Australian Retirement Trust

Sustainable Investment Report
2022-23

art.com.au

Important information

This document has been prepared on 15 November 2023 and issued by Australian Retirement Trust Pty Ltd (ABN 88 010 720 840) (AFSL 228975) as trustee for Australian Retirement Trust (ABN 60 905 115 063) (the Fund). Any reference to "QSuper" is a reference to the Government Division of the Fund.

While it has been prepared with all reasonable care, no responsibility or liability is accepted for any errors or omissions or misstatement, however caused. All forecasts and estimates are based on certain assumptions, which may change. If those assumptions change, our forecasts and estimates may also change. Past performance is not a reliable indication of future performance. For Super Savings products, the PDS and Target Market Determinations (TMD) are available at **art.com.au/pds** or by contacting us on 13 11 84. For QSuper products, the Product Disclosure Statement and Target Market Determinations are available at **qsuper.qld.gov.au/calculators-and-forms/publications**. We are committed to respecting your privacy. Our privacy policy sets out how we do this; visit **art.com.au/privacy**.

General information only

This document has been prepared for general information purposes only and not as specific advice to any particular person. Any advice contained in this document is general advice and does not take into account any particular person's objectives, financial situation or needs. Because of this, before acting on any advice, you should consider its appropriateness, having regard to your own particular objectives, financial situation and needs. You should obtain and consider the Product Disclosure Statement (PDS) and relevant TMD before making any decision about whether to acquire or continue to hold the product.

Table 13 on page 49 and Figures 20 and 22 on page 54 were updated with correct figures on 22 July 2024.

Australian Retirement Trust acknowledges the Traditional Custodians of country throughout Australia, and their connections to land, sea and community. We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

Executive summary

At Australian Retirement Trust (ART), we believe that sustainable investing – where we consider the financial implications of environmental, social and governance (ESG) factors alongside traditional financial matters – helps us make better long-term decisions for our members' retirement outcomes.

Our Sustainable Investment Report 2022-23 provides details of our performance and achievements for the financial year ending 30 June 2023.

Sustainable Investment Strategy

During the reporting period, the ART Board approved key strategic initiatives for the following 2 years with a focus on considering the risks and opportunities posed by climate change, and enhancing ESG integration, stewardship and our ESG data and analytics capabilities.

Climate change

Climate change poses one of the most significant challenges of our time, creating both risks and opportunities for investment portfolios. Our Net Zero 2050 Roadmap (Roadmap) sets out how we currently plan to achieve a net zero greenhouse gas emissions investment portfolio by 2050[1] based on circumstances and information that is available to ART as at September 2023. The Roadmap is supported by our 2030 interim climate-related targets to be applied to certain asset classes. We will review the strategy every 2 years, and our approach is subject to change should circumstances or assumptions that have been relied on change. You can read our Net Zero 2050 Roadmap on our website at **art.com.au/investments/how-we-invest/responsible-investing**

Stewardship

ART undertakes stewardship activities through engagement and proxy voting. When engaging investee companies on ESG issues, we seek to encourage better practices and disclosures to the extent that we are able. Our primary consideration when exercising our ownership rights is the best financial interests of our members.

During the year we harmonised our approach to proxy voting and, when appropriate, used our voting rights to vote against company management and activities of investee companies that we didn't support. Proxy voting outcomes are now publicly available on the ART website within one week of an annual general meeting (AGM).

Detailed proxy voting records can be found at **art.com.au/disclaimers-and-disclosures/proxy-voting/proxy-voting-record-history**

We engage companies where we believe we can have the most influence and use 3 methods to do so: direct, collaborative and engagement through service providers. In 2022-23, we conducted 27 direct engagements, 75 collaborative engagements, and 306 engagement meetings were undertaken by our service provider, on our behalf, with 194 companies.

Work has also progressed on our approach to engagement by introducing engagement objectives and timeframes for one of the companies we engage directly. We have also started to prioritise companies we intend to engage.

Modern slavery

We submitted our first statement as ART under the *Modern Slavery Act 2018* (Cth). This included an outline of our approach to identify and address the risks of modern slavery within our investment portfolio under the 'respect and remedy' framework that was developed in the previous year.

Reflect Reconciliation Action Plan

As one of our commitments under our Reflect Reconciliation Action Plan, our Sustainable Investment team is participating in the Responsible Investment Association Australasia's (RIAA) First Nations Peoples' Rights Working Group to support the development of the Dhawura Ngilan investor guide.

ESG member choice investment options

While we integrate various sustainable investment considerations across our investment processes, we also offer 2 ESG member choice investment options: the Super Socially Conscious Balanced (SCB) option and the QSuper Socially Responsible option.

We were disappointed that the QSuper Socially Responsible (SR) option failed the annual superannuation performance test conducted by the Australian Prudential Regulation Authority (APRA) at 30 June 2023.

We are pleased that our Super Savings Socially Conscious Balanced option was re-certified by RIAA in July 2023 and passed the annual performance test at 30 June 2023.[2]

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

2 RIAA's RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that the Super Savings SCB option adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Certification Symbol is a Registered Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and the SCB option's methodology, performance and stock holdings can be found at **www.responsiblereturns.com.au**, together with details about other responsible investment products certified by RIAA. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Message from the Investment Committee Chair and Chief Investment Officer

On behalf of ART, we are pleased to present our 2022-2023 Sustainable Investment Report, a summary of our approach to sustainable investing and the outcomes we have achieved during the year.

We consider the risks and opportunities of investments in a holistic way, which means including the financial implications of ESG issues alongside other traditional financial matters. We believe this helps us make better long-term decisions for our members' retirement outcomes.

Consistent with our legal duty to act in members' best financial interests, our sustainable investment approach aims to enhance investor value over the long term. We're proud of the large program of work that our Sustainable Investment team has undertaken over the 2022-23 period, including the delivery on our commitments to:

- an ART Sustainable Investment Strategy
- a Net Zero 2050 Roadmap
- harmonise our proxy voting process.

Our Sustainable Investment Strategy outlines the key strategic initiatives of ESG integration and stewardship, further embedding them into our investment decision-making process. Our ESG data and analytics capabilities will continually evolve to support this work.

We launched our Net Zero 2050 Roadmap in September 2023, which sets out our current approach towards our commitment to a net zero greenhouse gas emissions investment portfolio by 2050.[1]

While planning our future strategic direction for sustainable investing, we also continued harmonising our existing processes. In October 2022, we completed our proxy voting harmonisation process to coincide with the start of the main AGM season for Australian listed companies. For our Australian and International Shares asset classes, a consistent approach was approved and implemented for negative screening of investee companies across all relevant investment options.

We were disappointed that the QSuper Socially Responsible option failed the performance test conducted by our regulator, APRA at 30 June 2023. We announced our intention to close this option from 1 July 2024. In the meantime, we have already made a range of changes to this option's investment strategy and asset allocation that we believe will improve its performance.

Meanwhile, we have continued to make progress in voluntary reporting in anticipation of mandatory climate-related reporting requirements, and our Net Zero 2050 Roadmap establishes interim targets for reducing greenhouse gas emissions in the portfolio.[2]

ART has been active in exploring a range of impact and social housing investment options appropriate to the fund's ambition and return targets. Subject to agreement of terms and completing due diligence and documentation, we intend to complete a social housing partnership in 2024.

We encourage you to read this report to learn about ART's sustainable investment activity, which aims to help our members retire well with confidence.

Michael Traill AM
Investment Committee Chair

Ian Patrick
Chief Investment Officer

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

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About Australian Retirement Trust

Who we are

We're one of Australia's largest super funds. At 30 June 2023, over 2.2 million Australians trusted us to take care of close to $255 billion of their retirement savings. We're here to help our members retire well with confidence, focused on strong long-term investment returns, low fees, and the information and access to advice our members need to manage their super and retirement.

Our history

ART was formed through the merger of QSuper and Sunsuper in February 2022. After the merger, all QSuper and Sunsuper members became members of ART.

With 140 years' combined history and the size, strength and scale that comes from being one of Australia's largest super funds, we aim to find and make better investments, drive down investment costs and do things smarter by bringing our administration capabilities together.

Existing solely for members

We're proudly a profit-for-members fund. As a profit-for-members fund, we exist solely to benefit our members to and through retirement.

Open to all Australians

Whether they're just starting out working, working to build their super, planning to work less, or already using their savings to live, we're here for our members. Wherever they are, and wherever they're at, we're here to help them feel secure and confident in retirement.

Our sustainable investment report

This report focuses on approaches, processes and actions that integrate sustainable practices throughout our investment portfolio.

On the terms used in this report

The words “the Fund”, “ART”, “we”, “us” and “our” are used to refer to Australian Retirement Trust (ART) and our activities. The Sustainable Investment Report does not cover ESG activities of ART in its corporate capacity as an enterprise and employer.

Acronyms, abbreviations and sustainable investment terms are defined in the **Glossary**.

ART Super Savings investment options commenced on 28 February 2022, when the merger took effect. QSuper is part of ART, and its investment options represent a distinct, end-to-end member offering to employees of the Queensland Government and other eligible members.

The asset classes we invest in on behalf of our members are described in the Super Savings Investment guide and the QSuper Investment guide. These can be found at: **art.com.au/pds-guides** and **qsuper.qld.gov.au/calculators-and-forms/publications/product-disclosure-statements**

We have used definitions from the Responsible Investment Association Australasia for terms that describe approaches to responsible investment (a term that is also generally referred to as sustainable investment), available in its **Responsible Investment Benchmark Report Australia 2023**. We are aware that in November 2023, the CFA Institute published ‘Definitions for Responsible Investment Approaches,’ which contains updated definitions in relation to Screening, ESG integration, Thematic investing, Stewardship, and Impact investing. We will seek to incorporate these definitions into future publications where appropriate.

All references to dollar values are in Australian dollars.

We convert greenhouse gas emissions to tonnes of carbon dioxide-equivalent (tCO_2e). For this reason, the terms “greenhouse gas”, “GHG” and “carbon” are used interchangeably.

Reporting period, frequency and feedback

We report on our sustainable investment activities annually.

This sustainable investment report covers actions and processes over the period 1 July 2022 to 30 June 2023, unless otherwise specified.

We have not sought independent assurance over the contents of this report. ART has an internal due diligence committee and process, which is responsible for reviewing and approving our public documents. However, sometimes this process will include engagement of third-party agencies to review public documents or strategies. ART does rely on data from external third parties in relation to certain matters, and we will identify where we have done so in this document.

We welcome feedback on our sustainable investment report and related activities. You can find our contact details on our websites at **art.com.au/contact-us** and **qsuper.qld.gov.au/contact-us**

Our reporting suite

Annual report	The Australian Retirement Trust 2022-23 Annual report provides information in relation to Australian Retirement Trust for the period from 1 July 2022 to 30 June 2023. **art.com.au/about/annual-reports**
Our approach to sustainable investment	More detail about our approach to sustainable investment can be found on the ART website: **art.com.au/investments/how-we-invest/responsible-investing** and on the QSuper website: **qsuper.qld.gov.au/investments/how-qsuper-invests/sustainable-investing**
Sustainable Investment Policy	This policy details the beliefs, approaches to management, reporting and products that constitute ART's integration of ESG considerations: **art.com.au/investments/how-we-invest/responsible-investing**
Investment Committee Charter	This charter outlines the roles and responsibilities of the committee's members and chair, including those pertaining to investment policy and management, operations and compliance: **art.com.au/governance-and-reporting/corporate-governance**
Modern Slavery Statement	We submitted our first Modern Slavery Statement in December 2022. The statement can be found at: **art.com.au/governance-and-reporting/corporate-governance** and the Australian Government register at **modernslaveryregister.gov.au**
Proxy voting records	Our proxy voting records can be found at: **art.com.au/governance-and-reporting/prescribed-information**
Sustainable investment options holdings data	Portfolio holdings disclosure information for all of Australian Retirement Trust's Super Savings Products in line with specific requirements of Australian law can be found at **art.com.au/investments/what-we-invest-in** The Super Savings Socially Conscious Balanced (SCB) option holdings can be found at **art.com.au/investments/what-we-invest-in** Select "superannuation" or "retirement" investment holdings, and then the option. Information relating to the holdings of the Super Savings Socially Conscious Balanced Option as at 31 December 2022 specifically prepared for the disclosure standards of RIAA certification can be found **here**. The QSuper Socially Responsible (SR) option holdings can be found at **qsuper.qld.gov.au/investments/how-qsuper-invests/what-we-invest-in** Select "Accumulation" or "Income", and then the option.

What sustainable investment means to us

As a profit-for-members fund, we exist solely to benefit our members to and through retirement. We deliver this vision as it relates to investment outcomes, through our core set of interrelated investment principles, including that “sustainable investing leads to superior outcomes”, recognising:

- It is a component of the Trustee’s legal duty to act in the best financial interest of members.
- ESG factors can be financially material for our investee companies and therefore a source of investment risk and opportunity.
- Stewardship plays an important role in seeking to improve long-term returns. Being an investor provides opportunities to seek to influence ESG factors that may impact the financial performance of investee companies.
- As a large investor with a globally diversified portfolio, ART has investments that may potentially affect environmental and social matters within the world that members live and retire in.

Effective management of the retirement savings of members requires that we incorporate the financial implications of ESG factors into investment processes. We believe this is consistent with a focus on investment outcomes in the long term, as is pursuing opportunities that emerge from ESG considerations.

We consider the following sustainable investment approaches: ESG integration, negative screening (exclusions) and stewardship.

What are ESG factors?

There are a multitude of ESG factors that could be financially material to our investments that we may consider as part of our decision-making process. Some of these are also required to be assessed by law, such as labour standards (which relates to modern slavery) and climate change. ESG factors can include:

Environmental	Social	Governance
Climate change	Health and safety	Board independence
Biodiversity	Human rights and modern slavery	Board and company diversity
Waste and pollution	Labour standards	Shareholder rights
Energy efficiency	First Nations	Executive remuneration

Our stakeholders

We engage our members through activities including surveys, webinars, responses to queries, and our Annual Members' Meeting (AMM). We know from engaging with members through these avenues that interest in how we approach sustainable investing is growing. At the AMM in February 2023, several questions from members related to ESG issues.

We engage other stakeholders as part of our sustainable investment activities. A range of sources are utilised for the identification and assessment of material ESG risks and opportunities across the investment portfolio. These can include internal expertise, third-party service providers, asset consultants, external investment managers, member organisations and publicly available information.

Our approach is also informed by guidance from our primary regulators, APRA and the Australian Securities and Investments Commission (ASIC). For example, APRA's guidelines on climate change financial risk outline steps for considering and managing climate change risk and opportunities within investment portfolios.[1]

We continue to build relationships with a selection of our investee companies (see **Stewardship**) and other stakeholders, including state and federal governments and non-government organisations.

Sustainable investment governance

The ART Board is at all times responsible for our investment portfolio. This includes oversight of sustainable investment activities and approval of the Sustainable Investment Policy, along with climate change considerations for investments.

Our Sustainable Investment Policy outlines the relevant governance approach and delegations, including climate change considerations, in further detail (see Figure 1).

Our new 2-year Sustainable Investment Strategy was approved at the June 2023 Board meeting, following endorsement by the Investment Committee. This outlines our key strategic initiatives that we intend to progress over the next 2 years. For more information, see **Sustainable Investment Strategy**.

Also approved at the June 2023 Board meeting was our Net Zero 2050 Roadmap, which outlines the current planned approach to transitioning the investment portfolio to our target of net zero greenhouse gas emissions by 2050[2], including interim targets for selected asset classes. You can read about that in **Our approach to climate change**.

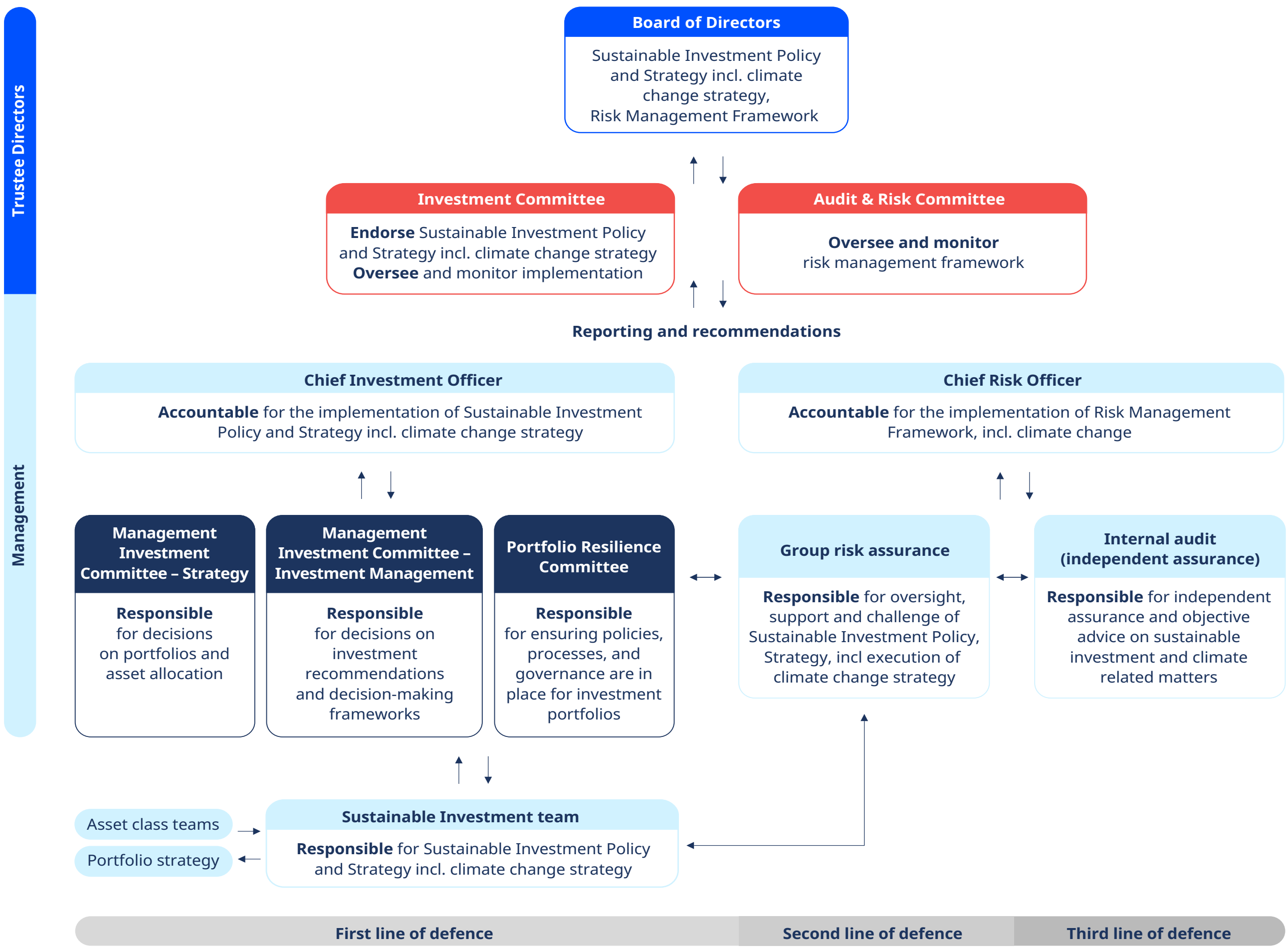


Figure 1: Sustainable investment governance

1 Australian Prudential Regulation Authority, 2021: "**Prudential Practice Guide, CPG 229 Climate Change Financial Risks**"
2 Scope 3 category 15 (investments) emissions. **PCAF, 2022: "The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition**"

Sustainable Investment Strategy

Following approval by the Board as set out above, we are pleased to report a summary of our planned strategic initiatives for the next 2 years. These include seeking to enhance our focus on ESG integration, stewardship, and developing impact investing capabilities.

Also, a proposed uplift in ESG data and analytics aims to enhance our investment decision-making, support risk management and help with regulatory and external reporting. Table 1 outlines our measures of success to track our progress in future reports. The status identifies the actions that commenced during the 2022-23 year and our estimated time for completion.

Strategic initiatives	Measures of success	Estimated timeframe for completion	Status as at 30 June 2023
ESG integration	ESG incorporated into existing investment documentation, where relevant	December 2023	In progress
	ESG integration baseline assessment of existing external and internal managers	June 2024	Not commenced
	Monitoring oversight framework for existing investment managers	December 2024	Not commenced
Stewardship	Stewardship plan approved	June 2023	In progress
	Escalation framework operational	June 2023	In progress
	Companies for direct engagement identified and objectives set	June 2024	In progress
Impact investing	Governance framework approved	December 2023	Not commenced
ESG data and analytics	Review of ESG data service providers	December 2024	Not commenced
	ESG data management and storage platform operational	June 2025	Not commenced

Table 1: ART's planned strategic sustainable investment initiatives

Prioritisation of key ESG factors

In addition to the strategic initiatives, we have identified several ESG factors that we want to understand better. Many ESG factors can result in material financial risks for an investee company, investment portfolio or financial markets; however, we consider some topics require greater attention, such as climate change. The key ESG factors that we currently plan to focus on for the next 2 years are:

- climate change, through our Net Zero 2050 Roadmap
- biodiversity
- human rights, with a focus on modern slavery and First Nations peoples.

Capacity building

Enhancing sustainable investment capability within our investment team is fundamental to success and is planned to be delivered through the following:

- Sustainable investment champions will be identified within each sub-investment team.
- All investment team members will undertake a minimum level of training on sustainable investments.

Collaboration

We are a member of several organisations that provide expert advice, thought leadership and opportunities to work with the companies we invest in. We plan to develop a framework that guides our active participation in these member organisations, their initiatives and associated working groups. Among the considerations for the framework are ensuring that participation is an effective use of resources and supports the overall Sustainable Investment Strategy, and that we act in members' best financial interests.

Advocacy

Policy advocacy is intended to focus on advocating for better management of systemic risks, while supporting our strategic initiatives.

Reporting and disclosure

We continue to aim for clarity in our reporting and transparency to our members and external stakeholders through publication of this sustainable investment report and **Our reporting suite**.

The outcomes for 2022-23 for our current work program are outlined throughout this report.

ESG integration

ESG integration is the explicit inclusion of ESG risks and opportunities into financial analysis and investment decisions. It is a systematic process involving appropriate research and is underpinned by the belief that these factors are a core driver of investment value and risk.[1]

We invest across the global economy, with exposure to many regions, sectors and asset classes. Different investment strategies within each asset class are used to gain access to investments in a variety of companies. These are managed either by external investment managers or directly by internal teams.

Because we primarily use external investment managers to invest on our behalf, ESG integration is predominantly achieved through the selection and appointment of new investment managers, and monitoring through assessment of, and engagement with, existing investment managers. Assessment of the sustainable investment capability of investment managers is done through reviewing their policies and processes and assigning them with an internally developed ESG rating.

The aim is to improve their processes to integrate ESG factors across the investment cycle. During the reporting period, we continued assessment of existing investment managers in line with this process and, as part of our strategic initiatives set out in Table 1, we plan to enhance our approach to the selection, appointment, and monitoring of external investment managers.

Manager selection, appointment and monitoring

Last year, we reported our ESG rating framework for assessing the ESG capabilities of existing and new investment managers.

We have continued to use this ESG rating framework throughout the reporting year. A selection of investment managers for unlisted infrastructure and real estate are also assessed through the Global Real Estate Sustainability Benchmark (GRESB) (see **ESG monitoring for private assets: real estate and infrastructure**).

The ESG rating assesses the investment manager [singular rating, singular manager] on 4 aspects:

- **ESG philosophy and capability:** considers the content of the investment manager's ESG policy and general investment philosophy, and the ways in which the manager's activities are resourced as outlined in its policy (through allocated staff, training and KPIs).
- **Commitments and reporting:** examines the ESG-related commitments made by the investment manager (such as net-zero emissions commitments) and involvement in collaborative initiatives. Further, we assess the level and quality of public and client-level ESG reporting.
- **ESG integration:** analyses how the investment manager identifies and integrates ESG risks and opportunities when deciding which shares and other assets to invest in.
- **Active ownership:** considers how the investment manager engages companies and assets in its portfolio and how it uses this information to inform its investment decisions or management of assets.

During the year, we conducted 18 new and existing manager ESG ratings across the private markets' asset classes. This included assessments in the private debt (3 ratings), private equity (3), real estate (7) and infrastructure (5) asset classes that were approved at the Management Investment Committee.

1 RIAA, 2023: **"Responsible Investment Benchmark Report Australia 2023"**, p. 28.

Case study

Existing external investment manager ESG rating

Through the ESG rating process for an existing external private debt investment manager, their ESG integration approach was identified as being behind that of their peers. When assessed in July 2022, the manager received the lowest rating (4).

When we were considering whether to invest in a new investment fund with the manager, the Sustainable Investment team, in collaboration with the relevant asset class team, took the opportunity to encourage the manager to improve its ESG integration approach. The manager committed to updating its ESG policy, hiring a dedicated ESG resource, improving ESG integration in its investment process, and becoming a Principles for Responsible Investment (PRI) signatory.

By June 2023, the manager was able to demonstrate several improvements to its ESG practices: an updated ESG policy; diversity, equity, and inclusion policy; obtaining PRI signatory status; new ESG due diligence tools for its analysts; firmwide ESG training; and formalising ESG responsibilities and establishing an ESG committee. When we rated the manager again in July 2023, it received an improved rating of 2, as shown in Figure 2.

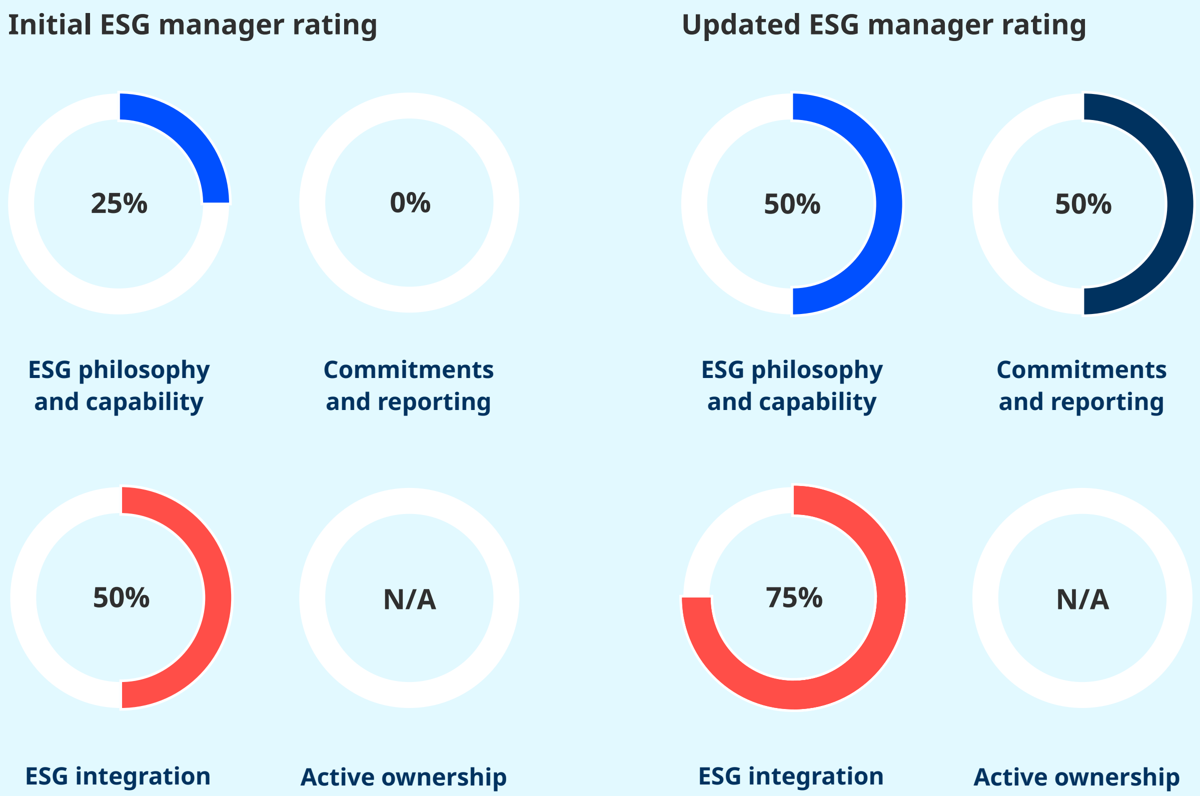


Figure 2: the manager's rating went from a 4 (lowest) to a 2

ESG integration for private asset due diligence

We incorporate ESG integration into due diligence for all private asset investments that are approved by the Management Investment Committee. Due diligence for these new investments and co-investments uses a financial materiality, sector-based approach to identifying ESG risks and opportunities for consideration in direct investment decisions. Following this assessment, relevant ESG recommendations are incorporated in final investment recommendations to the Management Investment Committee. For example, these might include the requirement to report carbon emissions from an asset or health and safety statistics.

Case study

Community Capital

We are proud to be a founding investor in **Community Capital Credit Fund**, an Australian portfolio management firm that states that it seeks to generate strong investment returns for investors alongside meaningful community-based social impact.

Community Capital was created with the aim of providing investors with exposure to a diversified portfolio of top-tier global private credit funds targeting strong risk-adjusted returns, while facilitating support for social purpose organisations. Community Capital is one of the investments in our Super Savings Socially Conscious Balanced option and actively managed diversified options.

Community Capital's unique structure is intended to allow it to provide sustainable funding to organisations that seek to solve some of the most pressing social issues in communities across Australia. This year's inaugural grant recipients were Eat Up, ID Know Yourself, Save Our Supplies, and This is a Conversation Starter (TIACS). Multi-year grants aim to help these social-purpose organisations build their capacity and amplify their impact.

ESG monitoring for private assets: real estate and infrastructure

In addition to directly engaging a selection of our real estate and infrastructure external investment managers and assets on ESG matters, several of our external investment managers and assets are assessed by the Global Real Estate Sustainability Benchmark (**GRESB**). This is a global benchmark for assessing and monitoring the sustainability performance of unlisted infrastructure and real estate investments. GRESB was established by a small group of investors in 2009 and is now used by more than 170 investors in their investment, engagement and decision-making processes. More than 700 infrastructure funds and asset operators, and more than 1,800 real estate companies, real estate investment trusts (REITs), funds and developments participate in GRESB assessments.

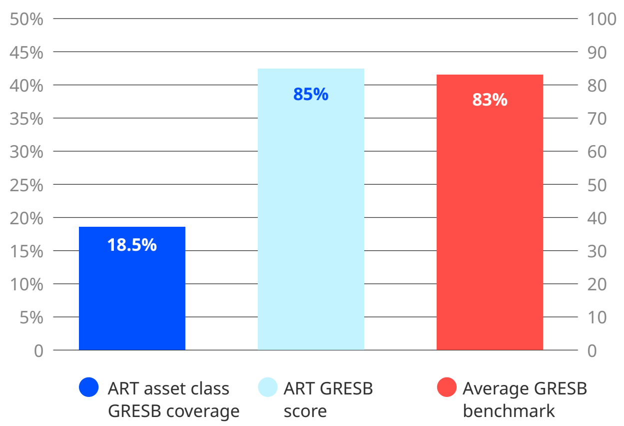
The GRESB Foundation Board, comprising a selection of GRESB members and partners, informs what is considered material in the sustainability performance of real estate and infrastructure investments.[1] For infrastructure, assessments cover both assets and funds. Results are subject to a multilayer validation process, after which they are scored and benchmarked.

In 2022-23, we reviewed the GRESB assessments of our infrastructure and real estate funds and assets against the universe of GRESB participants.[2] The coverage of the asset classes is lower than last year because there are new assets in our portfolio that have not commenced GRESB reporting.

For infrastructure, coverage is 18.5% of the portfolio and includes both fund and asset-level assessments (compared with 30% in 2021-22). The average GRESB score for the infrastructure assets was 85% (up from 73% in 2021-22). The infrastructure score exceeded the GRESB benchmark by 2%, meaning the sustainability performance of the assets assessed was slightly above that of other participants. Figure 3 demonstrates the relative performance of the assessed ART infrastructure portfolio against the average score of other infrastructure GRESB participants.

In our real estate portfolio, coverage is 29% of the portfolio (compared with 36% in 2021-22). The average GRESB score for the real estate assets was 86% (the same result as 2021-22), exceeding the GRESB benchmark by 11%. Figure 3 demonstrates the relative performance of the assessed ART real estate portfolio against the average score of other real estate GRESB participants.[3]

Infrastructure



Real estate

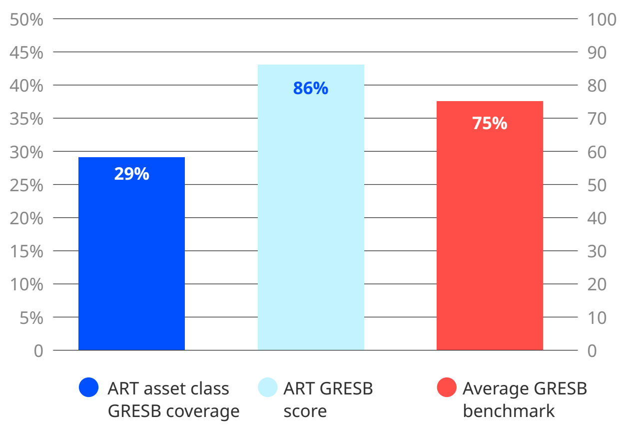


Figure 3: Infrastructure and real estate GRESB coverage and scores.
Source: GRESB

Case study

G'day Group – ESG monitoring for private assets

In November 2022, G'day Group (which is majority-owned by ART), owner and operator of lifestyle parks in Australia, announced a landmark deal between the Wilinggin Aboriginal Corporation (WAC) and the Western Australian Government that returned the Kimberley tourism precinct at El Questro to Traditional Owners.

Under the terms of the Indigenous Land Use Agreement (ILUA), part of the land will be leased back to G'day Group on a 99-year term, during which G'day Group will retain the right to conduct tourism activities over the whole of the former pastoral lease area.

The agreement puts guarantees in place for ongoing employment and training for local Indigenous youth.

The signing of the ILUA will help G'day Group progress its long-term ambitions for the property, including developing more accommodation, improving water, waste and land management practices, and offering new cultural experiences in partnership with Traditional Owners.

ART has been working together with G'day Group to encourage the development of their ESG strategy, and the implementation of associated actions.

One pillar of G'Day Group's ESG strategy is "Vibrant Community & Culture" which covers supporting thriving communities and building genuine partnerships with Traditional Custodians.

1 ART is not a member of this board.
2 ART infrastructure asset class weights are based on data to 31 March 2023, and real estate asset class weights are based on data to 30 June 2023. GRESB participants are required to specify the starting month of their fiscal year. For more information, see the reference guides at **documents.gresb.com**.
3 All intellectual property rights to this data belong exclusively to GRESB B.V.(GRESB). All rights reserved. GRESB has no liability to any person (including a natural person, corporate or unincorporated body) for any losses, damages, costs, expenses or other liabilities suffered as a result of any use of or reliance on any of the information which may be attributed to it.

Exclusions

Negative/exclusionary screening refers to the systematic exclusion of certain sectors, companies, countries, activities, regions or issuers from funds based on certain criteria or ethical lenses. Exclusion criteria often include product categories (fossil fuels, weapons, tobacco), company practices (animal testing, violation of human rights, corruption) or controversies.[1]

We prefer to retain our position in investments (rather than divest of them), because it can provide an opportunity for us or our investment managers to engage companies to potentially improve their practices, where we have the ability to do so (see **Stewardship**).

There are some occasions, however, when we consider it appropriate to exclude certain investments.

We use negative screening (exclusions) across our Australian and International Shares asset classes to exclude direct investment in certain companies. In some cases, a threshold applies before the company can be excluded. During 2022-23, we worked to harmonise the exclusions process for the QSuper and Super Savings options. Current exclusions across the Australian and International Shares asset classes (aside from QSuper's Defined Benefit accounts and Self-Invest option) are described in Table 2.

Exclusions[2]	Description	Threshold
Tobacco[3]	Companies that manufacture tobacco products	5% gross revenue threshold (estimated or reported) in most recent year of financial reporting
Cluster munitions	Companies that manufacture cluster munitions whole weapons systems and companies that manufacture components of cluster munitions. This doesn't include delivery platforms[4]	Any involvement
Landmines[5]	Companies with an industry tie to landmines that are flagged for landmine manufacturer, ownership by a landmines company, or ownership of a landmines company	Any involvement

Table 2: Exclusions from ART's shares asset classes across available options

1 RIAA, 2023: **"Responsible Investment Benchmark Report Australia 2023"**, p. 29.
2 Exclusions are based on MSCI ESG Business Involvement Screening Research Methodology (October 2022) and associated universe coverage.
3 Tobacco companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This includes companies that grow or process raw tobacco leaves.
4 Delivery platforms are companies that manufacture weapon platforms capable of carrying and deploying cluster munitions to the designated target area. Delivery platforms can include self-propelled rocket launcher systems and aircraft.
5 This does not include companies with a reviewed and/or past involvement status.

Exceptions to these exclusions

The screening criteria do not apply to pooled vehicles or derivatives, which may have indirect exposure to companies involved in the manufacture of tobacco, cluster munitions, or landmines.

The implementation of the exclusions above relies on accuracy of data from a third-party provider (MSCI). Sometimes we may accept excluded listed shares as part of super fund mergers. In this instance, we seek to divest in a manner aligned with members' best financial interests, usually within 30 days.

Exclusion lists are updated twice yearly.

Following those updates, we inform external investment managers which listed shares are required to be excluded from new and existing investments.

Further exclusions may be applied in accordance with the Sustainable Investment Policy.

We also offer ESG member choice investment options to our members that incorporate further exclusions in Australian and international shares. Further information on the exclusion thresholds and detail on the exclusion criteria of each product are provided in the section on **Our ESG member choice investment options** and can also be found in the relevant product disclosure statements for **QSuper** and **Super Savings**.

Stewardship

Stewardship is 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.[1]

We have a responsibility to use our ownership rights to seek to encourage better ESG practices and disclosures in companies where we invest, to the extent that we are able. Our primary consideration when exercising our ownership rights is the best financial interests of our members. There are several terms that can describe this activity, including stewardship and active ownership.

We undertake stewardship activities through engagement and proxy voting.[2]

Engagement

When engaging investee companies on ESG issues, we seek to improve behaviours, promote best practice, and develop a better understanding of business and strategic decisions. Where practical, engagement activities aim to build stronger relationships between ART and our major investee companies.

Effective engagement takes time. With over 6,000 shares within our portfolio, it is not possible for us to engage all investee companies. This is the same for many of our fund managers, who may also hold hundreds or thousands of stocks through strategies such as passive approaches to tracking indexes.

Where engagement is undertaken with our investee companies, the following methods are used: direct, collaborative and through service providers (Table 3).

Direct

Involves a dialogue between ART and our investee companies. Engagement is typically conducted one-on-one where views can be expressed candidly, in the spirit of improving sustainability practices.

Number of engagement meetings in 2022-23

27 meetings with 17 companies

Collaborative

Occurs when a group of shareholders (such as different super funds) come together to open a dialogue with companies on key ESG issues. By speaking with a unified voice, investors may magnify the impact of their engagement efforts on issues of mutual concern.

Number of engagement meetings in 2022-23

75 meetings with 38 companies

Service provider

We appoint a third-party service provider to undertake engagement on ART's behalf. We use the Australian Council of Superannuation Investors (ACSI) for engagement of our Australian shareholdings.

Number of engagement meetings in 2022-23

306 meetings with 194 companies

Table 3: Engagement meetings undertaken in 2022-23

1 RIAA, 2023: **"Responsible Investment Benchmark Report Australia 2023"**, p. 26.
2 Note: Australian Retirement Trust harmonised the proxy voting approaches of QSuper and Super Savings on 3 October 2022. Voting outcomes for the period between 1 July 2022 and 3 October 2022 represent the net vote.

Direct engagement

We understand that company engagement is more effective when there is the ability to influence. For shares (equities), our location and larger shareholdings in Australia mean we may have more influence domestically. Through our direct engagement program, we seek to build trusting, long-term relationships to better understand an issue, exert appropriate influence on an entity to the extent to which we are able, raise awareness of an issue, or simply build a better understanding of the business strategy.

This year, we conducted 27 direct engagement meetings with 17 publicly listed companies and 75 collaborative meetings with 38 publicly listed companies.

In our direct and collaborative meetings, discussions included environmental topics in 82.4% of the meetings, social topics in 92.2% of the meetings, and governance topics in 87.3% of the meetings, noting that some meetings included discussions covering more than one of these areas of topics.

Case study

BlueScope Steel site visit

BlueScope is a global steel manufacturer and investee entity in our listed shares portfolio that has publicly committed to investing in greenhouse gas emissions reduction. We engaged the company to better understand its climate change strategy and ambition to transition towards its goal of net zero by 2050.

Two members of our Sustainable Investment team attended the BlueScope investor tour at Port Kembla on Wednesday 21 September 2022, which included:

- Presentations from BlueScope's CEO and staff on steel and technology, the supply chain, occupational health and safety, people and culture, and innovation
- A tour through the Port Kembla steelworks.

BlueScope identified planned locations for a number of its nearer-term emissions reduction projects (such as biochar trials), along with locations of research and pilot plants for longer-term decarbonisation pathways (including the DRI-Melter pilot plant under consideration as part of BlueScope's collaboration with Rio Tinto).

Site visits give us the opportunity to see first-hand the projects our investee companies undertake with the aim of transitioning their operations.

Case study

Big 4 banks' remuneration and regulatory compliance

APRA's Prudential Standard CPS 511 Remuneration (CPS 511) came into effect on 1 January 2023. The objective of CPS 511 is to ensure that APRA-regulated entities maintain remuneration arrangements that appropriately incentivise individuals to prudently manage the risks they are responsible for, and that there are appropriate consequences for poor risk outcomes.

We individually engaged ANZ, CBA, NAB and Westpac to better understand changes to their remuneration arrangements made to comply with CPS 511.

Case study

Diversified mining services company's safety and remuneration outcomes

This mining services company had fatalities in 3 consecutive financial years through 2021-22. In our view, executive remuneration outcomes did not sufficiently reflect this trend of fatalities and, as a result, we voted against the company's remuneration report at its 2022 AGM.

We wrote to the company to explain why we voted against the remuneration report and to share our desire that future executive remuneration arrangements more effectively link remuneration outcomes to safety outcomes.

Case study

AGL say-on-climate vote

We support investee companies that voluntarily put forward a say-on-climate vote[1] at their AGMs, although we evaluate these votes on a case-by-case basis.

AGL had a voluntary say-on-climate vote on its climate transition action plan at its 2022 AGM. We acknowledged that AGL's Climate Transition Action Plan has challenges. We would like to have seen AGL align its decarbonisation strategy to a more ambitious 1.5°C pathway, instead of a pathway well below 2°C, but we were cognisant of various factors that would affect this, including governments' energy reliability and affordability objectives. Nonetheless, we noted the plan's increased ambition, as reflected by AGL's intention to close the Loy Yang A coal-fired power station by 2035, a decade earlier than previously announced.

We voted in favour of AGL's say-on-climate vote in support of this increased ambition.

1 A say-on-climate vote is an advisory vote on a company's plan to manage its transition to net zero.

Collaborative engagement

We participate in investor-led engagements that encourage companies to take action on a particular issue such as climate change (through Climate Action 100+) or human rights (through Investors Against Slavery and Trafficking Asia-Pacific). We also attend company-hosted roundtables, investor briefings and company presentations at broker conferences.

Case study

Climate Action 100+

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

We are the lead investor for engaging Orica and a contributing investor for 3 other companies.

Climate Action 100+ notes its engagement process is driven by a range of factors, including the profile of the company, the company's approach to climate change, its responsiveness to engagement, the industry or sector, the development of relevant technologies, and the regional context.

The initiative indicates that it expects lead investors to prepare an engagement plan a year in advance and to review progress. The initiative also conducts progress reporting and publicly rates focus companies using its Net Zero Company Benchmark.

Over the financial year, Orica met the engagement group several times and progressed in the Net Zero Company Benchmark. The latest assessment report can be found at **climateaction100.org/company/orica**.

Engagement through service providers

ACSI engages listed companies and non-governmental organisations on our behalf (ART is a member of ACSI). In 2022-23, ACSI focused its engagement on several ESG themes:

- **Environmental:** climate change, biodiversity and the circular economy.
- **Social:** workforce matters like modern slavery and workplace safety, cultural heritage and First Nations issues, and corporate culture matters such as sexual harassment.
- **Governance:** board diversity, accountability and remuneration.

ACSI sets goals for individual companies on each of these topics, depending on their relevance and company performance to date.

In 2022-23, ACSI held 306 engagement meetings focused on material ESG matters, with 194 ASX-listed companies.

ACSI noted improvements were made on 89% of its annual priority issues across the ESG thematic areas set out above.

Further information on the ACSI priorities of gender diversity and climate change is provided below.

Gender diversity

For more than a decade, ACSI has championed change in board composition, fuelled by the belief that boards comprising individuals with diverse backgrounds and experiences produce better investor outcomes.

ACSI's engagement program on board gender diversity, supported by its gender diversity voting policy, has been in use since 2015. ACSI has engaged ASX200 companies about gender diversity on their boards. By June 2023, the average ASX200 board comprised over 35% women, a positive change from 2015, when the figure was only 19%. According to ACSI, the appointment rate of women directors onto new boards for the 6 months to 30 June 2023 was also running at above 40% for the ASX200.

In May 2023, ACSI refreshed its gender diversity voting policy by outlining its expectation that ASX300 boards have a 30% female representation, and that companies develop a timeframe within which they will achieve gender balance (40:40:20) on their boards.[1] ACSI has indicated that it will apply this policy alongside ongoing engagement efforts.

Climate change

ACSI has worked to assess the extent to which company strategies are aligned to the goals of the Paris Agreement to limit climate change to well below 2°C and, ideally, to 1.5°C. This includes engagement to drive the adoption of the Task Force on Climate-related Financial Disclosures (TCFD) framework,

1 ACSI, May 2023: **"ACSI Gender Diversity Policy"**.

a net zero commitment and accompanying pathways to achieve those aims.

ACSI's research and engagement program identified that as of March 2023, 80% of the ASX200's market capitalisation is invested in companies with some form of publicly disclosed net zero commitments, and the majority of the ASX200 is now adopting and disclosing against the TCFD.[1] ACSI continues to engage companies on the quality and depth of their TCFD analysis of material climate risks and opportunities.

ACSI also supported companies that adopted say-on-climate proposals, a process in which companies put their climate transition plans to a shareholder vote to increase transparency and accountability. These voting proposals provide an opportunity for investors to assess the company's climate strategy and seek further commitments such as the development of scope 3 emissions reduction targets.

Equitable (just) transition

ACSI publicly advocates for policy action to support an equitable (just) transition to a low carbon economy and in December 2022 released its research report on the subject.[2] The report outlines investor expectations of listed companies and the policies that ACSI recommends governments put in place to support a transition that reduces the social and financial effects of the climate transition.

Pleasingly, in May 2023, the Australian Government announced the establishment of a Net Zero Authority to oversee and drive the transition.

Proxy voting

Proxy voting is an important tool for investors to exercise their shareholder rights to encourage better ESG practices and disclosures among investee companies.

We invest in share markets across the world. By voting on our members' behalf at AGMs and other decision-making forums, we can seek to influence the governance of companies we invest in.

After the merger, two different approaches were undertaken by our heritage funds. On 3 October 2022, we harmonised proxy voting across our investment portfolios, including adopting one proxy voting policy and platform through which to implement our votes and track outcomes for external reporting.

The proxy voting **outcomes record** from 1 July 2022 onward represent ART's vote record for both QSuper and Super Savings account options. Prior to 1 July 2022, the historical vote record represents only QSuper proxy votes cast. Outcomes are available within seven days of an AGM held by an investee company.

Voting outcomes[3]	Australia	International
Number of meetings	376	7,280
Number of resolutions	2,262	79,485
Votes For	1,962	63,159
Votes Against	291	11,905
Votes Abstain	0	1,063
Votes Take no action and other[4]	9	3,358

Australian environmental-related shareholder proposals[5]	Australia	International
Total environmental-related shareholder proposals	9	214
Environmental-related shareholder proposals with votes Against	7	35
% votes Against	77.8%	16.4%

Table 4: ART record of proxy voting outcomes, 1 July 2022 – 30 June 2023

1 ACSI, August 2023: **"Promises, Pathways & Performance: Climate Change Disclosure in the ASX200"**.
2 ACSI, December 2022: **"A just transition to a clean energy economy: Investor expectations and policy recommendations"**.
3 Voting outcomes for the period between 1 July 2022 and 3 October 2022 represent the net vote.
4 In certain markets or circumstances, there may be technical issues that can affect the desirability of voting proxies or the ability to vote proxies (share-blocking provisions, restrictive power of attorney requirements, conflicts of interest, sanctions regimes, etc.). There are also several other voting options (like say-on-pay frequency votes).
5 Environmental-related shareholder proposals are as defined by Australian Retirement Trust's voting agent, CGI Glass Lewis. More information on its approach to environmental and social issues in 2022 can be found here: **"Glass Lewis 2022 Policy Guidelines"**. We may vote on proposals that are pro-ESG, anti-ESG, and/or anti-social (also known as "Trojan horse").

Our ESG member choice investment options

Super Savings Socially Conscious Balanced option

The Super Savings Socially Conscious Balanced (SCB) option is a responsible investment product certified since 2007 by RIAA.[1]

The investment objective of the SCB option for Accumulation and Transition to Retirement Income accounts is to achieve an annual return of CPI + 3.5% (and for Retirement Income accounts, CPI + 4%) after investment fees and costs, transaction costs and, where applicable, investment taxes, measured over a rolling ten-year period. For further information in relation to the investment objectives for this option please see the **Investment Guide**.

This option invests in line with an extended set of ESG principles in addition to those set out on pages 14-23. We use several responsible investment approaches, including negative screening for listed shares, ESG integration, sustainability-themed investing, and stewardship undertaken by our investment managers. Further information on excluded industries as a result of negative screening appears below.

Option-specific exclusions (negative screening)

In addition to the exclusions detailed in **Exclusions**, the SCB option's allocation to Australian and international shares excludes direct investments into companies that exceed the specific thresholds described in Table 5.

Exceptions to the exclusions in Table 5

The screening criteria do not apply to pooled vehicles or derivatives, which may have indirect exposure to companies exceeding the thresholds for exclusion.

The thermal coal and metallurgical coal exclusions do not apply to companies deriving revenue from coal mined for internal power generation, intra-company sales of mined thermal coal and metallurgical coal, or revenue from coal trading.

The implementation of the exclusions (other than the exclusion concerning live animal exports) relies on accuracy of data from a third-party provider (MSCI).

Sometimes we may accept excluded listed shares as part of super fund mergers. In this instance, we seek to divest in a manner aligned with members' best financial interests, usually within 30 days.

Exclusion lists are updated twice yearly. Following those updates, we inform external investment managers which listed equity shares are required to be excluded from new and existing investments.

1 RIAA's RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that the Super Savings SCB option adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Certification Symbol is a Registered Trademark of Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and the SCB option's methodology, performance and stock holdings can be found at www.responsiblereturns.com.au, together with details about other responsible investment products certified by RIAA. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Exclusions[1]	Description of exclusion criteria	Exclusion threshold
Thermal coal	Mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties.	5% gross revenue (reported or estimated) threshold in most recent year of financial reporting
Metallurgical coal	Mining of metallurgical coal (including coking coal) and its sale to external parties.	
Oil and gas	Extraction and production or refining of oil and gas.	
Fossil fuel power generation	Thermal coal, liquid fuel, and natural gas-based power generation.	
Alcohol	Companies that manufacture alcoholic products, including brewers, distillers, and vintners. It also includes companies that own or operate wine vineyards.	
Gambling	Companies that operate gambling facilities such as casinos, racetracks, bingo parlours, or other betting establishments.	
Adult entertainment[2]	Companies that produce adult entertainment materials.	
Tobacco and alternative smoking products[3]	Companies that manufacture tobacco products, or products aimed to replace or supplement tobacco products.	No threshold (companies deriving any revenue from the manufacturing of these products are excluded)
Controversial weapons	Companies that have any tie to controversial weapons (cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or nondetectable fragments).	Any involvement
Nuclear weapons	Companies that have an industry tie to nuclear weapons.	
Live animal exports	Australian shares companies that own and/or operate live animal export operations.	Australian shares companies identified by internal desktop research to own and/or operate live animal export operations

Table 5: Additional exclusions for the Australian and international shares asset classes in the SCB option

1 Thermal coal, oil and gas, and fossil fuel power generation exclusions are based on MSCI ESG Climate Change Metrics Methodology (November 2022) and associated universe coverage. The metallurgical coal exclusion uses data supplied through, and defined within, MSCI ESG Manager platform. The alcohol, gambling, adult entertainment, tobacco and alternative smoking products, controversial weapons, and nuclear weapons exclusions use MSCI ESG Business Involvement Screening Research Methodology (October 2022) and associated universe coverage. The live animal export exclusion applies to listed Australian shares companies, and internal desktop research is conducted by Australian Retirement Trust.

2 Companies that produce adult entertainment materials that fall into the following six categories: producer of X-rated films, producer of pay-per-view programming or channels, producer of sexually explicit video games, producer of books or magazines with adult content, live entertainment of an adult nature, producer of adults-only material on the internet.

3 Tobacco and alternative smoking products refers to companies that manufacture tobacco products (or products aimed to replace or supplement tobacco products), such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.

Asset class implementation

Table 6 outlines the responsible investment strategies applied to the SCB option.

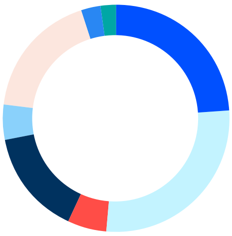
Asset class	Responsible investment strategies	Implementation
Listed equities – Australian and international shares	Exclusions (negative screening), ESG integration, stewardship	Invested in a separately managed, global equity mandate with an active investment manager that demonstrates strong responsible investment capabilities. The manager is not permitted to invest in securities detailed in **Option-specific exclusions**. In addition, the manager undertakes stewardship activities with selected portfolio companies to advocate for positive changes on topics such as climate change, human capital management, executive remuneration and risk management. For more information on the stewardship undertaken in the option, see the **Case study: listed shares stewardship.**
Fixed income	ESG integration; sustainability-themed investing	Invested in a separately managed mandate. The strategy includes sustainability-themed investing through bonds whose proceeds are used for climate-related or environmental projects.
Private equity	ESG integration; sustainability-themed investing	Invested in a pooled investment fund of private equity fund investments and direct co-investments. The strategy includes sustainability-themed investing seeking outcomes that are aligned with the **UN Sustainable Development Goals** (SDGs).
Real estate	ESG integration	Invested in the ART Super Savings real estate asset class that includes ESG integration.
Infrastructure	ESG integration	The option's infrastructure investments include ESG integration.
Alternative strategies	ESG integration	The option's alternative investments include ESG integration.
Cash	Not applied	Invested in the ART Super Savings cash asset class.

Table 6: Responsible investment strategies applied to the SCB option.

Asset allocation and performance

The SCB option's actual asset allocations at 30 June 2023 and investment returns to 30 June 2023 are shown in Figure 4.

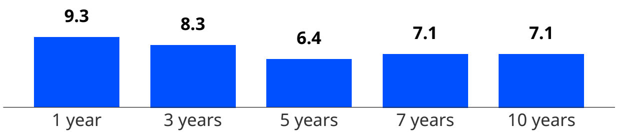
Actual % asset allocation at 30 June 2023[1]



Australian shares	24.1
International shares	27.4
Private equity	5.6
Real estate	14.9
Infrastructure	5.1
Fixed income	17.9
Alternative strategies	3.0
Cash	2.0

Investment returns to 30 June 2023[2]

Super Savings Accumulation and Transition to Retirement accounts, % p.a.



Retirement Income accounts, % p.a.

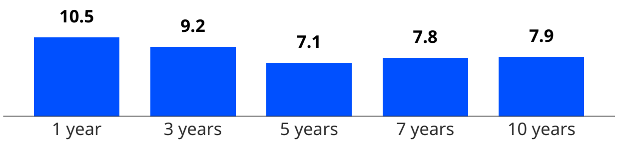


Figure 4: SCB option asset allocations and investment returns

Case study

Neuberger Berman Private Equity Impact Fund I

The SCB option invests in the Neuberger Berman Private Equity Impact Fund I (the "NB PE Impact").[3] NB PE Impact seeks to invest with the intention of generating positive social and environmental outcomes that are aligned with the UN Sustainable Development Goals (SDGs)[4] in addition to generating an attractive risk-adjusted financial return commensurate with private equity investments. NB PE Impact also seeks to engage individual general partners, as well as the broader private equity ecosystem, to scale impact measurement and management and advance industry best practices.

NB PE Impact is diversified across industry, geography, and impact theme. NB PE Impact has identified five investable themes that address 15 of the 17 UN Sustainable Development Goals. The fifth theme, "promote gender and racial equality," is a cross-cutting theme.

In the "improve sustainable growth and employment theme", for example, NB PE Impact made a commitment to a company that provides student assessment and personalised instructional solutions.

1 Percentages are subject to rounding. Refer to Asset classes and "How do we use derivatives?" in the Super Savings Investment Guide for more information on asset classes and how we use derivatives to rebalance them.
2 Past performance is not a reliable indication of future performance. Returns are based on member unit prices at the beginning and end of the reporting period. Returns are after investment fees, costs and taxes (where applicable) but before administration fees and costs. Transition-to-retirement (TTR) income account returns from 1 July 2017 are the same as for Accumulation accounts. Prior to 1 July 2017, TTR income account returns were the same as Retirement income account returns. Visit art.com.au/performance for historical return information.
3 As at June 2023, the total assets under management of the SCB option's investment in the NB Private Equity Impact Fund I is $24.4 million.
4 The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (**SDGs**), which are an urgent call for action by all countries -- developed and developing -- in a global partnership.

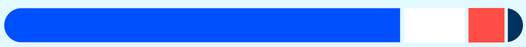
Case study

Affirmative fixed income

One of ART's external investment managers is Affirmative Investment Management (AIM), a fixed income specialist, whose publicly stated mission is to manage fixed income portfolios that generate positive environmental and social impact towards achieving the SDGs and consistent with the emissions reduction trajectory set out by the Paris Agreement. The fund predominantly holds labelled-use-of-proceeds bonds, and green bonds outweigh other types of impact bonds in the portfolio.[1]

Each year, AIM reviews all holdings and collects allocation and sustainability data on projects and activities supported. For 2022 holdings, AIM collected data covering 97% of ART's investment portfolio.[2] (The other 3% comprises cash and bonds for which allocation and sustainability data was not available during our data collection period.) The projects and activities supported by the portfolio can be split into 3 sustainability categories: mitigation, adaptation, and social. Some projects are categorised as both mitigation and adaptation.

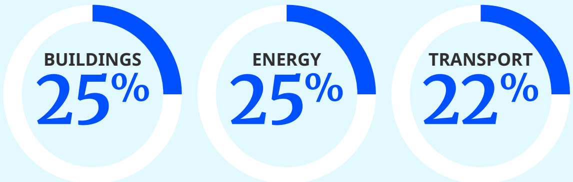
Sustainability theme



Mitigation	78%
Social	12%
Adaptation	7%
Mitigation and adaptation	3%

Figure 5: 2022 sustainability focus (portfolio weight) in the Affirmative fixed income mandate

According to AIM, the ART portfolio invested in bonds supporting sustainable activities in 165 countries. In 2022, the top 3 sectors to which bond proceeds were allocated were all environmentally focused:



Other sectors to which funds were allocated include:

- Water and wastewater management (7%)
- Empowerment of women and vulnerable groups (4%)
- Financial inclusion and sustainable enterprise (4%)
- Resilience (3%)
- Information and communication (3%)
- Resource efficiency (2%)
- Land management and marine environment (2%)
- Social housing (1%)
- Global health (1%)
- Education, training and employment (<1%).

We receive an annual report from AIM that outlines the outcomes of these activities in accordance with their sustainability methodology.

1 As at June 2023, the assets under management of the SCB Option's Affirmative fixed income mandate is $77.4 million.
2 This includes data collection on labelled and unlabelled green, social, and sustainability bonds (87% of 2022 average portfolio holdings) and data collection on SPECTRUM-aligned investments (10% of 2022 average portfolio holdings).

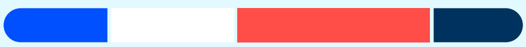
Case study

Listed shares stewardship

In 2022-23, the appointed listed shares manager for the SCB option, EOS at Federated Hermes (EOS), undertook engagement on our behalf.[1] EOS focused its stewardship activities on the issues with the greatest potential to deliver long-term sustainable returns for EOS clients. EOS carried out 252 engagement meetings with 77 companies in our SCB option listed shares portfolio. According to reports from EOS, approximately 34% of the companies engaged demonstrated progress on their engagement objectives across climate change, human capital management, executive remuneration and risk management, among other topics.

Figure 6 breaks down the engagement topics EOS at Federated Hermes undertook for our SCB listed shares strategy during 2022-23 noting that some meetings included discussions covering more than one of these areas or topics.

Company engagements by topic



Environmental	**37**
Social and ethical	**44**
Governance	**69**
Strategy, risk and communication	**32**
Total	**182**

Figure 6: EOS at Federated Hermes engagement topics for ART portfolio in 2022-23

Case study

Executive remuneration

In addition to undertaking the listed shares investment manager engagement, we also undertake direct engagement with a selection of the listed companies within the SCB option that are based in Australia.

We have had several long-standing concerns with the remuneration practices of an ASX-listed Australian real estate investment trust, including the quantum of remuneration and long-term incentive metrics.

We met the Chair of the remuneration committee in advance of the 2022 AGM, which we had also done before the 2021 AGM. Our concerns were not sufficiently addressed by the 2022 AGM and so we voted against the 2021-22 remuneration report.

In addition, to escalate our concerns, we also voted against the re-election of the Chair of the remuneration committee at the 2022 AGM.

A few months after the 2022 AGM, we had a meeting with the Chair of the board, during which we exchanged views on the company's remuneration practices.

Discussions were also held with one of our proxy advisers on identifying potential pragmatic solutions to address our concerns. Engagement with our proxy adviser and the company continued after the end of the financial year.

1 As at June 2023, the assets under management of the SCB Option's Federated Hermes socially conscious balanced mandate was $222.86 million.

QSuper Socially Responsible option

The investment objective of the QSuper Socially Responsible option is to achieve an annual return of CPI + 3.5% (after fees, costs, and tax) over rolling 10-year periods for Accumulation and Transition to Retirement Income accounts, and of CPI + 4.0% (after fees and costs) over rolling 10-year periods for Income accounts.[1] For further information in relation to the investment objectives for this option please see the **Investment Guide**.

Results of performance test conducted by APRA

We were disappointed that the Socially Responsible option failed the Your Future, Your Super (YFYS) annual performance test run by APRA at 30 June 2023. The YFYS performance test measured the 9-year investment return of the SR option against a benchmark defined under the YFYS legislation.

By underperforming this benchmark by more than 0.5% p.a., the option was deemed to have failed the YFYS performance test. It is the only one of our options to have failed the test.

The SR option was redesigned in July 2020, and the subsequent performance of the option in the 3 years from 1 July 2020 to 30 June 2023 was the most significant factor explaining the performance test failure. The two main contributors to this outcome over that period were the shares and real estate components in this option. These two asset classes represent almost three quarters of the assets in the option, making their performance particularly important.

In relation to shares, the Sustainable Impact Index in which the option was invested from 1 July 2020 to 30 June 2023 underperformed the general index over this period. This global index seeks companies and assets that earn at least half their revenues from "sustainable impact"[2] activities defined by the UN Sustainable Development Goals. By focusing on companies with specific characteristics, the index limits the number of companies we can invest in and is less diversified than the general index, which is the one that APRA uses as the benchmark to measure the performance test. Although we expect to earn similar returns over the long term, our investments can underperform (and potentially outperform) the broader market over shorter time horizons. The index underperformed the broader market over the 3 years to 30 June 2023 and thus contributed to the underperformance of the Socially Responsible option.

The other main contributing factor was the relatively poor performance of the QSuper real estate portfolio in the post COVID period. Although we hold a range of different types of real estate, ranging from offices to student housing, the portfolio has had a high exposure to retail shopping centres and US office buildings, which were negatively affected by the effect of the COVID pandemic and also by subsequent developments that resulted in headwinds for those sectors.

Case study

Partners Group – Budderfly

Swiss fund manager Partners Group helps us select and manage unlisted assets, such as private equity and private debt. In July 2022, Partners Group acquired a majority stake in Budderfly Inc., a company that provides an outsourced solution for energy management and infrastructure upgrades for underserved commercial and industrial businesses.

Budderfly offers Energy as a Service (EaaS) solutions for the measurement, reduction, and management of energy demand and consumption. This involves designing, integrating, installing, and fully funding a comprehensive portfolio of energy efficiency technology upgrades for customers, as well as managing and monitoring their energy usage.

Partners Group's investment in Budderfly positions the company for potential continued growth, amid increasing market demand for cost-effective decarbonisation solutions.

1 For Accumulation and Transition to Retirement (TTR) Income accounts, this means after investment fees and costs, transaction costs, and investment taxes. For Retirement Income accounts, this means after investment fees and costs, and transaction costs. TTR income account returns from 1 July 2017 are the same as for Accumulation accounts. Prior to 1 July 2017, TTR income account returns were the same as Retirement Income account returns. Visit **https://qsuper.qld.gov.au/investments/performance** for historical performance information.

2 **https://www.msci.com/eqb/methodology/meth_docs/MSCI_ACWI_Sustainable_Impact_Index_Feb2022.pdf**

Approach to sustainable investing

While the option had no formal exclusions in place beyond those for other available QSuper options for which current exclusions are outlined in **Exclusions**, Figure 7 shows the type of investments this option sought to include and avoid during the reporting period until 30 June 2023 through the use of the Sustainable Impact Index.

Seeks to include investments in

- Medical and technological innovation
- Conservation and the environment
- Clean energy
- Education
- Waste reduction and recycling
- Food and water scarcity
- Health care
- Green buildings

Seeks to avoid investments in

- Fossil fuels
- Gambling
- Adult entertainment

Figure 7: the QSuper Socially Responsible option sought to include and avoid investments according to members' preferences.

Asset class implementation

Table 7 outlines the responsible investment strategies applied to the SR option during the reporting period.

Asset class	Responsible investment strategies	Implementation	How contribution to UN SDGs was determined
Listed equities – Australian and international shares	Sustainability-themed investing	Invests in a range of listed shares. An investee company must derive at least half of its revenue from activities associated with one or more of the **UN Sustainable Development Goals** (SDGs). Can also include a portion of listed equities futures.	The total percentage of revenue alignment to SDGs multiplied by the funds under management in these shares
Fixed income	ESG integration; Sustainability-themed investing	Invests in a passive index. The strategy includes ESG integration and sustainability-themed investing through bonds whose proceeds are used for climate-related or environmental projects. Some of the allocation is also in long-duration bonds.	The total percentage breakdown of use of proceeds per SDGs multiplied by the funds under management in these assets
Private equity	ESG integration; Sustainability-themed investing	The strategy includes sustainability-themed investing, seeking outcomes that are aligned with the **SDG**s.	Estimated total percentage of revenue contributing to one or more SDG multiplied by the funds under management in these assets

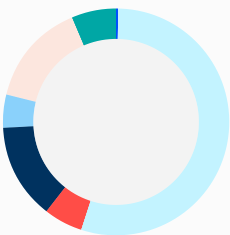
Asset class	Responsible investment strategies	Implementation	How contribution to UN SDGs was determined
Real estate	ESG integration	Invested in the QSuper real estate asset class and includes ESG integration	Total percentage of funds invested in assets with some form of green certification
Infrastructure	ESG integration; Sustainability-themed investing	The strategy includes sustainability-themed investing seeking outcomes that are aligned with the **SDG**s.	Estimated total percentage of revenue contributing to one or more SDG multiplied by the funds under management in these assets
Alternative assets	Not applied		
Cash	Not applied	Invested in the QSuper cash asset class	

Table 7: Responsible investment strategies used in the QSuper Socially Responsible option

Asset allocation and performance

The Socially Responsible option's actual asset allocation at 30 June 2023 and investment returns to 30 June 2023 are shown in Figure 8.

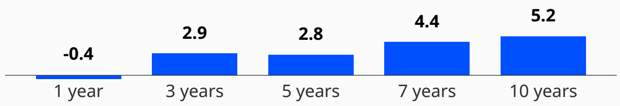
Actual % asset allocation at 30 June 2023[1]



Australian shares	0.4
International shares	54.9
Private equity	5.5
Real estate	13.6
Infrastructure	4.6
Fixed income	14.9
Alternative assets	0
Cash	6.2

Investment returns to 30 June 2023[2]

QSuper Socially Responsible Accumulation account returns, % p.a.



QSuper Socially Responsible Retirement Income account returns, % p.a.

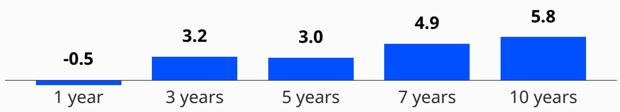


Figure 8: QSuper Socially Responsible option asset allocations and investment returns

1 Percentages are subject to rounding. Refer to Asset classes and "How do we use derivatives?" in the **QSuper Investment Guide** for more information on asset classes and how we use derivatives to rebalance them.
2 Past performance is not a reliable indication of future performance. Returns are based on member unit prices at the beginning and end of the reporting period. Returns are after administration and investment fees and costs, transaction costs and investment taxes but before all other fees and costs.

Contribution to SDGs

Using the **UN Sustainable Development Goals (SDGs)** as a framework for communicating contribution to positive impact in 2022-23, we have calculated that approximately 44% of the Socially Responsible option's investments were intended to contribute to one or more of these goals. This is up from approximately 40% in 2021-22. Figure 9 shows the contribution to each SDG based on the option's asset allocation as at 30 June 2023. (The approach to deriving these contributions is outlined in Table 7).

Given our changes to the QSuper Socially Responsible option from 1 July 2023 and its intended closure as of 1 July 2024, this is the last year we will be reporting on contributions to SDGs for this option.

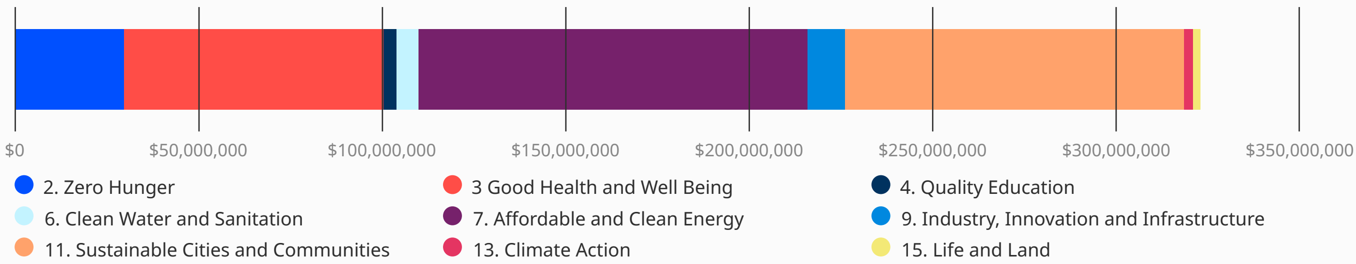


Figure 9: SR option's contributions to SDGs in FY23

Changes made to the option

We made changes to the option's investment strategy effective from 1 July 2023 as a step towards bringing together our two ESG member choice options.

The key changes made were:

- Changes to simplify the asset allocation; reducing exposure to underperforming real estate and increasing exposure to shares.
- Changes to the approach used within shares by moving away from the sustainability-oriented shares index to an approach that replicates that used in our **SCB option**.

Details of the sustainability approach for the Socially Responsible option for the 2023-24 financial year can be found in the QSuper Investment Guide.

Closure of the option

In August of this year, we announced our intention to close the QSuper Socially Responsible option on 1 July 2024.

The changes outlined will be in effect until the option closes. We believe that these changes will improve the option's performance until that time.

We are committed to providing members with an ESG option that invests in line with an extended set of ESG principles.

Memberships and certifications

We are members of a number of professional associations that address ESG matters such as climate change, modern slavery and reporting standards.

Signatory of:

PRI

https://www.unpri.org/

ACSI

https://acsi.org.au/

IGCC

https://igcc.org.au/

GRESB

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

A proud participant of:

Climate Action 100+

https://www.climateaction100.org/

IAST APAC

https://www.iastapac.org/

RIAA

https://responsibleinvestment.org/

As well as advocating to government, industry and other stakeholders, these organisations provide expert advice, thought leadership and opportunities to work with the companies we invest in.

Our approach to modern slavery and associated human rights

In December 2022, we released our first **Modern Slavery Statement**, which outlines the actions we took to identify, assess and address modern slavery risks in our operations and supply chain during 2021-22.

The Modern Slavery Statement includes information on the potential risk of modern slavery in our investment portfolio and actions we take to identify and address this. This is in addition to risk of modern slavery and actions we take for our own business operations and procurement.

We will submit our next Modern Slavery Statement, covering activities from 1 July 2022 to 30 June 2023, by 31 December 2023.

The way we assess and address modern slavery and associated human rights risks

To identify and address the risks of modern slavery and associated human rights risks within the investment portfolio, we have developed a "respect and remedy" framework, shown in Figure 10: This framework is based on the UN Guiding Principles of Business and Human Rights (the UNGPs).

Consideration of human rights in the modern slavery context refers to whether people are provided decent work[1] that prevents them from being trapped in slavery-like systems. Work systems should also respect general human rights, including but not limited to the freedom of association, collective bargaining, non-discrimination, freedom of movement, women's rights and Indigenous rights.[2]

Our focus for this reporting year has been on risk assessment; advocacy and engagement; policy and capability; and monitoring and reporting through our Modern Slavery Statement.

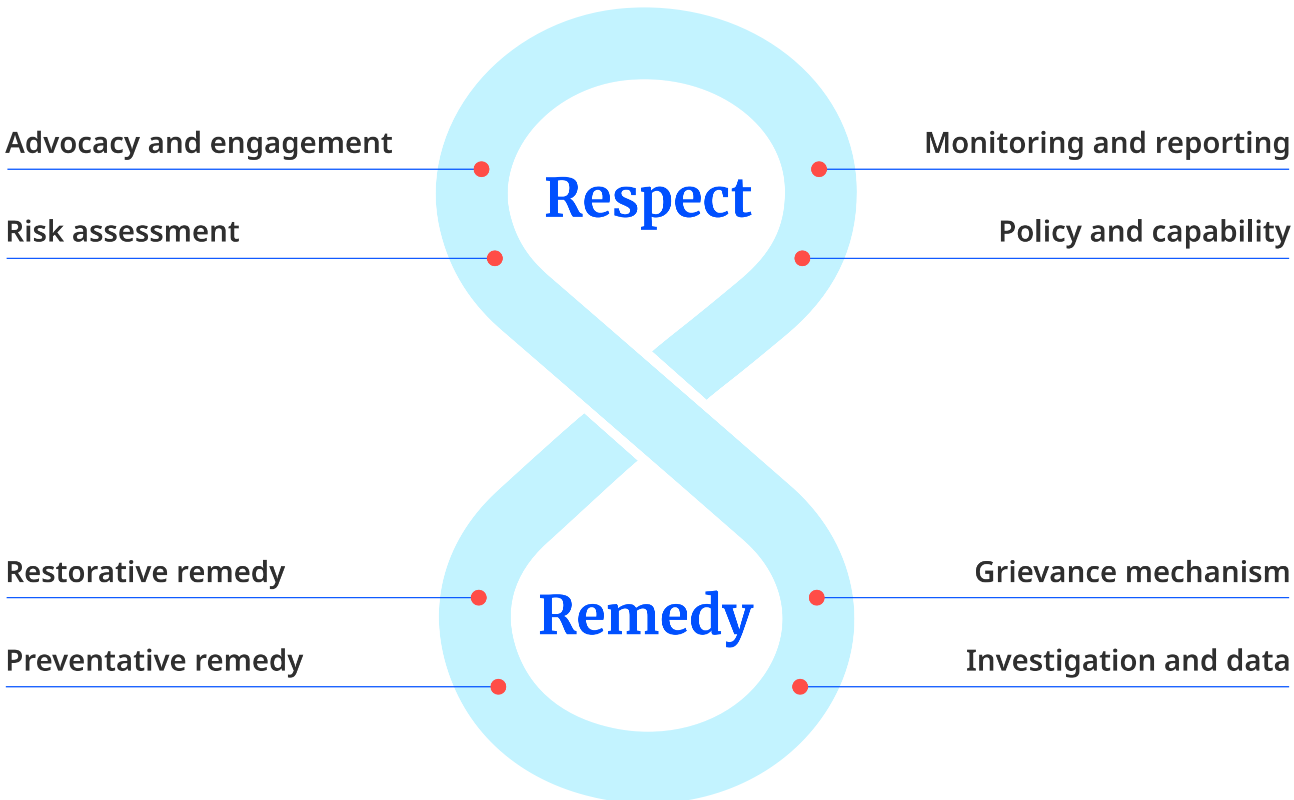


Figure 10: ART's framework for identifying and addressing modern slavery

1 As defined by the **International Labour Organization**
2 As enshrined in the UN Declarations and Conventions, which Australia has signed and ratified. More information is available from the **Attorney-General's Department.**

Risk assessment

We use several approaches to help identify and assess modern slavery risk in the investment portfolio. We engaged an external service provider to assesses the inherent risk of modern slavery practices across our investment portfolio based on an input-output model of country, sector and financial exposure for investee companies.[1] Using the results of this review, during 2021-22, initial due diligence was undertaken on the 20 highest-risk companies in our investment portfolio. This assessment includes companies from within the listed shares and infrastructure asset classes. We have been working through detailed assessments on these companies, completing 6 in 2021-22 and assessing the remaining 14 in 2022-23. Information garnered from these deep dives has been used for engagement of investee companies and investment managers.

We also assess alleged cases of modern slavery within the investment portfolio, using multiple information sources. We identified 11 investee companies for further assessment over the past year.[2] These alleged cases continue to be reviewed through either engagement with the external investment managers, external engagement service providers, or direct engagement. We continue to hold a quarterly modern slavery meeting with international shares manager Pzena, which we highlighted in our 2021-22 report. Other managers have engaged us on an ad-hoc basis on modern slavery-related issues.

We have an ongoing program of work that commenced during 2021-22 to incorporate modern slavery-related provisions into contractual agreements with investment managers. Currently, 21 investment manager agreements include modern slavery-related provisions, predominantly within the shares asset class. We will continue to progress this program of work over the coming years.

Advocacy and engagement

During the reporting period, we provided a submission to the Australian Government's public consultation to review the effectiveness of Australia's *Modern Slavery Act 2018* (Cth). The submission stated our ongoing support for the *Modern Slavery Act* and the establishment of a federal anti-slavery commissioner.

We participate in RIAA's Human Rights Working Group which, among other activities, aims to gain members' views and opinions to aid in the development of RIAA policy positions, advocacy, and research work and to help members progress their engagement programs.

We are also a member of the Investors Against Slavery and Trafficking (IAST) Asia Pacific Initiative. This was established in 2020 to engage companies in the Asia Pacific region and promote effective action in finding, fixing and preventing modern slavery in operations and supply chains. IAST reports that during the reporting period, IAST APAC engaged 22 focus companies across the consumer discretionary, consumer staples, technology, and healthcare sectors listed on exchanges in Australia, Hong Kong, Japan, the Philippines, Singapore, South Korea, Taiwan and Vietnam.

We are participating as a support investor for one Australian and one Asian company. We selected these companies because of the size of our holdings and because we believe there is an opportunity to improve their approach to assessing and addressing modern slavery risk. For more information on IAST APAC's activities in the reporting year, please see its **Annual Report FY22-23**.

We have a Fund-wide Modern Slavery Framework and an ART Modern Slavery Working Group (MSWG) in which the investment team actively participates. The MSWG meets at least 6 times a year.

We also directly engaged several ASX-listed extractive companies in relation to Indigenous Peoples' rights.

ACSI reporting of modern slavery statements by ASX200 companies

In 2023, ACSI commissioned Pillar Two, a business and human rights advisory firm, to undertake a detailed analysis of the third year of reporting of modern slavery statements by ASX200 companies. The analysis assigned scores to company statements against 46 quality indicators over 6 assessment areas. The research shows an improvement in reporting from ASX200 companies, but there are still large gaps in disclosure. ACSI uses these research findings to improve company practices and encourage improvements in Australia's *Modern Slavery Act*.

1 FairSupply is the data provider.
2 MSCI Controversies Assessment, public media sources, or through alerts received by investment managers or ACSI.

Committing to reconciliation

In May 2023 we committed to reconciliation with the launch of our Reflect Reconciliation Action Plan (RAP). Our investment team supports this plan through our participation in the internal RAP working group and its activities. We are a member of RIAA's First Nations Peoples' Rights Working Group and will provide input on the structure and content, including a technical review, of the Dhawura Ngilan Business and Investor Initiative's guide for investors to implement the Dhawura Ngilan principles.

Read more about ART's Reflect RAP, and download a copy from **art.com.au/about/reconciliation-action-plan**

Dhawura Ngilan Business and Investor Initiative

One of the actions in our Reflect Reconciliation Action Plan is to amplify the voices of Aboriginal and Torres Strait Islander peoples within our sphere of influence. The deliverable associated with this action, owned by the Head of Sustainable Investments, is to provide input on the structure and content of the Dhawura Ngilan Business and Investor Initiative guides, an external initiative led by the First Nations Heritage Protection Alliance in partnership with the United Nations Global Compact Network Australia and RIAA. The guides are expected to be published in FY2024.

The Dhawura Ngilan Business and Investor Initiative brings together First Nations, business and investor communities and is focused on strengthening Australia's First People's heritage laws and standards for the private sector to uphold the human rights of First Peoples.

This Initiative sees protecting cultural heritage as the responsibility of all Australians, including the finance and business sectors.

Our approach to climate change

Climate change is a risk that will affect all sectors of the economy and represents one of the most significant challenges of our time. As a global investor, we are 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.

For the global economy to decarbonise, we need to play our part. By encouraging our investee companies to transition and reduce their carbon emissions, our investment portfolio will also progress towards a net zero greenhouse gas emissions investment portfolio by 2050 (NZE2050).[1] This is aligned with the Paris Agreement goal of limiting global warming to well below 2°C, and supports our view that such targets will increasingly be accepted by markets as the base case through which economies will operate.

In 2022-23, the ART Board approved our **Net Zero 2050 Roadmap** that was published in September 2023. The Roadmap outlines the actions that we have planned to help achieve our NZE2050 target. This includes our approach to stewardship, how we invest, and working with other organisations to learn, share knowledge, and advocate for change.

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

We believe that guiding our investment portfolio to this path will help us avoid unrewarded risks as businesses and economies transition to a low-carbon future. We have developed interim climate-related targets across selected asset classes (set out in further detail below) as milestones to measure our progress in achieving our NZE2050 target.

Given the evolving understanding of climate change, we will review the Roadmap every 2 years, and our approach is subject to change should circumstances or assumptions that have been relied upon change. We will continue to produce a report annually, detailing our progress.[1]

As noted in last year's Sustainable Investment Report, we began using the framework of the voluntary recommendations from the Taskforce on Climate-Related Financial Disclosure (TCFD) as a guide for reporting our work on climate change in relation to our investment portfolio. We also note that the International Financial Reporting Standards (IFRS) Foundation has published standards of the International Sustainability Standards Boards (ISSB) on climate-related disclosures, which are consistent with the core recommendations and recommended disclosures published by the TCFD. In this report, in relation to our investment portfolio, we have sought to outline progress using the TCFD recommendations, and we include information consistent with the ISSB standards where it is accurate and available.

Climate change governance

Governance of climate change considerations as it relates to our investment portfolio replicates the Board's oversight of sustainable investments as described under **Sustainable Investment Governance** and, as outlined in the **Sustainable Investment Policy**. Detailed guidance on climate change-related governance can also be found in the Roadmap. The Board is at all times responsible for our investment portfolio.

This includes oversight of sustainable investment activities, approval of the Sustainable Investment Policy, and climate change considerations for investments.

In February 2023, our Investment Committee added additional expertise, including on climate change, through the appointment of Dr Guy Debelle (former Deputy Governor of the Reserve Bank of Australia) as an Investment Committee adviser.

The Board has identified climate change as an investment risk. Updates relating to climate change are provided by the Investments team on a half-yearly basis to the Investment Committee and relevant internal management committees and stakeholders. During 2022-23, climate change was on the agenda of four Investment Committee meetings and two Board meetings. Investment management committees reviewed and discussed papers prior to submissions to the Board and Investment Committee.

Annual training is provided to the Board or its sub-committees and the Investments team on relevant climate-related topics. A number of training sessions on climate change were held throughout the reporting year, including:

- One internal training session to the Board on investment-related climate change considerations
- Two information sessions from external parties to the Investment Committee and several Board members on climate transition and climate-related investments
- Two training sessions from external providers on ISSB standards to the Investment and Finance teams
- Internal information sessions to the Investments team on carbon emissions baseline and data collection
- Training by external legal counsel on understanding and managing greenwashing risk to the Sustainable Investments, Corporate and Investment Legal, and Risk and Compliance teams.

Governance and risk management actions that were completed in the 2022-23 year are outlined in Table 8. Of note, Internal Audit undertook a regulatory review to assess the management and disclosure of climate-related financial risks against APRA's Prudential Guidance CPG 229 Climate Change Financial Risks. The Board received an overview of outcomes from the internal audit at the June 2023 Board meeting. The Audit and Risk Committee received a detailed briefing after this reporting period.

We have also progressed climate-related data and analytics through extending the collection of financed emissions data to the private equity and listed corporate debt asset classes, as well as commencing the process of obtaining investee company targets for selected asset classes. These are reported in **Metrics**.

1 Currently, such reporting is delivered via this Sustainable Investment Report.

Focus area		Action and timeframe (Jun-Dec 2023)	Status
Governance	Principles	Adopt new guiding principles and associated actions	Complete
	Accountability	Review Board and Management responsibilities	Complete
		Review delegations to enhance climate change oversight, as required	Complete
		Review reporting frequency to Board and Management Committees	Complete
Audit and risk management	Internal audit	Internal audit to assess the management and disclosure of investment climate-related financial risks	Complete
Target setting	2030 interim targets	Adopt GHG emissions intensity target for asset class with available data	Complete
		Adopt Engagement target for listed equities	Complete
		Adopt Portfolio Alignment target for listed equities	Complete
		Define and measure baseline for climate-related opportunities	In progress
Data and analytics	Emissions data	Calculate financed emissions annually for listed equities, real estate, infrastructure, private equity, and corporate fixed income (listed corporate debt)	Complete
		Commence capturing asset and company climate change targets (both 2050 and interim) for listed equities, real estate, infrastructure and other asset classes if available	Complete
Review and disclosure	Disclosure	Publish interim targets and Net Zero 2050 Roadmap	Published post reporting period
		Annual external climate change reporting	Published post reporting period as part of this report

Table 8: 2022-23 governance and risk management actions

Strategy and risk management

We consider strategy in this context refers to factors that contribute to our investment strategy, including asset allocation, the portfolio construction for each option, the combination of active or passive investments, liquidity management and the selection of our investment managers. Climate change is both a financial risk and opportunity, and there are different approaches to considering how best to incorporate it into the investment strategy.

We are pleased with our progress to date and the work program outlined for the next 2 years in our Roadmap, but we are in the early stages of this journey. The assumptions and information on which the Roadmap is based are subject to change as further data becomes available or if external circumstances impact on the targets being achieved. If necessary, we will update our Roadmap (including targets and assumptions) accordingly.

Climate change as a financial risk

APRA has provided guidance to its regulated entities, including superannuation funds, on how a prudent organisation should consider the financial implications of climate change risks and opportunities for its investment portfolio (Figure 11)[1].

How we invest

The investment decisions we make now and in the future will affect how our investment portfolio makes the transition to our NZE2050 target. We recognise that each asset class is at a different stage of its transition. The level of progress depends on a range of factors, including whether the asset class is in public or private markets, investments within the asset class are managed passively or actively (or a mixture of both,) and the relationship with the

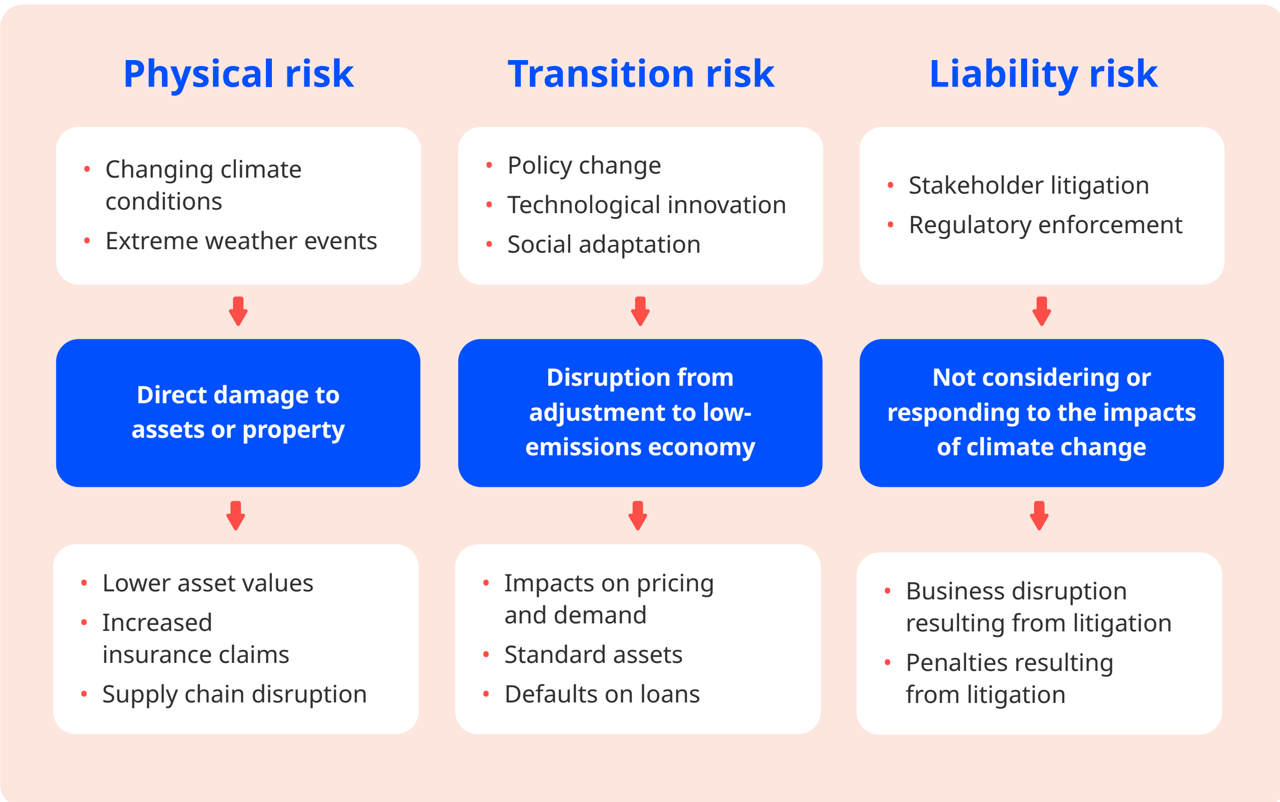


Figure 11: APRA's view of the risks and financial effects of climate change

1 **Prudential Practice Guide CPG 229 Climate Change Financial Risks**

external investment manager is bilateral or via a pooled fund with many other investors.

Measuring financed emissions remains a priority with a focus on increasing disclosure of data relating to financed emissions. By adding private equity and listed corporate debt to the emissions data we receive and report on, our emissions data coverage for the investment portfolio has increased from 54% in 2021-22 to 68% in 2022-23. For shares, a focus for investee 'priority companies'[1] is how they are reporting on their climate-related transition plans.

Asset allocation

Recognising that asset allocation is a key driver of investment performance, different asset classes, sectors and geographies will be affected by climate risks in different ways. We acknowledge this is challenging, and we will continue to explore emerging approaches. Under our Roadmap, we have committed to undertaking scenario analysis and stress-testing of selected options annually and to modelling the effects on returns for various time horizons.

Scenario analysis

During 2022-23, we worked with our asset consultant, JANA, to consider the potential effects of climate change on our Super Savings Balanced option and QSuper Lifetime option (Outlook cohort). JANA developed three scenarios in which to assess a range of potential effects on asset returns over both the medium term (to 2030) and the longer term (to 2040). The scenarios were based on widely recognised International Energy Agency (IEA) analysis.[2]

We acknowledge that both transition and physical risk will have different effects on returns under different scenarios and that modelling the effect of climate change on economic activity and on asset returns is inherently very difficult and subject to a large degree of uncertainty.

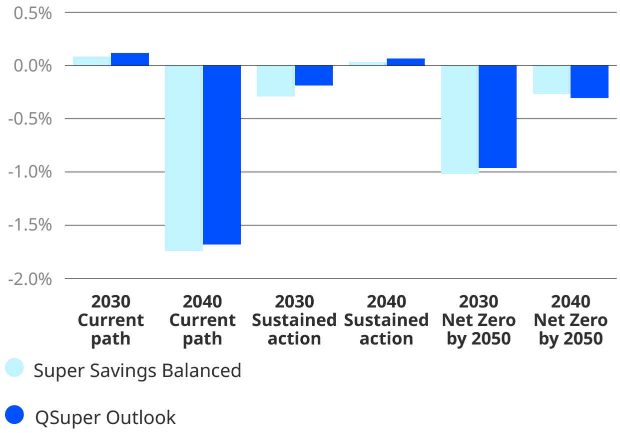


Figure 12. Reduction in expected returns (% p.a.) based on different climate scenarios. Source: JANA

Subject to these caveats, Figure 12 suggests that policy inaction is likely to lead to increased physical risks and is the most detrimental to longer-term investment returns (as indicated by the 2040 Current Path scenario). Although a rapid decarbonisation is also likely to be disruptive in the medium term (as shown by the 2030 Net Zero by 2050 scenario), both the Sustained Action and Net Zero by 2050 scenarios have the lowest negative impact on expected returns by 2040. This analysis reinforces our belief that taking action to help mitigate climate risk is in our members' best financial interests.

Uncertainties about the impact of climate change on individual assets and asset classes mean it is challenging to currently manage this risk at an asset allocation level. Among the challenges are gaps in climate data, knowledge and research; unknown future policy and technology outcomes; unknown extent of physical effects and associated feedback loops. We note that the issue of climate modelling and its usefulness in helping with asset allocation decisions is the subject of debate globally, and we will be doing further work in this area to help deepen our own knowledge and understanding and its application to our portfolio decisions.

1 'Priority companies' are defined as companies that together contribute 70% of our listed shares' financed emissions.
2 International Energy Agency's World Energy Outlook scenarios, including Stated Policies Scenario (STEPS), Sustainable Development Scenario (SDS) and Net Zero by 2050 (NZE2050) scenario; for more detail, please see the Glossary.

Listed shares

As detailed in our 2021-22 Sustainable Investment Report, before the merger our Super Savings and QSuper investment strategies implemented different approaches for managing the risks presented by climate change within shares. These strategies were designed to minimise the effect on performance while seeking to reduce downside exposure to climate change risk.

Super Savings used externally managed passive strategies that adopted a climate-aware index.[1] This was implemented by managing the underlying investment portfolios to replicate customised low-carbon indices rather than the standard market indices.

QSuper's quantitative listed shares portfolio assessed the carbon intensity and transition readiness for companies in the portfolio, where those that did not meet the criteria were removed from the strategy (this is also known as a climate change overlay). This resulted in lower emissions than before the adjustment. Any companies that subsequently met the criteria could be re-invested. This adjustment was also applied to the QSuper single-sector Australian and International Shares investment options.

Although the strategies that were implemented in the 2020-21 financial year continue, in 2021-22 we began harmonising the two approaches, which also aims to align the portfolios with the new guiding principles and actions outlined in the Roadmap.

The overall emissions intensity outcome of these strategies has reduced from 74 tCO_2e / $M invested (2020-21) to 44 tCO_2e / $M invested (2021-22). **See Metrics**, Table 13.

It's important to note that a reduction in emissions intensity within our listed shares asset classes does not mean there has been a reduction in overall emissions in our investee companies. One of the guiding principles in our Roadmap is that a reduction in real-world emissions is required by 2030 if there is any chance of meeting net zero by 2050. This is reflected in the introduction of the Portfolio Alignment and **Engagement Targets**. These aim to help 'priority companies' work towards transitioning to a net zero outcome by 2050.

We report scope 3 emissions for listed equities for the second year. We have also commenced reporting scope 3 emissions for infrastructure, real estate, private equity and listed corporate debt (**see Metrics**, pages 53-55).

During the reporting period, we continued to make progress on our actions relating to proxy voting and engagement, which are set out in further detail under **Stewardship**.

Unlisted infrastructure and real estate

Property and infrastructure assets will in many cases be exposed to climate risks, both transition and physical. Because these assets are often unlisted, and we may hold them for many years, this makes consideration of climate risks during the initial investment decision phase important. We have incorporated climate change into the external investment manager ESG rating and private asset due diligence process. See **ESG integration**.

As part of due diligence conducted on new infrastructure and real estate assets that are approved by the Management Investment Committee, an interim requirement was also introduced in the reporting period to assess the commitment to 'net zero emissions by 2050' of each asset on a comply-or-explain basis. We seek to encourage all new investee assets to make this commitment or make plans to do so in a reasonable timeframe, generally (but not always) within one year after the asset receives finance. Consistent with our Roadmap, next year we will aim to define the minimum climate-related requirements to be incorporated into the due diligence process for new and existing infrastructure and real estate investments.

The emissions intensity for the infrastructure portfolio was substantially lower this year at 28.7 tCO_2e / $M invested compared with the baseline year (47.8 tCO_2e / $M invested). This was primarily a result of:

- improvements in data quality due to less reliance on proxy data for certain holdings that were large contributors to the financed emissions in the baseline year
- changes to portfolio composition through the purchase and sale of assets.

See Metrics, Table 13.

Financed emissions across our real estate portfolio saw little change from the FY21 baseline year. Our external investment managers did, however, report an increase in assets that now have a net zero plan or commitment (55% in 2022-23 compared to 38% in 2021-22). **See Metrics**, Table 13.

1 MSCI Low Carbon Target (LCT) indices.

Given our focus during 2022-23 on developing interim climate-related targets and our Roadmap, there has been limited capacity to expand our internal assessment of physical risk for infrastructure and real estate asset classes. Despite this, for due diligence for new investments that are approved by the Management Investment Committee, external investment managers are required to assess and understand the potential financial implications of physical risk on the assets, when it is considered a material risk.

A summary of investment and stewardship actions that were completed or are still in progress in 2022-23 is in Table 9.

Focus area		Action and timeframe (Jun-Dec 2023)	Status
Investment portfolio	Investment strategy and resilience	Annual stress testing of selected options to assess long-term return impacts	Complete
	External managers	Enhance approach to incorporate climate change into selection and appointment of new managers	Complete
	Listed equities	Harmonisation of listed equity climate change approaches across the investment portfolio	In progress
		Measure and report Scope 3 emissions of investee listed equities companies	Complete. Extended to four other asset classes.
	Private equity and listed corporate debt	Commence collection of emissions data from external investment managers and investee companies	Complete
Stewardship	Engagement	Formalise engagement objectives for 'priority companies' under direct engagement	In progress
		Incorporate Equitable Transition principles into engagements	In progress
	Proxy voting	Develop governance approach for 'priority companies' and climate-related shareholder resolutions	Complete

Table 9: 2022-23 investment portfolio actions

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 10). These are currently focused on asset classes where we can measure emissions and have available data.

Table 10. 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	

Table 10: Interim climate-related targets

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.

Metrics

An important part of identifying, assessing and managing the risks and opportunities posed by climate change in our portfolio, is measuring and reporting our progress. This year we report on two metrics: financed emissions and emissions intensity (carbon footprint).

Greenhouse gas emissions explained:

Financed emissions	Absolute greenhouse gas emissions that we finance through our investments and loans. These are at the aggregated portfolio expressed in tonnes of CO_2-equivalent (tCO_2e).
Emissions intensity	This metric normalises financed emissions by a specific unit – tonnes of carbon dioxide-equivalent per million dollars invested (tCO_2e/$ million). It allows us to compare the financed emissions over time as we grow our funds under management.

We have used the Global GHG Accounting and Reporting Standard for the finance industry developed by the Partnerships for Carbon Accounting Financials (PCAF) to calculate the emissions baseline. The method we use to calculate emissions, along with the formulas, is in **Appendix A**.

Scope 1 and 2 financed emissions

As reported last year, in August 2022 we established our FY21 emissions baseline for the aggregated portfolio across three key asset classes: listed equities, infrastructure and real estate. The baseline emissions data as at 30 June 2021 were 6,726,724 (financed emissions tCO_2e) and 62.7 tCO_2e / $M invested (emissions intensity).

	Listed shares[1]	Infrastructure[2]	Real estate[3]	TOTAL
Assets class greenhouse gas emissions coverage[4]	90%	100.0%	100.0%	-
Data reported / estimated	87.0%	99.0%	78.8%	-
Data proxy[5]	3.0%	0.98%	21.2%	-
Excluded[6]	10.0%	-	-	-
Financed emissions (tCO_2e)	5,892,294	741,234	93,196	6,726,724
$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 11: Total emissions baseline and asset class breakdown as at 30 June 2021

1 Equities data (both reported and estimated) sourced from MSCI.
2 Data sourced from investment managers.
3 Data sourced from investment managers.
4 Coverage by portfolio weight.
5 Data proxied by Sustainable investments team at each asset class level by either median or average emissions.
6 Derivatives were excluded for listed equities.

This year, we are pleased to share that we have added two asset classes to our emissions reporting: private equity and listed corporate debt (Table 13). It is more challenging to obtain the same levels of coverage for these asset classes, requiring more estimations and the use of proxy data[1] than for listed equities, infrastructure and real estate. Although this does affect the accuracy of the reported financed emissions associated with private equity and listed corporate debt, we believe that reporting what we can represents a meaningful base from which we can improve over time. Until we can establish sufficient confidence in the quality of this data, we have not updated the emissions baseline or the 2030 emissions intensity reduction targets to incorporate these two additional asset classes at this stage.

To be transparent, we identify any data that is proxied (that we estimate). In addition, we have also highlighted the percentage of data collected that our external investment managers or investee assets have reported as verified or assured. We have not assessed the accuracy of any claims of data that has been identified as verified or assured.

All emissions data measurement and disclosures are point-in-time assessments and may be subject to changes over time that result from such factors as:

- portfolio composition (purchase and sale of assets, and reweighting of portfolios between asset classes)
- investee company emissions
- company valuations
- methodology, data quality and accuracy.

We have also begun collecting data on investee companies with net zero and additional climate-related targets. Over half our investments as at 30 June 2022 in our infrastructure and real estate asset classes have net zero 2050 targets in place.

The total absolute financed emissions and emissions intensity (scopes 1 and 2 of investee companies) for asset classes related to our 2030 emissions intensity reduction target was 4,289,486 tonnes CO_2e and 36.6 tonnes of CO_2e per $ million invested, respectively (Table 12). Table 12 shows the change in emissions intensity (tCO_2e/$M invested) from the FY21 baseline year.[2]

This reduction may not reflect real-world emissions reductions, which are ultimately what we are seeking to achieve.

The two most substantial changes are from the listed shares and infrastructure asset classes. The change in the emissions intensity for listed shares is understood to be largely a result of the investment strategies implemented since the baseline measurement, as opposed to real-world emission reductions within this asset class. This large reduction may not persist in the future as we harmonise the climate change approach for these investment strategies and change the strategies themselves through consolidation our investment menu options.

The substantial reduction in emissions intensity for infrastructure is primarily a result of improved data quality from two funds in which we invest, where the external investment manager now provides more asset-level detail, thus requiring less proxied data, rather than a result of observed real-world emission reductions within this asset class.

	30 June 2022	30 June 2021
Financed emissions (tCO_2e)		
	4,289,486	6,726,724
$M (AUD) invested		
	117,298	107,220
Emissions intensity (financed emissions (tCO_2e) / $M invested)		
	36.6	62.7
Unadjusted % change from baseline (2021)		
	-42%	

Table 12: FY22 emissions compared to FY21 baseline emissions

As part of our Roadmap and 2030 emissions intensity reduction target, we committed to reporting against guardrails. Figure 13 shows the change in emissions intensity (tCO_2e/$M invested) from the FY21 baseline year, against our target trajectory with upper and lower guardrails.[3] This change is understood to not have resulted in real-world emissions reductions.

1 Our approach to proxying data within an asset class is to take the emissions intensity for the proportion of each asset class for which we do have reported/estimated data and apply this to the remaining proportion of the asset class for which we do not have data.
2 Based on the asset classes to which our interim emissions intensity reduction target applies (listed shares, infrastructure and real estate).
3 The emissions intensity reduction target was adopted from the 2022 Intergovernmental Panel on Climate Change (IPCC) report with a median reduction of 43%. We defined guardrails for the expected 2030 interim emission intensity reduction target transition pathway. These guardrails were informed by the 5th to 95th percentiles from the IPCC report [34%-60%], respectively. In the Roadmap, we committed to reporting emissions reduction against the guardrails.

	Listed equities[1]	Infrastructure[2]	Real estate[3]	FY22 emissions total (2030 interim target asset classes)	Private equity	Listed corporate debt	FY22 emissions total (incl. 2030 interim target asset classes, private equity, and listed corporate debt)
Asset class financed emissions coverage[4]	88%	100%	100%	-	100%	79%	-
Data reported / estimated	87%	89%	84%	-	52%	44%	-
Data proxied[5]	1%	11%	16%	-	48%	35%	-
Excluded[6]	12%	-	-	-	-	21%	-
$M (AUD) invested[7]	80,713	22,395	14,191	117,298	14,251	4,475	136,024
Financed emissions (tCO_2e)	3,536,651	643,196	109,638	4,289,486	186,864	252,836	4,729,186
Emissions intensity (tCO_2e) / $M invested)	43.8	28.7	7.7	36.6	13.1	56.5	34.8
% of financed emissions (tCO_2e) verified or assured	-	57%	49%	-	25%	-	-
Weighted PCAF data quality score[8]	2.1	-	-	-	-	1.7	
% of FUM[9] with net zero plan or target	33%	60%	55%	-	15%	43%	-

Table 13: Total scope 1 and 2 financed emissions by asset class as at 30 June 2022[10]

1 Listed shares and listed corporate debt data (both reported and estimated) sourced from MSCI. Differences exist between financed scope 1 and 2 emissions in listed shares reported this year and those reported for the same period last year, largely due to updated emissions and EVIC data provided by MSCI for the period.
2 Data sourced from investment managers and investee companies' public disclosures
3 Data sourced from investment managers
4 Coverage by asset class weight
5 Data proxied by ART Sustainable Investment team. The approach to proxying the data is to take the emissions intensity data for the proportion of each asset class for which we have reported/estimated data and to apply this to the remaining proportion of the asset class for which we do not have data.
6 Derivatives and other security types such as mortgage-backed securities were excluded from listed equities and listed corporate debt.
7 Amount invested in the asset class for which financed emissions have been calculated and which does not include the excluded exposures.
8 PCAF sets out a data quality scorecard to rate the level of quality of the emissions data used, from 1 (highest data quality), to 5 (lowest data quality). ART obtains these scores for listed shares and listed corporate debt from MSCI and calculates a weighted average score representing the percentage of the portfolio where data is available.
9 Funds under management
10 All figures, except weighted PCAF data quality scores, are rounded to whole numbers.

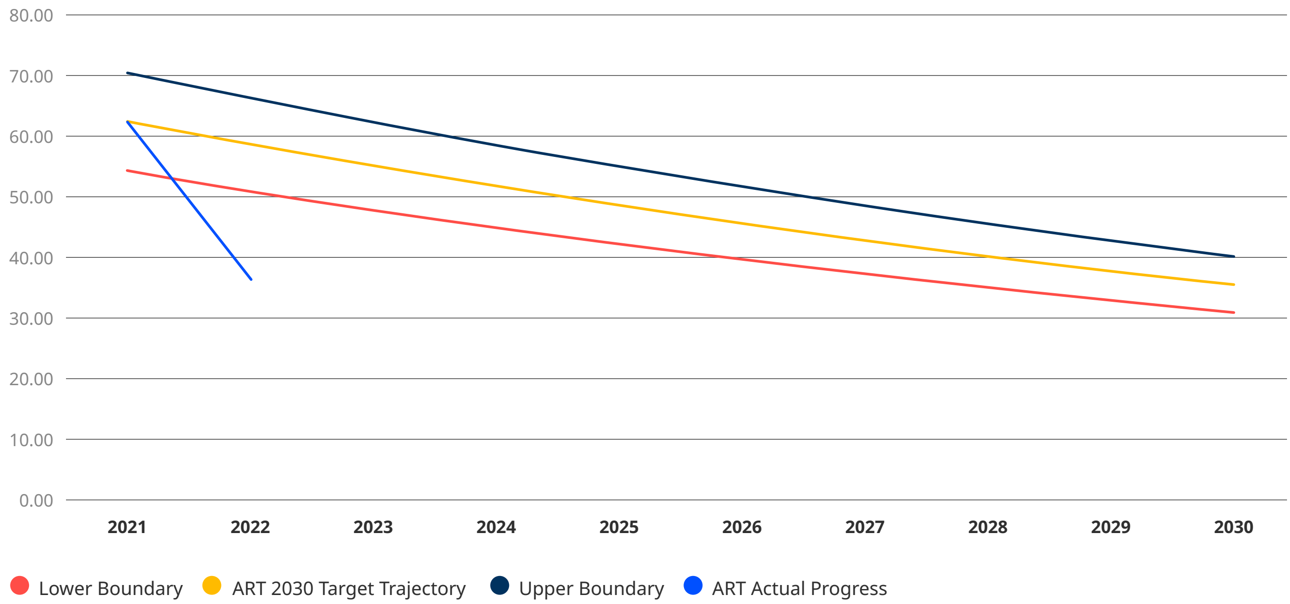


Figure 13: Emissions intensity compared with target trajectory and guardrails[1]

Top 10 largest emitters

The top 10 investee companies for scope 1 and 2 financed emissions for asset classes where emissions are reported are concentrated in listed equities and infrastructure, predominately within the materials, utilities and energy sectors. These investee companies represent 26% of financed emissions (of that component of ART's investment portfolio that was assessed) (Table 14). All listed equity investee companies within the top 10 are priority companies for engagement, in line with our Roadmap.

Name	Asset class	Sector	% of ART's financed scope 1 and 2 emissions
South32	Public equities	Materials	4.6%
BHP	Public equities	Materials	3.3%
Origin Energy	Public equities	Utilities	3.1%
Australian utility	Infrastructure	Utilities	2.5%
Santos	Public equities	Energy	2.2%
Waste management business (South America)	Infrastructure	Other	2.1%
Alumina	Public equities	Materials	2.0%
Rio Tinto	Public equities	Materials	2.0%
European energy utility	Infrastructure	Utilities	2.0%
Waste management business (U.S. and U.K)	Infrastructure	Other	1.8%
Top 10 total			**25.7%**

Table 14: Top 10 holdings by scope 1 and 2 financed emissions as percentage of total ART financed emissions

1 Based on the asset classes to which our interim emissions intensity reduction target applies (listed shares, infrastructure and real estate)

Asset class financed scope 1 and 2 emissions coverage 2022-23

Table 15 outlines the coverage by percentage of ART's total FUM in each asset class and the rationale for inclusion or exclusion. Our coverage is based on availability of the Partnership for Carbon Accounting Financials (PCAF) methodology for each respective asset class in addition to the availability of data. Compared with 2021-22, coverage of emissions reporting across the investment portfolio has increased from 54% to 68%.

Asset class	Asset allocation	ART included	PCAF standard methodology	ART rationale for inclusion / exclusion
Listed shares (physical)	68%	✔	✔	PCAF 'listed equity and corporate bond' approach was used. Broad coverage of issuers and data reliability. Service providers estimate any data gaps.
Infrastructure		✔	✔	PCAF 'unlisted equity' approach was used. Sufficient coverage and improving reliability. Sourced from external investment managers and asset operators. Proxy data required for assets where no reported/estimated data was provided or available.
Real estate		✔	✔	PCAF 'commercial real estate' covers both equity and debt investment and most asset types. ART data is sourced from external investment managers and asset operators. Sufficient coverage and improving reliability for equity investments. Proxy data required for assets where no reported/estimated data was provided or available (e.g. debt holdings).
Private equity		✔	✔	PCAF 'unlisted equity' approach was used. Just over 50% coverage and ARTs first year collecting data in this asset class. Sourced from external managers and portfolio companies. Proxy data used for the remainder of the asset class.
Fixed interest (physical listed corporate debt)		✔	✔	'Listed corporate bonds' approach was used for issuers with sufficient reported market and GHG data, and proxy data used for remainder of physical listed corporate debt.
Fixed interest (sovereign)	32%	✖	In progress	Although PCAF has provided guidance on sovereign bonds, at the time of assessment this was pending GHG Protocol review and approval.[1]
Derivative exposures (listed shares and corporate fixed interest)		✖	✖	Derivative financial products not yet covered by PCAF.
Fixed interest (other debt instruments)		✖	✔	Although PCAF provides guidance on 'listed corporate bonds', ART holds some other instruments, such as mortgage-backed securities, where there is limited or no GHG or market data.
Commodities		✖	✖	Methodology not developed
Alternative assets		✖	✖	Methodology not developed
Cash		✖	✖	Methodology not developed

Table 15: Emissions coverage for ART portfolio by asset class and rationale for inclusion or exclusion

1 The Global GHG Accounting and Reporting Standard for the Financial Industry (**carbonaccountingfinancials.com**)

Scope 3 financed emissions

This year we have again reported scope 3 emissions from investee companies for listed equities. We have extended this reporting to the infrastructure, real estate, private equity and listed corporate debt asset classes.

	Listed equities	Infrastructure	Real estate	Private equity	Listed corporate debt
Asset class financed scope 3 emissions coverage	87%	62%	55%	33%	44%
Data reported / estimated	87%	62%	55%	33%	44%
Data Proxied	0%	0%	0%	0.0%	0%
Not reported	13%	38%	45%	67%	56%
Financed emissions scope 3 investee companies (tCO_2e)	**29,940,431**	**2,461,858**	**172,147**	**250,437**	**838,114**

Table 16: Financed scope 3 emissions of investee companies as at 30 June 2022

PCAF defines scope 3 emissions as "indirect emissions not included in scope 2 that occur in the value chain of the reporting company, such as the upstream emissions from extraction of materials or downstream emissions from activities like transportation". It can be challenging for companies to report their scope 3 emissions, because these activities are often outside their control, they have limited ability to influence, and it can be difficult to obtain robust data.

We have chosen to report ART's financed scope 3 emissions separately from financed scope 1 and 2 emissions, because in addition to the challenges already outlined, financed scope 3 does not form part of our interim 2030 emissions intensity reduction target. However, for certain sectors, we recognise financed scope 3 emissions can be material, so we are taking the first step in reporting this data for asset classes, where possible.

We have not proxied any emissions data for scope 3 given the lower levels of coverage and the limited extent to which reported/estimated data is verified or assured by a third party.

Financed emissions by asset class and sector

We have compared sectors in each asset class where we have emissions data.

As shown in the figures for each asset class, financed emissions (scopes 1, 2, and 3) are typically concentrated in four sectors (materials, utilities, energy and industrials), even though these represent a small part of our overall holdings.

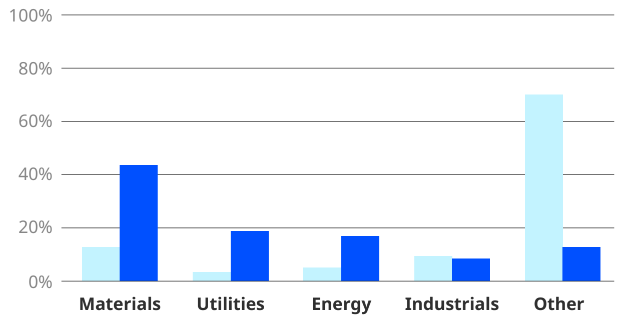
This pattern is broadly reflected across the economy and within financial markets.

Listed shares

Data for publicly traded shares is easier to obtain than that for other asset classes, because there is greater transparency of company information and external data providers collect this data in a consistent way.

Financed emissions for scope 1 and 2 emissions are concentrated in the materials, utilities and energy sectors, even though these represent only a small portion of our holdings (Figure 14).

Materials, energy, industrials and consumer discretionary have higher scope 3 emissions than other sectors (Figure 15).



% FUM

% Financed Scope 1 & 2 Emissions

Figure 14: GICS sector comparison of financed emissions for scopes 1 and 2 per million dollars invested in listed shares as at 30 June 2022

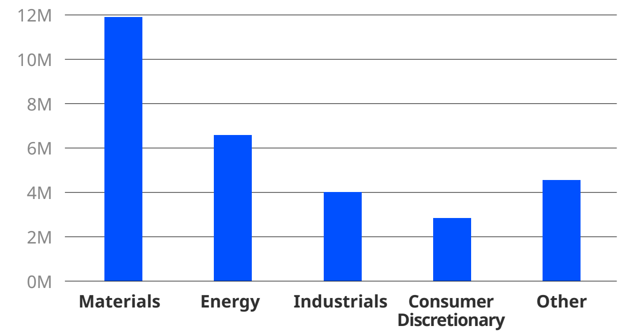
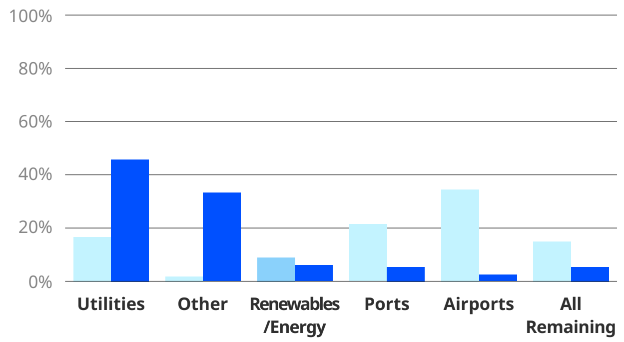


Figure 15: Scope 3 emissions by GICS sector in listed shares as at 30 June 2022 (t/CO_2-e)

Infrastructure

Financed emissions for scope 1 and 2 emissions for infrastructure are concentrated in the utilities and 'other' sectors (Figure 16). The sector names used in infrastructure are different from the GICS sectors and are based on ART's internal descriptors.



% FUM

% Financed Scope 1 & 2 Emissions

Figure 16: Sector comparison of financed emissions for Scope 1 and 2 per million dollars invested in infrastructure as at 30 June 2022

The 'other' sector reported in Figures 14 and 16 consists of diversified infrastructure funds or asset types such as waste management or healthcare facilities that do not fit into the other sectors.

Scope 3 emissions are concentrated in utilities and airports (Figure 17).

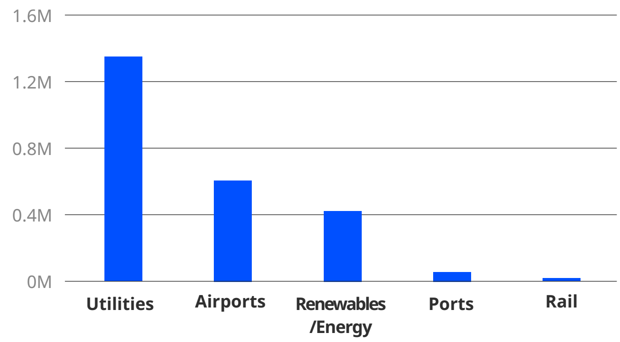
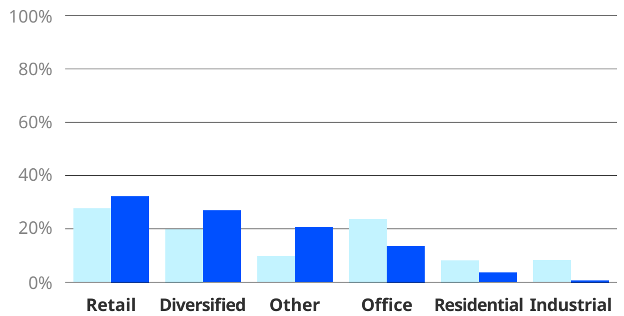


Figure 17: Scope 3 emissions by GICS sector in infrastructure as at 30 June 2022 (t/CO_2-e)

Real estate

Financed emissions for scope 1 and 2 emissions for real estate are more reflective of the size of our holdings than other asset classes (Figure 18). Investment managers also reported that almost 50% of the financed scope 1 and 2 emissions data was either verified or assured by a third party.



% FUM

% Financed Scope 1 & 2 Emissions

Figure 18: Sector comparison of financed emissions for scopes 1 and 2 per million dollars invested in real estate as at 30 June 2022

The sector names used in real estate differ from GICS sectors and are based on ART's internal descriptors. The 'other' sector relates to our exposure to sectors such as holiday parks and self-storage. Other and retail have the highest scope 3 emissions (Figure 19).

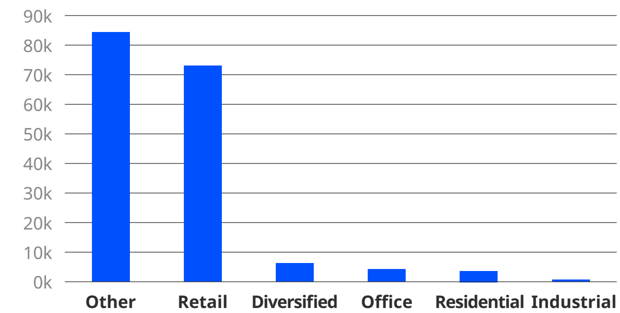


Figure 19: Scope 3 emissions by real estate sectors as at 30 June 2022 (t/CO_2-e)

Private equity

For private equity, a greater portion of the financed scope 1 and 2 emissions was proxied, and of those emissions that were reported, a lower percentage was verified or assured by a third party. Financed emissions for Scope 1 and 2 emissions are concentrated in the materials and industrials sectors, which again differs from listed equities (Figure 20).

This is largely driven by less exposure to the higher carbon intensive sectors (such as energy), at the time of the assessment.

Industrials, utilities and consumer staples have higher scope 3 emissions than other sectors (Figure 21).

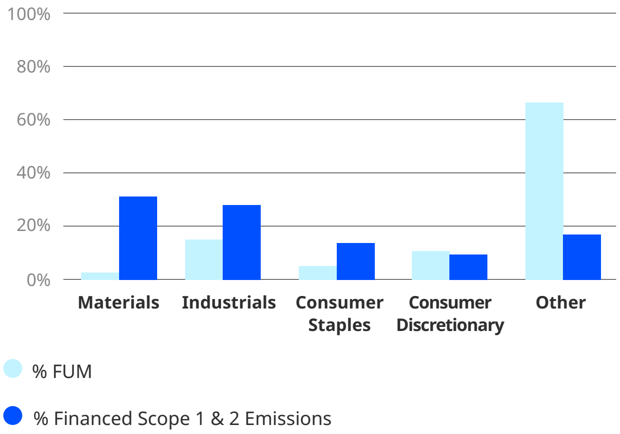


Figure 20: GICS sector comparison of financed emissions for scope 1 and 2 per million dollars invested in private equity as at 30 June 2022

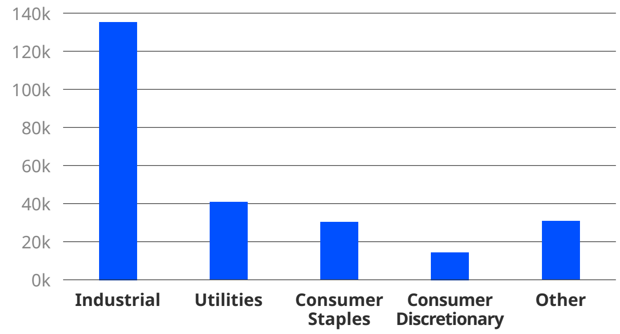


Figure 21: Scope 3 emissions by private equity sectors as at 30 June 2022 (t/CO_2-e)

Listed corporate debt

Scope 1 and 2 financed emissions for listed corporate debt are concentrated in the utilities, energy and materials sectors, although these represent only a small portion of our holdings (Figure 22). This is a similar outcome to that of listed equities.

The coverage of emissions data within this asset class is lower than the others. Where possible, we used the listed parent company data to calculate the financed scope 1, 2 and 3 emissions.

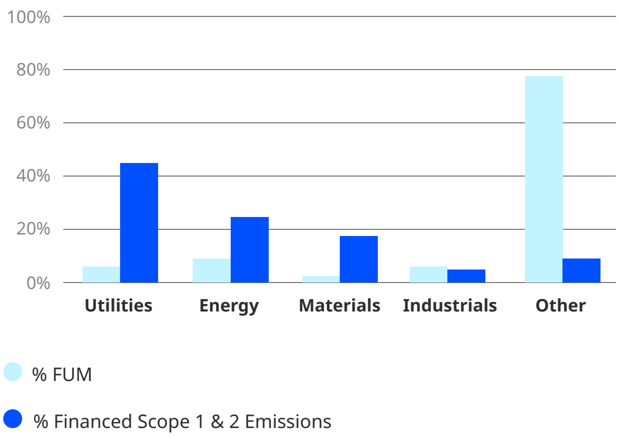


Figure 22: GICS sector comparison of financed emissions for Scope 1 and 2 per million dollars invested in listed corporate debt as at 30 June 2022

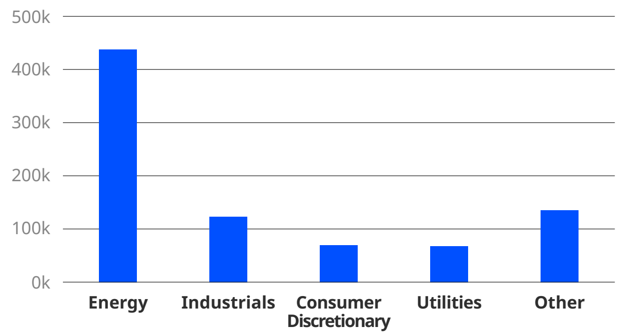


Figure 23: Scope 3 emissions by listed corporate debt sectors as at 30 June 2022

1 We obtain this data from MSCI. More detail is available in Appendix A.

Partners

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

Throughout the year, we participated in working groups with several member initiatives and engaged in policy advocacy on climate-related topics.

This included providing submissions to the Australian Treasury on the proposed climate-related financial disclosures regime and hosting the Treasurer's Investor Roundtable.

Partner actions that were completed in the 2022-23 year are outlined in Table 17. Other actions planned from 2024 onwards are outlined in the Roadmap, and progress will be reported annually.

Focus area	Actions and timeframe (June - December 2023)	Status
Member organisations and industry forums	Develop an evaluation framework for assessing climate-related initiatives and collaborations	In progress
	Actively participate in member organisations and forums	Ongoing. Participation will be reviewed when evaluation framework for assessing climate-related initiatives and collaboration is complete
Advocacy	Actively participate in external stakeholder roundtables and policy advocacy that support climate change strategy	Ongoing

Table 17: 2022-23 partner actions

Treasurer's Investor Roundtable

In April 2023, we were proud to host the second Federal Treasurer's Investor Roundtable at our new office in Brisbane. The event brought together representatives from the 20 largest Australian super funds, banks and fund management executives from across Australia, including ART Chair Andrew Fraser, government ministers, and industry experts. The event featured a productive discussion on opportunities and challenges in funding Australia's climate transition and how energy performance upgrades can be accelerated.

The path ahead

2022-23 was a financial year of harmonisation and building our foundations, with the Board approval of Sustainable Investment Strategy and **Roadmap**. In 2023-24, we will continue to further embed ESG considerations into the investment portfolio.

The operating environment for super funds is very different from what it was even just a decade ago, and it continues to change rapidly. Institutional investors are grappling with increasingly sophisticated and nuanced preferences of their memberships and an investment landscape that they know will be markedly different in another ten years' time.

At ART, we have committed to taking an active role in shaping our investment landscape, with a view to being as responsive as possible to our members' needs both before and after they retire.

This drives us to invest in our people and systems, as well as in assets that can withstand the pressures of a changing climate, address the needs of many stakeholders, and benefit from opportunities that emerge.

In 2023-24, we look forward to:

- Continuing to implement our Sustainable Investment Strategy
- Delivering on key actions in our Net Zero 2050 Roadmap
- Building capacity within the Investments team
- Reporting on our progress.

We will keep you, our members, informed of our progress, and we also invite you to get in touch if you have questions about our approach.

Glossary of terms and abbreviations

APS	IEA's Announced Pledges Scenario (APS): a "well below 2°C scenario, assumes that all aspirational targets announced by governments are met on time and in full, including their long-term net zero and energy access goals. This scenario is now used by IEA instead of SDS. Although the outcomes in both are similar, they are products of different modelling approaches.
ESG	Environmental, social and governance
ESG integration	The explicit inclusion of ESG risks and opportunities into financial analysis and investment decisions. It is a systematic process involving appropriate research and is underpinned by the belief that these factors are a core driver of investment value and risk.[1]
IPCC	**Intergovernmental Panel on Climate Change**: the United Nations body responsible for assessing the science related to climate change.
ISSB	**International Sustainability Standards Board**: a standard-setting board established to "deliver a comprehensive global baseline of sustainability-related disclosure standards".
GHGs	Greenhouse gases (GHGs) are gases in the earth's atmosphere that trap heat. Seven gases are mandated under the Kyoto Protocol to be included in national inventories under the United Nations Framework Convention on Climate Change (UNFCCC)— carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and nitrogen trifluoride.
GHG protocol	**Greenhouse gas protocol**: provides standards, guidance, tools and training for business and government to measure and manage climate-warming emissions.
GICS	**Global Industry Classification Standard®**: tool developed by MSCI and S&P Dow Jones Indices that describes the breadth, depth and evolution of industry sectors
IEA	**International Energy Agency**: comprising 31 member countries and 13 association countries and four accession 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, APS, and NZE2050, also defined in this glossary.
Impact investing	A targeted investment aimed at solving social or environmental problems where capital is directed to traditionally underserved individuals and communities and financing is provided to businesses with a clear social or environmental purpose. Impact investments satisfy 3 core principles: intentionality, measurability, and contribution.[2]

1 RIAA, 2023: "**Responsible Investment Benchmark Report Australia 2023**", p. 27.
2 Ibid., p. 36.

JANA-developed scenarios	JANA's descriptions of developed scenarios based on IEA scenarios, STEPS, SDS and NZE2050 respectively, as at November 2022: **Current path (4 degrees):** this scenario reflects all of today's announced policy intentions and targets, based on today's energy-related policy settings, insofar as they are backed up by detailed policies and measures for their realisation; **Sustained Action (2 degrees):** this scenario reflects the achievement of the energy-related UN SDGs, thus assuming a surge in clean energy policies and investment that puts the energy system on track to achieve sustainable energy objectives, including the Paris Agreement, energy access and air quality goals. This scenario puts global emissions on track for net zero by 2070; **Net Zero by 2050 (1.5 degrees):** this scenario extends the Sustained Action analysis by analysing the impact of a growing number of countries and companies that are targeting net-zero emissions by mid- century. Net Zero by 2050 includes detailed IEA modelling of what would be needed in the next 10 years to put global CO_2 emissions on track for net zero by 2050 (20 years earlier than the Sustained Action scenario).
MSCI	Global **provider** of equity, fixed income, real estate indexes, multi-asset portfolio analysis tools, ESG and climate products.
Negative / exclusionary screening	The exclusion of certain sectors, companies, activities, regions or issuers from funds based certain criteria or ethical lenses. Exclusion criteria often include product categories or sectors (e.g., fossil fuels, weapons, tobacco), company practices (e.g., animal testing, violation of human rights, corruption) or controversies.[1]
NZE2050	IEA's **net-zero emissions by 2050 scenario**: An emissions trajectory consistent with keeping the temperature rise in 2100 below 1.5°C (with a 50% probability), universal access to modern energy services and major improvements in air quality – and shows a pathway to reach it. Sets out a pathway for the global energy sector to achieve net zero CO_2 emissions by 2050.
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. 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.
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.

1 Ibid., p. 29.

RCP	Representative concentration pathway. The IPCC uses several scenario types, of which RCPs are one, to describe different futures we could experience, depending on the greenhouse gas levels in our atmosphere. Each RCP's number (from low to high: 2.6, 4.5, 6.0, and 8.5) refers to a measure of how much extra energy the earth retains as a result of human activities by the end of the century.
Scope 1	Direct GHG emissions from sources owned or controlled by the reporting company -- i.e., emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.[1]
Scope 2	Indirect GHG emissions from the generation of purchased or acquired energy, steam, heating, or colling consumer by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated.[2]
Scope 3	All other indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream and downstream emissions: Upstream emissions include all emissions that occur in the life cycle of a material/product/service up to the point of sale by the producer, such as from the production or extraction of purchased materials. Downstream emissions include all emissions that occur as a consequence of the distribution, storage, use, and end-of-life treatment of the organisation's products or services.[3]
Scope 3 category 15 investment 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.[4]
Stewardship	Also often referred to as active ownership, corporate engagement or 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.[5]

1 PCAF, 2020: p. 134.
2 Idem.
3 Idem.
4 PCAF, 2022: "The Global GHG Accounting and Reporting Standard Part A: Financed Emissions, Second Edition"
5 RIAA, 2023: "Responsible Investment Benchmark Report Australia 2023", p. 26.

Sustainable Development Goals (SDGs)	A framework of 17 objectives for improving human society, ecological sustainability and the quality of life, published by the United Nations in 2015. They cover a broad spectrum of topics, from eliminating hunger and combating climate change to promoting responsible consumption and making cities more sustainable.
SDS	IEA's Sustainable Development Scenario: a "well below 2°C" pathway. Assumes all energy-related SDGs are met, all current net zero pledges are achieved, and increased efforts to realise near-term emissions reduction. Updated modelling from IEA did not include this scenario, and instead use APS (see above).
STEPS	IEA's **Stated Policies Scenario**: A scenario which reflects current policy settings based on a sector-by-sector and country by country assessment of the specific policies that are in place, as well as those that have been announced by governments around the world.
Sustainability-themed / thematic investing	Investment in themes or assets that specifically aim to improve social or environmental sustainability. This commonly involves funds that have an explicit objective to improve sustainability outcomes alongside financial returns. Examples include investment in clean energy, green technology, sustainable agriculture and forestry, green property and water and waste technology. Sustainability-linked debt issuances are included as sustainability-themed investing.[1]
UNGP	United Nations Guiding Principles on business and human rights: endorsed by the United Nations Human Rights Council in 2011, the principles are the global normative framework on business and human rights and are based on 3 pillars: 1. The state's duty to protect human rights. 2. The corporate responsibility to respect human rights. 3. Access to remedy.

1 RIAA, 2023: "Responsible Investment Benchmark Report Australia 2023", p. 32.

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.

This year we measured emissions from the following asset classes, which represented 68% of funds under management as at 30 June 2022:

- Australian and international listed equities
- Unlisted infrastructure
- Unlisted real estate
- Private equity
- Listed corporate debt (physical).

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

For listed equities and listed corporate debt (physical), 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, valuation and other decarbonisation target data from the external investment managers of our real estate, infrastructure and private equity assets, and we proxied data where it was not available.

Our approach to proxying data within an asset class is to take the emissions intensity data for the proportion of each asset class for which we do have reported/estimated data and to apply this to the remaining proportion of the asset class for which we do not have data.

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
- Shares (derivatives)
- Corporate debt (derivatives and other instruments)
- Private 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 in our baseline.[2]

It is also worth noting that all financed emissions data measurement and disclosure are point-in-time assessments and will differ over time as a result of changes in factors such as:

- portfolio composition (purchase and sale of assets, and reweighting of portfolios between asset classes)
- investee company emissions
- company valuations
- methodology, data quality and accuracy.

ART relies on the accuracy of data provided by external investment managers and will continue to engage and work with them to better understand and improve the accuracy of this data over time.

1 IFRS, March 2022: **“Exposure Draft S1 General Requirements for Disclosure of Sustainability-related Financial Information”**, p. 35.
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 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:

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

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)[1]

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:

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

Where:

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

1 PCAF, December 2022: "The Global GHG Accounting and Reporting Standard for the Financial Industry, **Part A**: Financed Emissions, second edition", p. 127.

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