Develop position on oil and gas to build investment team knowledge for due diligence, asset management and stewardship	
Advocacy	Actively participate in external stakeholder roundtables and policy advocacy that support climate change strategy			

Glossary of terms and abbreviations

ACSI	**Australian Council of Superannuation Investors**: ACSI undertakes research and advocacy on financially material environmental, social and governance (ESG) issues. ACSI also undertakes Australian company engagement on ESG matters and provides voting recommendations. ART is a member.
CA100+	**Climate Action 100+**: investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. ART is a member.
IGCC	**Investor Group on Climate Change**: a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. ART is a member.
IPCC	**Intergovernmental Panel on Climate Change**: the United Nations body responsible for assessing the science related to climate change.
GRESB	**Global Real Estate Sustainability Benchmark**: investor-led organisation that provides actionable and transparent ESG data and benchmarks.
IEA	**International Energy Agency**: comprising 31 member countries and 8 association countries, the agency promotes energy efficiency, aims to ensure energy security, tracks clean energy transitions, collects data, and provides energy education and training programs around the world. The IEA uses scenarios in its World Energy Outlook: STEPS, SDS, and NZE2050, also defined in this glossary.
ISSB	**International Sustainability Standards Board**: a standard-setting board established to "deliver a comprehensive global baseline of sustainability-related disclosure standards".
MSCI	Global **provider** of equity, fixed income, real estate indexes, multi-asset portfolio analysis tools, ESG and climate products.
Offsets	Offset units are used to compensate for emissions a business produces, to help reduce their carbon footprint. Offset units are generated by projects that reduce, remove or capture emissions from the atmosphere such as reforestation, renewable energy or energy efficiency. Refer to **Climate Active**.
Paris-aligned target	The Paris Agreement is a legally binding international treaty on climate change adopted by 196 countries in 2015. Its aim is to limit global warming to well below 2°C (preferably below 1.5) compared to pre-industrial levels.[1] Countries commit to reach a global peak of greenhouse gas emissions as soon as possible. Companies and other organisations that want to limit and reduce their emissions can set targets aligned to the Paris Agreement.

1. **unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement**.

PCAF	**Partnership for Carbon Accounting Financials**: a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the emissions associated with their loans and investments.
RIAA	**Responsible Investment Association Australasia**: membership organisation that champions responsible investing and a sustainable financial system in Australia and New Zealand. ART is a member.
Scope 1	Direct emissions from owned or controlled sources. Refer to PCAF (2022), **The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second edition**.
Scope 2	Indirect emissions from the generation of purchased energy. Refer to PCAF (2022), **The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second edition**.
Scope 3 Category 15 (investments) emissions	Includes scope 3 emissions associated with the reporting company's (ART's) loans and investments in the reporting year. For ART, this could include **Scope 1, 2** and / or **Scope 3** financed emissions from investee companies. The applicable scopes will be specified in any disclosures. Refer to PCAF (2022), **The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second edition**.
Stewardship	Also often referred to as active ownership, corporate engagement and shareholder action, refers to the influence and power of shareholders over corporate behaviour through engagement. This is often conducted through direct interaction, such as communications with senior management or boards, filing or co-filing shareholder proposals, and proxy voting in alignment with comprehensive ESG guidelines. Refer to **RIAA**.

Appendix A:

Greenhouse gas emissions measurement method

We use the Global GHG Accounting and Reporting Standard for the finance industry developed by the Partnerships for Carbon Accounting Financials (PCAF) to calculate emissions.

Consistent with the draft ISSB standard, we selected a financial reporting year (2020-21) as our baseline year.[1] Emissions data used was the most recent available.

We measured emissions from the following asset classes, which represented 54 per cent of funds under management as at 30 June 2021:

- Australian and international listed shares
- Unlisted infrastructure
- Unlisted real estate

Where required, we converted data expressed in other currencies to Australian dollars.

For listed shares, there is broad coverage of the issuers and reliable data, along with reputable third-party estimates where gaps exist. MSCI data was used for this purpose.

We collected emissions data from the investment managers of our real estate and infrastructure assets, and we proxied data where it was not available.

Although corporate fixed interest does not represent a material quantum of funds under management, there is sufficient coverage of issuers and data is improving, so we plan to incorporate emissions from this asset class as soon as is practicable.

We do not report on emissions from asset classes for which methods have not been developed or agreed but will seek to do so as they mature:

- Sovereign fixed interest
- Listed shares (derivatives)
- Private equity and credit
- Commodities
- Alternatives
- Cash

We do not consider net-negative dollar positions when calculating our carbon emissions, because they would create “negative emissions”, effectively reducing emissions attributable to the portfolio.

The ART emissions baseline comprises the scope 1 and 2 emissions of investees’ and borrowers’ emissions, also known as financed emissions. We do not include financed scope 3 emissions[2] in our baseline.

1. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (exposure draft, March 2022), p. 35. **https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf**.
2. For definitions of emissions by scope, please see the **Glossary**.

The two metrics we use to calculate our emissions baseline are:

Financed emissions

This formula is the PCAF Standard[1] method of calculating financed emissions of investment in a company:

For listed companies:

$$\sum_{c} \frac{\text{Outstanding amount}_c}{\text{Enterprise Value including cash}_c} \times \text{Company emissions}_c$$

For unlisted companies:

$$\sum_{c} \frac{\text{Outstanding amount}_c}{\text{Total equity} + \text{debt}_c} \times \text{Company emissions}_c$$

Where:

- **Outstanding amount**
  amount invested in the borrower or investee company, or net asset value (NAV)
- **Enterprise Value Including Cash**
  market capitalisation plus book value of total debt and cash (to avoid negative enterprise values)
- **Company emissions**
  the investee's or borrower's scope 1 and 2 emissions
- **c**
  borrower or investee company

Emissions intensity (carbon footprint)[2]

For listed companies:

$$\frac{\sum_{c} \frac{\text{Outstanding amount}_c}{\text{Enterprise Value including cash}_c} \times \text{Company emissions}_c}{\text{Current portfolio value (\$ million)}}$$

For unlisted companies:

$$\frac{\sum_{c} \frac{\text{Outstanding amount}_c}{\text{Total equity} + \text{debt}_c} \times \text{Company emissions}_c}{\text{Current portfolio value (\$ million)}}$$

Where:

- **Numerator**
  financed emissions formula above
- **Current portfolio value**
  net asset value in \$ million
- **c**
  borrower or investee company

Separately from our baseline figures, we also measure the weighted average carbon intensity (WACI) of the listed equities in our portfolio. This figure is an aggregation of the emissions of each listed company (the "issuer") divided by its revenue. It shows the portfolio's exposure to carbon-intensive companies, expressed in tonnes of CO_2e / $ million revenue:

$$\sum_{n}^{c} \left(\frac{\text{Current value of investment}_i}{\text{Current portfolio value}} \times \frac{\text{Issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{Issuer's \$ million revenue}_i} \right)$$

c borrower or investee company.
1. For more detail on the PCAF Standard, see the **Glossary**.
2. PCAF, The Global GHG Accounting & Reporting Standard for the financial industry, p 55, **https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf**.

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