Australian Retirement Trust

Sustainable Investment Report

2021-22

australianretirementtrust.com.au

Executive summary

Sustainable investment is a diverse topic. For Australian Retirement Trust, it means we consider the risks and opportunities of investments in a holistic way, which means including the financial implications of environmental, social and governance (ESG) issues alongside other traditional financial matters.

We believe this helps us make better long-term decisions for our members' retirement outcomes.

While we have been together as ART for only a few short months, our newly formed Sustainable Investment (SI) team has been united by similar beliefs on ESG. Although different approaches have been used for past ESG implementation at our heritage funds, the team is now actively working to harmonise its activities.

Investment strategies are guided by the following sustainability approaches, known as ESG integration, stewardship and, in limited cases, exclusions. We also incorporate climate change and modern slavery considerations into investment decision making. More information can be found in our *Sustainable Investment Policy* at **australianretirementtrust.com.au/prescribed-information**

For those members who prefer a greater focus on sustainable investments, we also offer our socially responsible investment options. More information about these options can be found in our *Product Disclosure Statements* and the *Super Savings Investment guide* and *QSuper Investment Choice guide* at **australianretirementtrust.com.au/pds** and **qsuper.qld.gov.au/calculators-and-forms/publications**

ESG integration

The majority of the ART portfolio is invested through external investment managers. Therefore, ESG integration is predominantly achieved through the selection, appointment and monitoring of those managers. We have developed a new approach for assessing the ESG credentials of our investment managers since the merger and will continue to implement this during the coming year.

Stewardship

We have a responsibility to use our ownership rights to enhance the value of the companies and assets in which we invest for the benefit of our members. ART undertakes active ownership activities (engagement and voting) in the belief that they improve long-term sustainable returns for members. Engagement represents one aspect of involvement in the governance processes of these companies; another is proxy voting. We do not currently file shareholder proposals.

We engage companies where we can have the most influence and use three methods: direct, collaborative and engagement through service providers. In 2021-22, we undertook 34 direct engagements, 15 collaborative, and 301 through appointed service providers.

Proxy voting is an important tool for investors to exercise their shareholder rights to encourage better ESG practices and disclosures among investee companies. Detailed proxy voting records for each heritage fund can be found at **australianretirementtrust.com.au/prescribed-information**

Action on human rights and modern slavery

The *Modern Slavery Act 2018* requires large businesses and other entities in the Australian market with annual consolidated revenue of at least A$100 million to identify, assess and address modern slavery risks in their operations and supply chain.

We will submit our first statement as Australian Retirement Trust by 31 December 2022. Previous statements for QSuper and Sunsuper can be found in the register at **modernslaveryregister.gov.au**

To identify and address the risks of modern slavery and to broader human rights within the portfolio, ART in 2021-22 developed a "respect and remedy" framework based on the UN Guiding Principles of Business and Human Rights.

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

Climate change

Climate change represents one of the most significant challenges of our time. As global investors, we're committed to doing our part towards investing in a low-carbon economy and creating a more sustainable future for all Australians.

Decarbonisation and the transition to a low-carbon future represent a shift in the global economy and present potential financial risks and opportunities that we need to manage.

ART has adopted a target of a net-zero emissions portfolio by 2050 (NZE2050). In the coming year, we will also adopt interim targets to guide our journey and measure our progress.

Our Climate Change Policy outlines our approach to managing climate-related investment risks and opportunities in the investment portfolio. We will develop a Climate Change Roadmap to support implementation of the Climate Change Policy in the coming year.

Read more in our Climate Change Policy at **australianretirementtrust.com.au/responsible-investing**

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Message from the Investment Committee Chair

On behalf of Australian Retirement Trust, I am pleased to present our 2021-22 *Sustainable investment report.*

On 28 February 2022, QSuper and Sunsuper merged to become Australian Retirement Trust (ART). The outcome of the biggest merger in Australian superannuation history, ART is one of Australia's largest superannuation funds, proud to take care of more than $200 billion in retirement savings for more than two million members.

As a profit-for-members fund, ART exists solely to benefit our members by acting in their best financial interests. From an investment perspective, this means generating the highest risk-adjusted investment returns for members in line with our legal obligations.

Our members, our stakeholders and our team at ART also live on one planet and have a common interest in protecting it for the future. So being able to deliver high-quality returns to our members to help them retire with dignity and shape the world in which they will retire is the ultimate outcome.

That is, as well as aiming to deliver strong long-term investment returns, we must also use our size and scale to deliver better social and environmental outcomes in the investment universe in which we participate.

I am particularly proud of the way the ART investment team has come together following the merger. The team is already working together to use our size and scale to create new investment opportunities to deliver member returns that also contribute positively to social and environmental issues.

Through this report, I encourage you to explore the complex aspects of sustainable investing and the activities ART is undertaking to help effect positive change in our community, which is both local and global.

Michael Traill AM
Investment Committee Chair

Message from the Chief Investment Officer

This *Sustainable investment report* is one of many firsts for Australian Retirement Trust, the super fund formed through the merger of QSuper and Sunsuper in February 2022.

While we have been together as ART for only a few short months, our newly combined investment team has quickly united to navigate the difficult period of heightened market volatility, inflationary pressure, geopolitical conflict and supply disruption this year.

Investing members' money to continue delivering strong long-term returns in this market environment presented challenges, and also opportunities that inevitably emerge during times of crisis and volatility. Pleasingly, our long-term returns remained strong in 2021-22. The *Super Savings* Balanced option, a continuation of Sunsuper's Balanced option, posted returns of 9.0 per cent per year over the ten years to the end of June 2022. The QSuper Accumulation account Balanced option posted 7.7 per cent per year over the ten years to the end of June 2022.

Investing members' money in a sustainable way poses challenges and opportunities. Ultimately, sustainability is not just about managing risks but also making profitable investments in areas that will be part of the solution to changing world dynamics.

The broad acceptance of the science of climate change supports the consideration of ESG factors as essential parts of our investment approach and decision making. And while we may categorise the risks posed to the planet and the welfare of the people who live on it as "environmental", "social" or "governance", these risks are also ultimately financial. For this reason, it is certainly in our members' best financial interests that we understand and mitigate these risks in our activities and seek out opportunities as our world changes around us.

Our highly capable investment team entered the merger with a continued commitment from our heritage funds to target an investment portfolio that has net-zero carbon emissions by 2050. We have also committed to an investment philosophy whose first principle is that sustainable investing leads to superior member outcomes.

Naturally, we support efforts to ensure claims of sustainable investing are trustworthy and true-to-label but, as with ESG data and metrics, the proposals for doing so are many and varied across jurisdictions, investment sectors and reporting frameworks. Despite this, we welcome the guidance by our regulator and have used this as a basis to develop this report. Through increased transparency, we hope to continually improve the clarity of what we say and how this reflects how we operate in practice. This report is the start of this journey.

I encourage you to read on about our sustainable investment activity throughout this year, including our reporting on climate metrics, which has been prepared in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). I also look forward to keeping you informed of our progress in sustainable investing.

Ian Patrick
Chief Investment Officer

About Australian Retirement Trust

Australian Retirement Trust (ART) is the superannuation fund formed through the merger of Sunsuper and QSuper.

We're one of Australia's largest super funds and proud to take care of over $200 billion in retirement savings for more than two million members. As a fund that works for members, not shareholders, we work in members' best interests, and we are committed to returning profits to them as lower fees and better services.

Whether our members are starting out their working life, already retired, or somewhere in between, we aim to guide them to feel secure, confident and protected in retirement. We also leverage our size and scale aiming to benefit our members by seeking out investments to grow their superannuation savings and maximise their retirement income.

Following the merger, all Sunsuper and QSuper members are now a part of ART, and all Australians can join. The QSuper brand is a part of Australian Retirement Trust, dedicated to providing superannuation products and services to Queensland Government employees and their families.

ART continues both Sunsuper's and QSuper's focus on working for members, not shareholders, aiming to deliver strong long-term investment returns, and providing the tools and advice to help members feel on top of their super.

Our *Sustainable investment report*

Our products

Sunsuper and QSuper merged on 28 February 2022 to become Australian Retirement Trust with two separate divisions comprising *Super Savings* products and QSuper products. The ART *Super Savings* investment options commenced 28 February 2022 on the merger. Each Australian Retirement Trust *Super Savings* investment option adopted the pre-merger investment strategy of the corresponding *Sunsuper for life* investment options (e.g., the ART *Super Savings* Balanced option adopted the investment strategy of the *Sunsuper for life* Balanced option), and investments remained identical at merger. Information in this report about ART *Super Savings* investment options for periods pre-28 February 2022 relates to the former *Sunsuper for life* investment options.

On the terms used in this report

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

The words "the Fund", "we", "us" and "our" are used to refer to Australian Retirement Trust (ART) and our activities. The merger between Sunsuper and QSuper to form ART was completed on 28 February 2022. Actions prior to 28 February 2022 undertaken by one of the heritage organisations are specified throughout the report.

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

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

We have used definitions from Responsible Investment Association Australasia for terms that describe approaches to responsible investment, available on its website at **responsibleinvestment.org/what-is-ri/ri-explained/#approaches**

All references to dollar values are in Australian dollars.

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

Reporting period, frequency and feedback

We will report on our sustainable investment activities annually.

This first ART *Sustainable investment report* covers actions and processes over the period 1 July 2021 to 30 June 2022, unless otherwise specified.

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

Our reporting suite

Annual report	The Australian Retirement Trust 2021-22 *Annual report* provides information in relation to Australian Retirement Trust for the period from 1 July 2021 to 30 June 2022 , including the period prior to 28 February 2022 when Australian Retirement Trust was named QSuper: **australianretirementtrust.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: **australianretirementtrust.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: **australianretirementtrust.com.au/investments/how-we-invest/responsible-investing**
Climate Change Policy	This policy defines climate risk and articulates ART's management of these risks and opportunities in the investment portfolio: **australianretirementtrust.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: **australianretirementtrust.com.au/governance-and-reporting/corporate-governance**
Modern Slavery Statement	Previous statements for QSuper and Sunsuper can be found in the registry: **modernslaveryregister.gov.au**
Proxy voting records	Proxy voting records for QSuper and Sunsuper can be found at: **australianretirementtrust.com.au/governance-and-reporting/prescribed-information**
Sustainable investment options holdings data	The *Super Savings* Socially Conscious Balanced (SCB) option holdings can be found at **australianretirementtrust.com.au/investments/what-we-invest-in** Select "superannuation" or "retirement" investment holdings, and then the option. 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 Australian Retirement Trust

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

In delivering these outcomes, this means we seek to maximise investment returns while being cognisant of risks. To do this, we consider the risks and opportunities of investments in a holistic way, which means including the financial implications of environmental, social and governance (ESG) issues alongside other traditional financial matters, because we believe this helps us make better long-term decisions for our members' retirement outcomes.

Investment strategies are guided by the following sustainability approaches: ESG integration, stewardship and, in limited cases, exclusions.

While we have been together as ART for only a few short months, our newly formed Sustainable Investment (SI) team has been united by similar beliefs on ESG. Although different approaches have been used for past ESG implementation at our heritage funds, the team is now actively working to harmonise its activities. Where this has occurred, we will seek to highlight in this report a true reflection of what has occurred during 2021-22 and what the team is doing to consolidate our approach.

Our stakeholders

As a profit-for-members fund, we engage our members through activities like education programs, surveys, responses to queries, and our Annual Member Meeting.

Our members have told us that it's important for their super to be invested responsibly and ethically. In a survey in June-July 2022 of 1,215 *Super Savings* and QSuper account members who had made an investment switch for their super savings in the past 12 months, 75 per cent said that responsible and ethical investment of their super was either somewhat or very important. See Figure 1.

We engage other stakeholders as part of our sustainable investment activities. ESG data and research service providers and proxy voting advisers provide insights on our investee companies and assets. These relationships support activities such as identifying topics for engagement with our investment managers. Collaborations with responsible investment industry associations assist with education and research on nascent issues.

Guidance from our primary regulators, the Australian Prudential Regulatory Authority (APRA) and the Australian Securities and Investment Commission (ASIC), helps inform our approach. For example, ASIC's new guidelines on avoiding greenwawshing[1] outline how to improve member and public disclosure on ESG matters.

We continue to build relationships with our investee companies, which is further discussed under **Stewardship**, and other stakeholders, including state and federal governments and non-government organisations.

Sustainability governance

The Board is responsible for establishing the Sustainable Investment (SI) Policy, which contains the Fund's SI beliefs, governance, policy framework and program. Primary responsibility for coordinating ART's SI activities is delegated to the Chief Investment Officer (CIO), and primary oversight of the CIO is delegated to the ART Investment Committee.

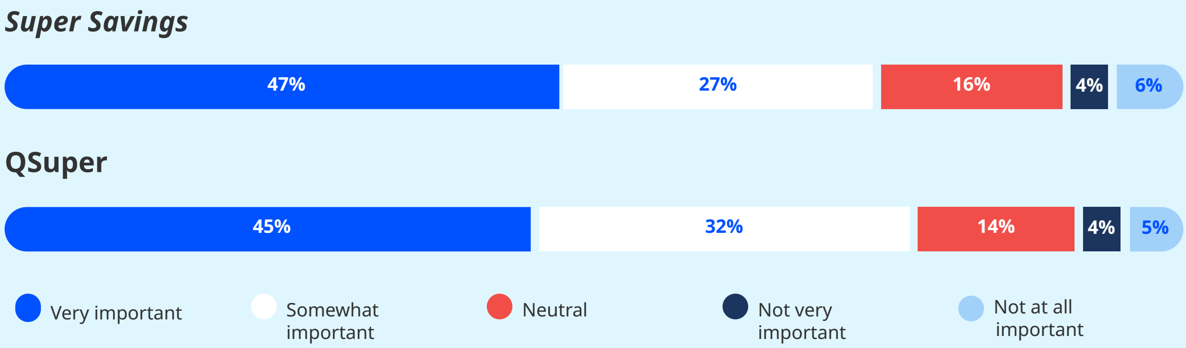
Other parties to our SI Policy and activities include but are not confined to:

- relevant Board sub-committees,
- the internal SI team and the broader ART Investment team,
- investment managers engaged by the Fund, and
- service providers and advisers to the Fund.

> Sustainability is not just about managing risks but also making profitable investments in areas that will be part of the solution to changing world dynamics.

Ian Patrick - Chief Investment Officer

How important is it to you that your super is invested responsibly and ethically? *Survey of members in June-July 2022.*



Base: *Super Savings* members n=579, QSuper account members n=636.
Figure1: Percentage of surveyed members who said responsible and ethical investing of their super is important

1. **asic.gov.au/regulatory-resources/financial-services/how-to-avoid-greenwashing-when-offering-or-promoting-sustainability-related-products/**

ESG integration

Responsible Investment Association Australasia (RIAA) defines ESG integration as the:

Explicit inclusion by investment managers of environmental, social and governance risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources. This approach rests on the belief that these factors are a core driver of investment value and risk.[2]

We use this definition in this report to provide clarity and consistency when explaining our approach to ESG integration.

The investment approach for our *Super Savings* products (refer to **Our products**) is executed through investment managers. Therefore, ESG integration into the investment approach was achieved in 2021-22 through the selection, appointment and monitoring of those managers. (See note below.)

For the QSuper products, ESG integration into the investment approach differs by asset class. For private markets[3] (real estate[4], infrastructure, private credit and private equity), which are predominantly invested through investment managers, ESG integration was also achieved through the selection, appointment and monitoring of those managers. For listed shares,[5] ESG integration was directly incorporated into the index through a climate change overlay (see **Climate Change, Listed shares**). For fixed interest, we use a range of external indicators to gauge the potential ESG risks associated with investing in sovereign debt.[6]

Since the merger, ART has sought to take the best of both heritage funds' approaches to ESG integration. The start of this harmonisation is set out in the remainder of this section .

Manager selection, appointment and monitoring

ART has enhanced its framework for assessing the ESG capabilities of existing and new investment managers.

Under the new process, investment managers receive an internally determined ESG rating based on four criteria:

1. **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 resources activities outlined in its policy (through allocated staff, training, KPIs).

2. **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.

3. **ESG integration**
   Analyses how the investment manager identifies and integrates ESG risks and opportunities when deciding which shares and other assets to invest in.

4. **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.

Note: the statement about investment approach refers to the investment approach taken for *Sunsuper for life* investment options up to 28 February 2022 and the *Super Savings* investment options after 28 February 2022. Refer to **Our products** for more information.
2. **responsibleinvestment.org/wp-content/uploads/2021/09/Responsible-Investment-Benchmark-Report-Australia-2021.pdf**, p. 29.
3. Also known as unlisted markets.
4. Also known as property.
5. Also known as equities or stocks in publicly traded companies.
6.Examples are those from the World Bank Governance, Global Green Economy Index, and the UN Human Development Index.

Each criterion is assigned a score out of 100 per cent. The scores are then averaged to create the Investment Manager ESG Rating (between 1 = ESG Leader and 4 = ESG Laggard). The example in Figure 2 would result in a Manager ESG Rating of 3.

Figure 2: Example of rating our investment managers on their ESG philosophy and capabilities, commitments and reporting, ESG integration and active ownership.

ART has a large portfolio of investment managers. Since the merger, we have used this process to review over 20 of these managers of infrastructure, real estate, private credit and equity, fixed income, and alternative strategies. As we assess more investment managers against this framework, we will be able to use the ratings as a benchmark to identify opportunities to uplift their approaches to ESG.

ESG integration for private asset due diligence

Due diligence for new investments and co-investments uses a financial materiality, sector-based approach to identifying ESG issues for consideration in direct investment decisions. We take a strength, weakness, opportunity, threat (SWOT) approach to building out the ESG investment thesis. For example, an investment's strength could be in the form of verified climate change targets, and a weakness may reflect poor health and safety outcomes.

The outcomes of these assessments are incorporated in final investment recommendation papers for determination by management.

ESG monitoring for private assets: real estate and infrastructure

The Global Real Estate Sustainability Benchmark (GRESB)[7] 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 1,500 real estate companies, REITs, funds and developments participate in GRESB assessments.

The GRESB Foundation Board, comprising a selection of GRESB members and partners, informs what is material in the sustainability performance of real estate and infrastructure investments.[8] For infrastructure, assessments cover both assets and funds. Results are subject to a multilayer validation process, after which they are scored and benchmarked.

In 2021-22[9], we reviewed the GRESB assessments of our infrastructure and real estate funds and assets against the universe of GRESB participants.[10] The coverage of the asset classes is low because only Sunsuper used GRESB as a benchmarking tool.

For infrastructure, coverage is 30 per cent and includes both fund- and asset-level assessments. The infrastructure score exceeded the GRESB benchmark by one per cent, meaning the sustainability performance of the assets assessed is broadly in line with those of other participants. See Figure 3.

Infrastructure

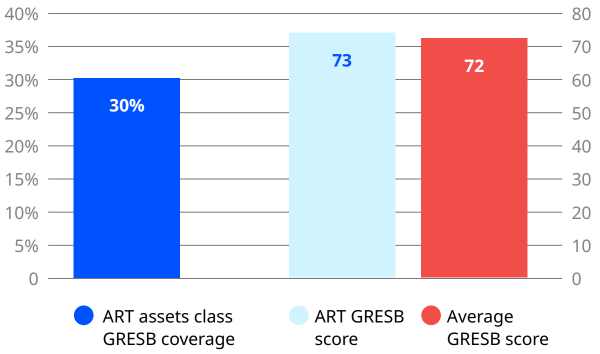


Figure 3: GRESB assessment of ART infrastructure asset class

The first column shows the extent of asset class coverage (left axis), the second column indicates ART's score vs the GRESB benchmark shown in the third column (right axis).

Our real estate portfolio, 36 per cent of which was assessed, exceeded the GRESB benchmark by 13 per cent. See Figure 4.

The first column shows the extent of portfolio coverage (left axis), and the second column indicates ART's score vs the GRESB benchmark shown in the third column (right axis).

Real Estate

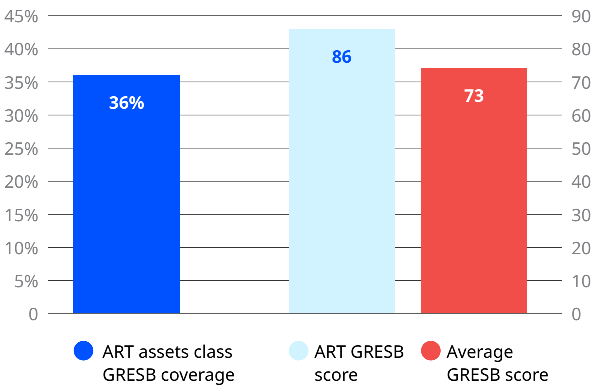


Figure 4: GRESB assessment of ART real estate portfolio

Exclusions

Australian Retirement Trust prefers to retain its position in investments, because it can provide an opportunity for us or our investment managers to engage companies to improve their practices where we have the scale and influence to do so (see **Stewardship**). It also provides diversification for the portfolio. There are, however, some occasions where we consider it appropriate to exclude certain investments, a practice also known as negative screening.

RIAA defines negative or exclusionary screening as:

The systematic exclusion from a fund or portfolio of specific sectors, companies, countries or issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer to product categories (weapons, tobacco), company practices (animal testing, violation of human rights, corruption) or controversies.[11]

We use this definition in this report to provide clarity and consistency when explaining our approach to exclusions.

We consider exclusions when a product, sector or company may pose regulatory or reputational risks, or when engagement is not possible to mitigate risks such as litigation, for example with tobacco. We apply additional values-based exclusions to the *Super Savings* Socially Conscious Balanced option.

Both Sunsuper and QSuper applied a third-party service provider tool[12] to screen their listed shares for tobacco, cluster munitions and landmines. Although the heritage funds used the same service provider, they applied different screens to identify companies for exclusions, as outlined in Table 1.[13] The ART SI Policy has established that companies that violate modern slavery laws can also be excluded. We have not excluded any investments under this category as at 30 June 2022.

7. **gresb.com**
8. ART is not a member of this board.
9. ART asset class weights are based on data to 31 March 2022. GRESB participants are required to specify the starting month of their fiscal year. For more information see section EC4 – Reporting Year in the GRESB Reference Guides at **documents.gresb.com/**
10. 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	Sunsuper / ART *Super Savings* exclusions[14]	QSuper product exclusions[15]
Tobacco	Tobacco Producer[16]	GICS[17] Tobacco 302030
Cluster munitions[18]	Manufacturing of cluster munitions (except companies involved in delivery platform)[19]	Manufacturing of cluster munitions
Landmines[20]	Manufacturing of landmines	Manufacturing of landmines (limited to whole systems or components)

Table 1: Exclusion screens for listed shares in the ART portfolio

Super Savings Socially Conscious Balanced option

In addition to the criteria outlined above for *Super Savings* options, the SCB option incorporates a broader negative screening approach. Investment managers are required to avoid companies with a material exposure to production or manufacture of nuclear and controversial armaments, alcohol, pornography, provision of gambling, live animal export, and fossil fuels comprising exploration, mining and energy generation. Material exposure is where a company derives more than five per cent of gross revenue from these industries.

QSuper Socially Responsible option

The exclusion screens in Table 1 also apply to this option. There are no formal criteria for additional exclusions in this option, but it further seeks to avoid investments in certain sectors. Details are in **Our socially responsible investment options**.

Looking ahead

As we continue to integrate our processes, we will determine the best way to harmonise our exclusion definitions and adopt a standard approach for implementation across both QSuper product and *Super Savings* investment options.

From time to time, we may accept excluded securities when receiving assets as part of super fund mergers, also known as successor fund transfers. In such instances, we will seek to divest the excluded securities in an efficient and cost-effective manner aligned with members' best interests, in a timeframe typically not exceeding 30 days.

11. **https://responsibleinvestment.org/wp-content/uploads/2021/09/Responsible-Investment-Benchmark-Report-Australia-2021.pdf**, p. 29.
12. MSCI ESG Manager.
13. Exclusions, including those relating to modern slavery, do not apply to investments in QSuper's Defined Benefit account or Self Invest option.
14. Sunsuper exclusions now apply to the ART *Super Savings* options, including the Socially Conscious Balanced option.
15. QSuper exclusions now apply to the ART QSuper product options, including the QSuper Socially Responsible option.
16. MSCI ESG Research defines 'tobacco producers' as companies that manufacture 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.
17. Global Industry Classification Standard (more detail is in the **Glossary**).
18. MSCI ESG Research Cluster Munitions screen.
19. MSCI ESG Research Cluster Munitions screen defines 'delivery platform' as an independent weapons system capable of carrying and deploying cluster munitions to the designated target area.
20. MSCI ESG Research Landmines screen.

Action on human rights and modern slavery

The *Modern Slavery Act 2018* (Cth)[21] requires large businesses and other entities in the Australian market with annual consolidated revenue of at least $100 million to identify, assess and address modern slavery risks in their operations and supply chain.

We will submit our first statement as Australian Retirement Trust by 31 December 2022. Previous statements for QSuper and Sunsuper can be found in the register at **modernslaveryregister.gov.au**

To identify and address the risks of modern slavery, and to broader human rights, within the portfolio, ART in 2021-22 developed a "respect and remedy" framework, shown in Figure 5, based on the UN Guiding Principles of Business and Human Rights (the UNGPs[22]).

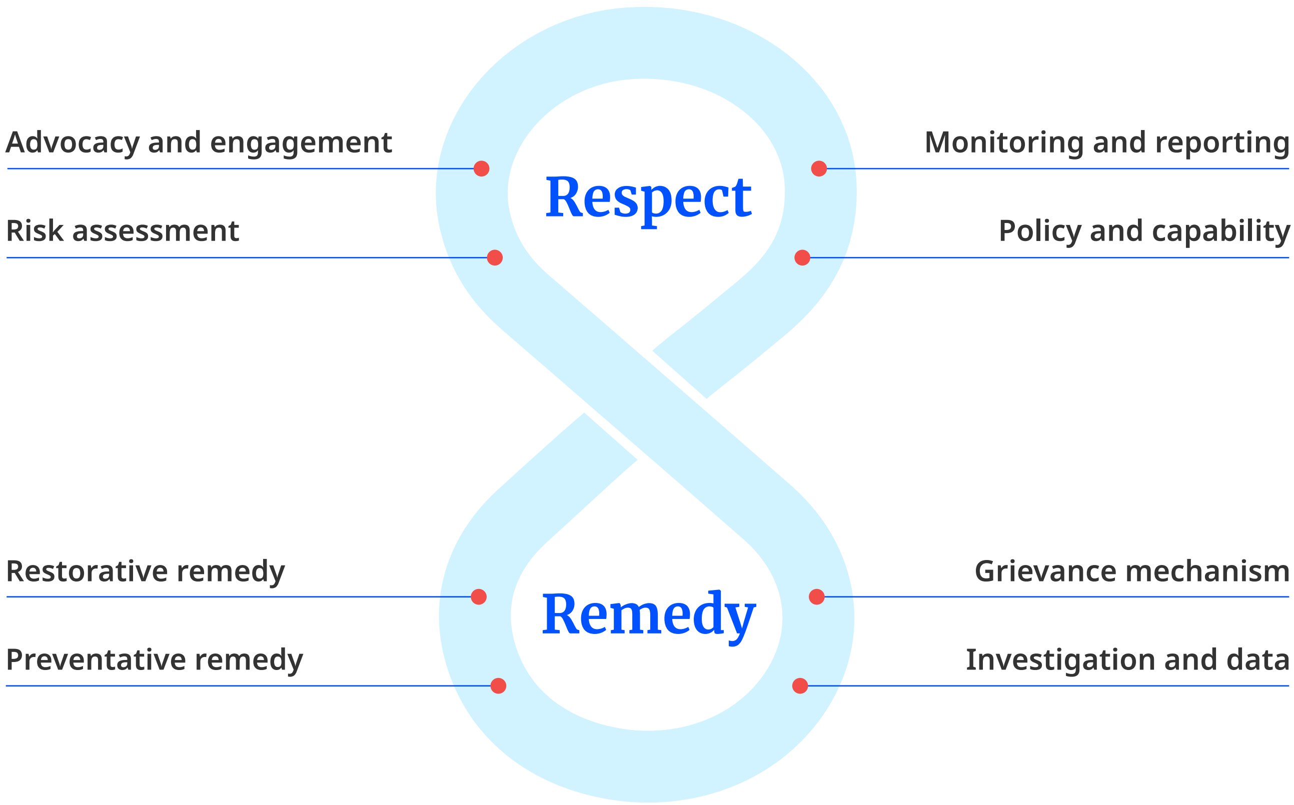


Figure 5: Our respect-and-remedy framework for identifying and addressing the risks of modern slavery and to broader human rights

Consideration of human rights in the modern slavery context refers to whether people are provided decent work,[23] which 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. Examples of our work in this area include our participation on RIAA's Human Rights Working Group, which helps members develop collective policy positions and progress their stewardship programs, and our engagement of ASX-listed mining companies in relation to the issue of sexual harassment and discrimination.

We have incorporated modern slavery questions into our Manager ESG Rating and private asset due diligence process, and we have begun including requirements in our investment management agreements.

21. **homeaffairs.gov.au/criminal-justice/Pages/modern-slavery.aspx**
22. More detail can be found in the **Glossary**.
23. As defined by the International Labour Organization: **https://www.ilo.org/global/topics/decent-work/lang--en/index.htm**

Case study

PZENA

We are testing different ways to engage our investment managers on modern slavery in order to ensure we effectively identify, assess and address modern slavery risks in the portfolio.

We began trialling a modern slavery quarterly update with Pzena Investment Management, one of our investment managers of listed shares. Based in New York, Pzena engages company management on ESG topics, including modern slavery and human rights, throughout the due diligence process and after investment to ensure risks are remediated.

Pzena and ART meet quarterly to discuss the risks of modern slavery identified in the portfolio and efforts to remediate them. This approach is helpful for the shares asset class to assist ART to engage issuers.

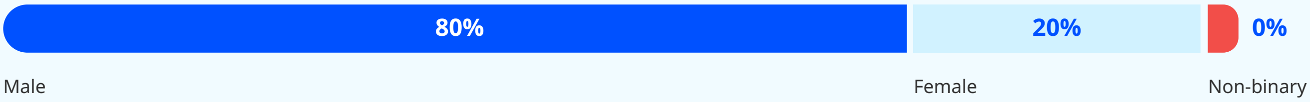
Diversity, equity and inclusion

Organisations that develop and promote diversity, equity and inclusion (DE&I) can better manage their risks and opportunities.[24]

With this in mind, in 2021-22, we surveyed employees of our external investment managers on six dimensions of diversity[25] (see Figure 6).

We also asked our external investment managers to complete our inaugural DE&I survey, which gauges the DE&I practices they employ and the levels of diversity within their core investment teams. Pleasingly, we received responses from all the managers we surveyed.[26] We will look to publish these results in future, and use the results to inform future engagement with investment managers.

Gender



Cultural identification

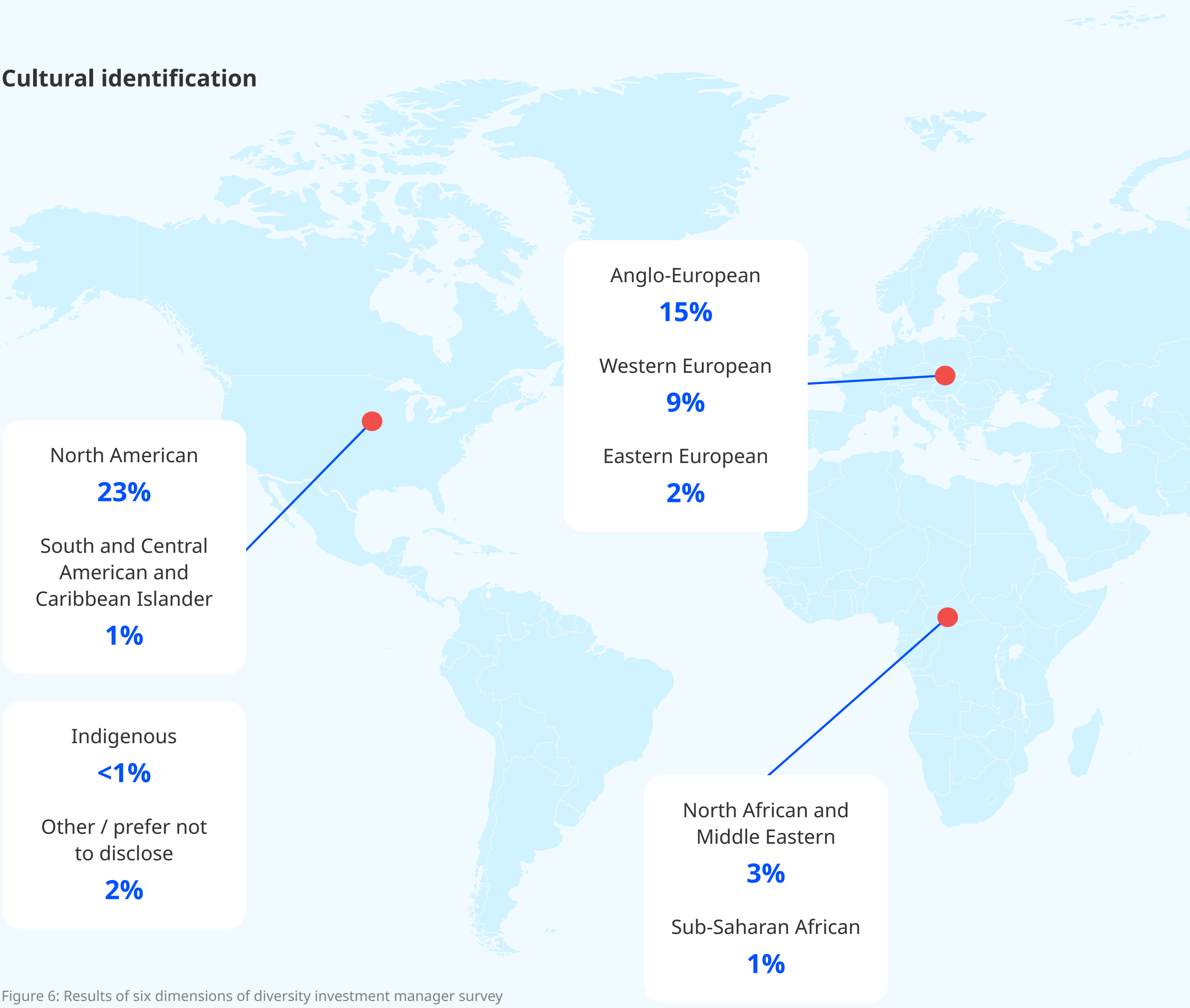


Figure 6: Results of six dimensions of diversity investment manager survey

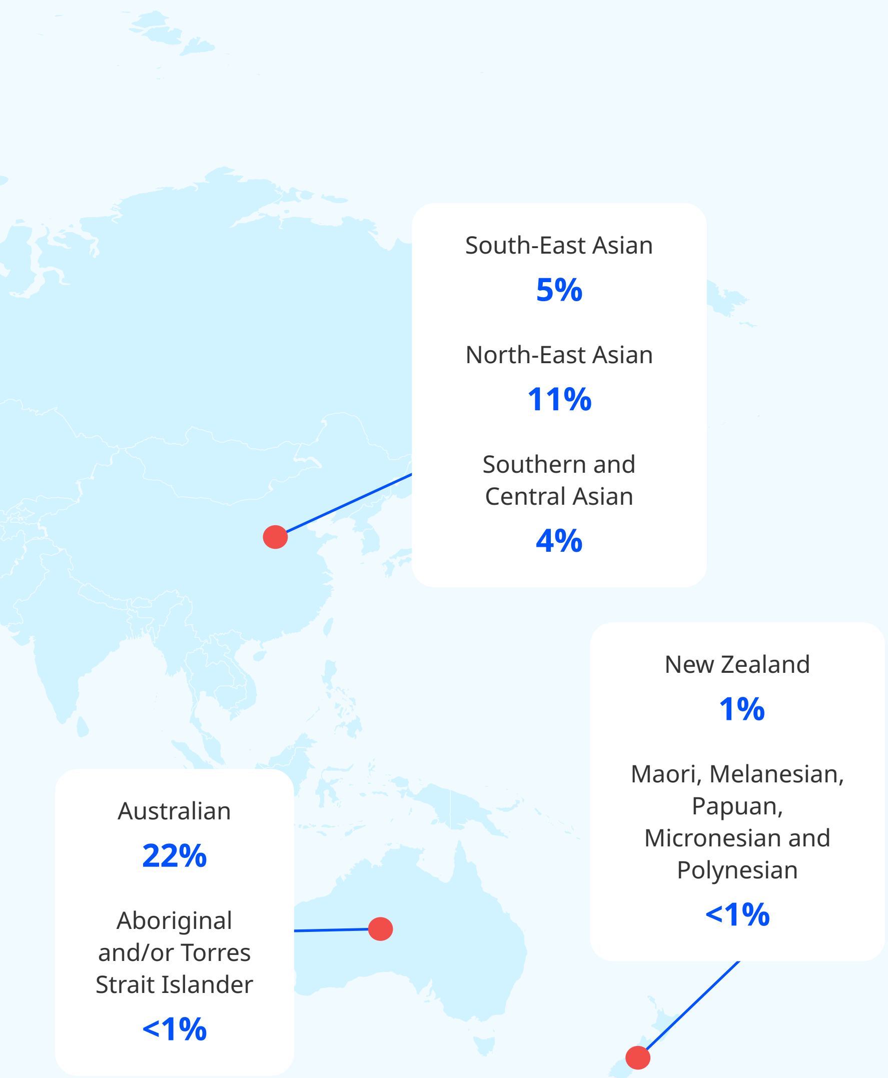
Field of education

Business, commerce and/or economics	Science, technology and/or mathematics	Arts	Law	Other	Not applicable
65%	21%	5%	4%	4%	1%

Investment experience

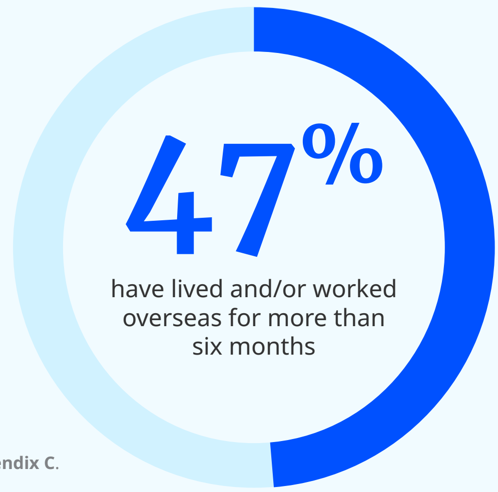
The first financial crisis each employee in the investment team experienced while working in the industry:

COVID-19, 2020-21	GFC, 2008	Asian financial crisis. 1997	Tech bubble/ bust, 2000	Stock market crash, 1987	No experience
37%	27%	14%	12%	7%	2%



Language

Global experience



24. **acsi.org.au/wp-content/uploads/2020/02/ACSI-Towards-Improved-Culture-Diversity-May-2019.pdf**
25. More detail on our DE&I survey of investment managers and the results can be found in **Appendix C**.
26. Excludes managers of non-core assets and managers in transition.

Our socially responsible 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 Responsible Investment Association Australasia (RIAA).[27]

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 per cent (and for *Retirement accounts*, CPI + 4 per cent) after investment fees and costs and, where applicable, investment taxes, measured over a rolling ten-year period. In addition, this option applies an extended set of environmental, social and governance strategies, including negative screening, sustainability-themed strategies and stewardship undertaken by our investment managers for this option. Further information on excluded industries as a result of negative screening is available in **Exclusions**.

Asset class implementation

Table 2 outlines the responsible investment strategies applied to the *Super Savings* SCB option.

Asset class	Responsible investment strategies	Implementation
Australian and international shares	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 **Exclusions**. In addition, the manager undertakes stewardship activities with 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	Sustainability-themed investing	Invested in a separately managed, global green and sustainability bond mandate. The strategy invests in bonds whose proceeds are used for climate-related or environmental projects.
Private equity	Sustainability-themed investing	Invested in a pooled investment fund of private equity fund investments and direct co-investments. The strategy seeks to achieve positive social and environmental outcomes that are aligned with the UN Sustainable Development Goals (SDGs).[28]
Property	ESG integration	Invested in the ART *Super Savings* property asset class. ESG factors are considered during the **Manager selection, appointment and monitoring process**. In addition, ART encourages investment managers to participate in annual GRESB assessments.
Cash	Not applied	Invested in the ART *Super Savings* cash asset class.

Table 2: Responsible investment strategies used in the Socially Conscious Balanced option

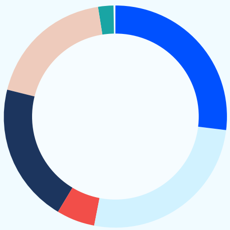
27. RIAA's RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that the *Super Savings* SBO option adheres to the strict operational and disclosure practices 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.
28. **sdgs.un.org/goals**

Asset allocation and performance

The SCB option's actual asset allocations at 30 June 2022 and investment returns to 30 June 2022 are shown in Figure 7.

Socially Conscious Balanced

Actual % asset allocation at 30 June 2022*



Australian shares	**26.9**
International shares	**26.2**
Private equity	**5.7**
Property	**20.1**
Infrastructure	**0.0**
Fixed income	**18.7**
Alternative strategies	**0.0**
Cash	**2.4**

Investment returns to 30 June 2022**

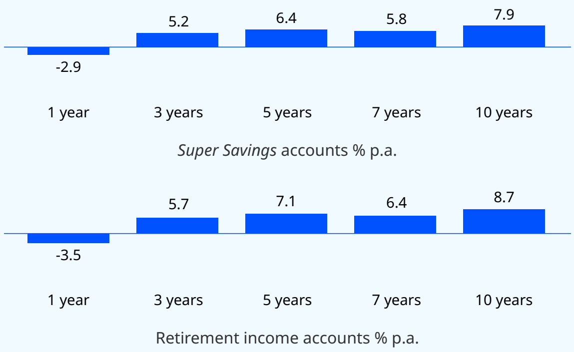


Figure 7: SCB option asset allocations and investment returns

Super Savings Socially Conscious Balanced option holdings

Superannuation funds are required to disclose the investments they hold by investment option and to update the data twice a year. The *Super Savings* Socially Conscious Balanced option holdings can be found at **australianretirementtrust.com.au/investments/what-we-invest-in**. Select "superannuation" or "retirement" investment holdings, and then the option.

Case study

Listed shares stewardship

In 2021-22, the appointed listed shares manager for the *Super Savings* SCB option, EOS at Federated Hermes, undertook engagement and proxy voting on ART's behalf. It focused its stewardship on the issues with the greatest potential to deliver long-term sustainable wealth for investors. EOS at Federated Hermes carried out 324 engagement meetings with 74 companies in ART's portfolio, making progress on approximately 73 per cent of engagement objectives across climate change, human capital management, executive remuneration and risk management, among other topics.

Figure 8 breaks down the engagement topics EOS at Federated Hermes undertook for ART's portfolio during 2021-22.

Environmental	**20.4%**
Social and Ethical	**29.3%**
Governance	**35.5%**
Strategy, Risk and Communication	**14.8%**

Figure 8: EOS at Federated Hermes engagement topics for ART portfolio in 2021-22

* Percentages are subject to rounding. Refer to *Asset classes* and *How does Australian Retirement Trust use derivatives in Super Savings?* in the *Super Savings Investment guide* for more information on asset classes and how we use derivatives to rebalance them.

** 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 income account* returns from 1 July 2017 are the same as for *Accumulation accounts*. Prior to 1 July 2017, *Transition to retirement income account* returns were the same as *Retirement income account* returns. Visit **australianretirementtrust.com.au/performance** for historical return information. Each Australian Retirement Trust *Super Savings* investment option commenced on 28 February 2022 and adopted the investment strategy of the respective *Sunsuper for life* option (e.g. the *Super Savings* Balanced option adopted the investment strategy of the *Sunsuper for life* Balanced option). To show the Australian Retirement Trust *Super Savings* option performance, we have used the returns for the respective *Sunsuper for life* option for periods up to 28 February 2022 and the Australian Retirement Trust *Super Savings* performance from 28 February 2022 to 30 June 2022.

Our socially responsible investment options

QSuper Socially Responsible option

The investment objective of the Socially Responsible (SR) option is to achieve an annual return of CPI +3.5 per cent, after fees and tax, measured over a rolling five-year period. In addition, we seek companies and assets that will make a positive impact on environmental and social issues while seeking to avoid those with negative consequences as identified in Figure 9.

Although the SR option has not been certified by RIAA, in an effort to be consistent with RIAA's standards and definitions, we suggest the option closely reflects the label "sustainability-themed investing".

RIAA defines sustainability-themed investing as:

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, such as investment into clean energy, green technology, sustainable agriculture and forestry, green property or water technology.[29]

As QSuper reported last year, the SR option was restructured following member consultation[30] and relaunched in July 2020; 2021-22 is the second year the option has been managed in-house.

In addition to the sectors outlined in **Exclusions**, Figure 9 shows the type of investments that we aim to avoid; as at 30 June 2022, investments of this nature amounted to less than 1.5 per cent of the option. This consists of two listed companies that generate a minority of their revenue from oil and gas-related activities. Because this option does not feature threshold-based exclusions, it is difficult to avoid all exposure to these activities.

Seeks to include investments in:

- Medical and technological innovation
- Conservation and the enviroment
- 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 9: The QSuper SR option seeks to include and avoid investments according to members' preferences

29. **responsibleinvestment.org/wp-content/uploads/2021/09/Responsible-Investment-Benchmark-Report-Australia-2021.pdf**
30. In 2019, QSuper engaged the services of Enhance Research to undertake a survey of 875 QSuper members invested and not invested in the SR option, along with 786 non-members invested and not invested in a similar option. The survey explored investors' awareness and understanding of and interest in socially responsible investing and resulted in a list of investment types that members told us they preferred we seek and another they wanted us to avoid.

Asset class implementation

Table 3 outlines the responsible investment strategies applied to the QSuper SR option.

Asset class	Responsible investment strategies	Implementation	How contribution to SDGs is determined
Australian and international shares	Sustainability-themed investing	Invests in a range of listed shares. An investee company must derive at least half its revenue from activities associated with one or more of the UN 17 SDGs, thereby aligning to members' preferences.	The total percentage of revenue alignment to SDGs multiplied by the funds under management (FUM) in these shares.
Fixed interest	Sustainability-themed investing	20% is invested in a global green bond index fund, which invests in bonds whose proceeds are used for climate-related or environmental projects. The remainder is in traditional long-duration bonds.[31]	Total percentage breakdown of use of proceeds per SDG multiplied by FUM in these assets.
Private equity and infrastructure	Sustainability-themed investing	Invested in a selection of investments and bespoke mandates covering a range of sectors classified as private equity or infrastructure assets. The strategy seeks to ensure that a minimum 50% of portfolio revenue is aligned to the UN SDGs.	Estimated total percentage (minimum 50%) of revenue alignment multiplied by FUM in these asset classes
Real estate	ESG integration	Invested in a selection of real estate investments consistent with the QSuper Balanced option.	Total percentage of funds invested in assets with some form of green building certification.
Cash	Not applied	Invested in the QSuper cash asset class.	Not applicable.

Table 3: responsible investment strategies used in the Socially Responsible option

QSuper Socially Responsible option holdings

Superannuation funds are required to disclose the investments they hold by investment option and to update the data twice a year. The QSuper Socially Responsible 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.

31. QSuper long-duration bonds are fixed-rate and long-maturity (generally at least 10 years).

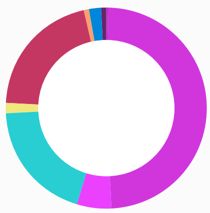
QSuper Socially Responsible option

Asset allocation and performance

The SR option's actual asset allocations at 30 June 2022 and investment returns to 30 June 2022 are shown in Figure 10.

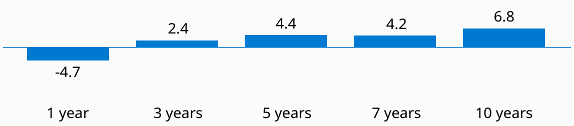
Socially Responsible

Actual % asset allocation at 30 June 2022*

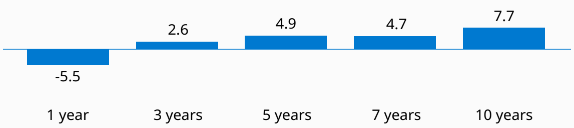


Equities	**55.0**
Australian shares	0.4
International shares	49.1
Private equity	5.5
Real estate	**19.6**
Infrastructure	**1.7**
Fixed interest	**20.7**
Alternative assets	**0.7**
Cash	**2.1**
Commodities	**0.2**

Investment returns to 30 June 2022**



Accumulation account % p.a



Income account % p.a.

Figure 10: SR option asset allocations and investment returns

* Percentages subject to rounding.
** 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 and investment taxes but before all other fees and costs.

Contribution to SDGs

Using the UN SDGs as a widely adopted framework for communicating contribution to positive impact, we have calculated that approximately 40 per cent of the SR option's investments are intended to contribute to one or more of these goals. Figure 11 shows the contribution to each SDG based on the option's asset allocation as at 30 June 2022. (The approach to deriving these contributions is outlined in **Table 3**.)

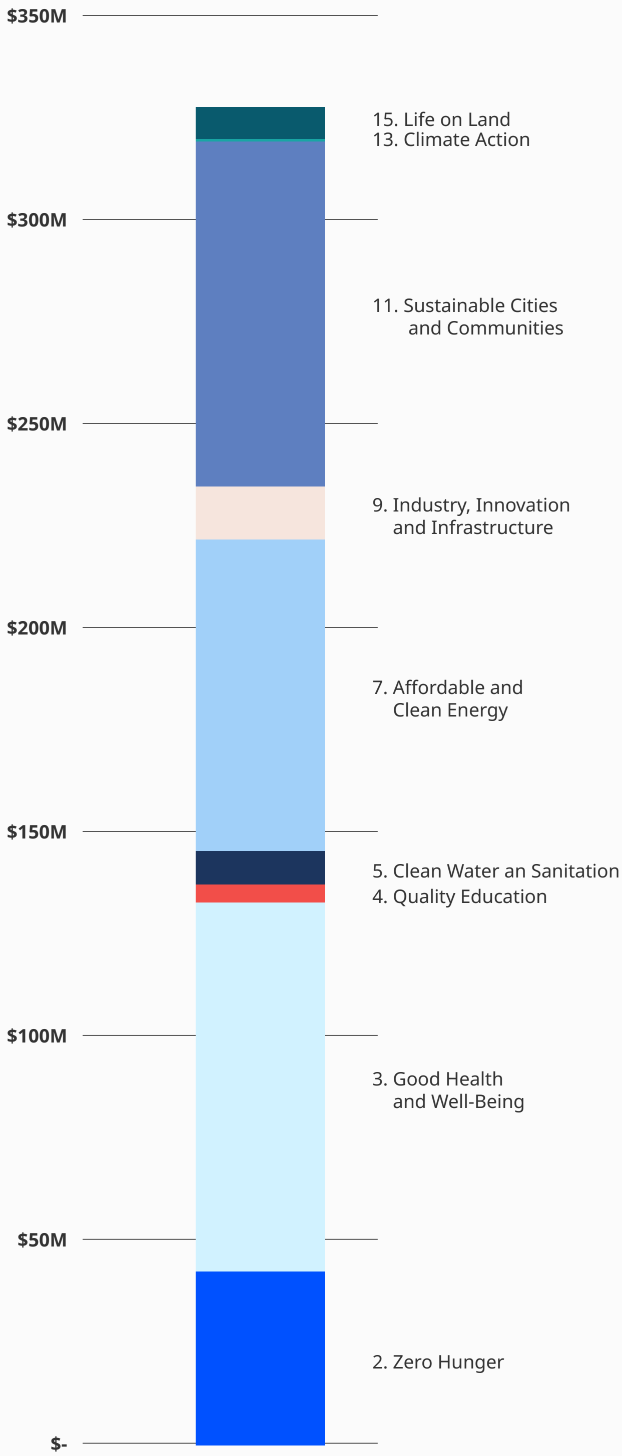


Figure 11: SR option asset allocations and investment returns

Stewardship

As an asset owner, we have a responsibility to use our ownership rights to enhance the value of the companies and assets in which we invest for the benefit of our members.

There are several terms that can describe this activity, including stewardship and active ownership.

RIAA defines this as corporate engagement and shareholder action:

Employing shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.[32]

ART undertakes active ownership activities (engagement and voting) in the belief that they improve long-term sustainable returns for members. Engagement represents one aspect of involvement in the governance processes of these companies; another is proxy voting. We do not currently file shareholder proposals.

Engagement

Engaging companies on ESG issues seeks to improve behaviours, promote best practice, and lead to a better understanding of business and strategic decisions. Where practical, engagement activities will build a stronger relationship between ART and our major investee companies.

Effective engagement takes time. With over 7,000 listed equities within the portfolio, it is not possible for us to engage all 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 indexes. It is therefore necessary to use different approaches to engage companies.

There are three engagement methods, described in Table 4, through which ART seeks to influence ESG practices at the companies in which we invest: direct, collaborative and through service providers.

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 2021-22

34

Collaborative

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

Number of engagement meetings in 2021-22

15

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 2021-22

301

Table 4: Engagement meetings undertaken in 2021-22

Direct engagement

ART understands that effective company engagement requires influence. For shares, this is primarily in our domestic market in Australia, reflecting our geographic and larger shareholding advantage. Through our direct engagement program, we seek to build trusting, long-term relationships to better understand an issue, exert appropriate influence on an entity, raise awareness of an issue or simply build a better understanding of business strategy.

32. **https://responsibleinvestment.org/what-is-ri/ri-explained/#approaches**

This year, we conducted 34 engagement meetings with 28 publicly listed companies, which addressed 37 themes – see Table 5. Although this is pleasing, we are seeking to be more focused in our company engagements and set objectives to track and monitor outcomes. We also plan to extend our direct engagement to our unlisted investments like infrastructure. ART also understands that any progress achieved by companies is not ours alone and likely a reflection of the many interested and influential stakeholders involved. We are committed to playing our part.

Theme	# themes	% of all direct engagements
Climate change	7	19
Human rights and modern slavery	3	8
Governance	24	65
General sustainability	3	8
Total themes directly engaged*	**37**	**100**

* Total direct engagement themes exceed the number of direct engagement meetings, because meetings may cover several themes.
Table 5: Number of themes we directly engaged companies on in 2021-22

Collaborative engagement

ART participates 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). Company engagements with ART investee companies on climate change and modern slavery are primarily conducted through this approach.

Engagement through service providers

The Australian Council of Superannuation Investors (ACSI) engages listed companies and non-governmental organisations on ART's behalf. In 2021-22, ACSI[33] focused its engagement of 193 ASX300 companies 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 like sexual harassment.
- **Governance:** board diversity, accountability and remuneration.

33. ACSI, August 2022: FY22 Engagement Statistics and Priority Themes Progress.

ACSI sets goals for individual companies on each of these topics, depending on their relevance and company performance to date. ACSI cited a 78 per cent improvement over 2021 and a 40 per cent improvement in the six months to 30 June 2022.

On climate change, an example of improvement that ASCI identified was the setting by 95 companies representing 70 per cent of the ASX200's market capitalisation of net zero targets. On board diversity, 43 per cent of 291 director appointments to ASX300 companies were women.

Case study

Climate Action 100+

Before the merger, both QSuper and Sunsuper were participants of CA100+ and undertook both lead and support investor roles in a number of engagement groups; and ART participation in CA100+ engagement continues. One example of CA100+'s work is with Orica Limited (ORI), which was added to its list of focus companies in November 2020 as a globally significant emitter of greenhouse gases.

Over the financial year, ORI worked with the engagement group, led by ART, and demonstrated progress in a number of key areas outlined in the Climate Action 100+ Net Zero Company Benchmark October 2022 Assessment report, which can be found at **climateaction100.org/company/orica**

Proxy voting

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 annual general meetings and other decision-making forums, we can have a positive influence on the governance of companies we invest in.

Post-merger, the two different approaches undertaken by our heritage funds (as outlined in the tables below) resulted in inconsistent voting on resolutions at company meetings (split votes) on matters such as remuneration, board structure and shareholder rights. Without rectification, this would diminish the influence of ART's voting activities on investee companies.

Proxy voting is now being harmonised across our portfolios, including adopting one proxy voting policy and platform to implement our votes and track outcomes for external reporting.

Proxy voting outcomes during the reporting period

Sunsuper delegated voting activities to managers, who in turn selected their own proxy voting advisers and vote implementation platform. Sunsuper maintained the right to direct managers how to exercise their votes. Any potentially contentious resolutions were escalated to a panel of senior members of the Investment team.

The outcomes shown in Table 6, Table 7 and Table 8 represent the net vote outcome record of votes cast for *Super Savings* investment options (refer to **Our products**) Australian and international shares over the period.

Sunsuper share voting outcomes

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Number of meetings	22	289	22	69	402
Number of resolutions	128	1,745	103	418	2,394
Votes	13 2 113	192 10 1,543	21 0 82	70 7 341	296 19 2,079

Table 6: *Super Savings* Australian share voting outcomes, 2021-22

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Number of meetings	640	576	746	3,854	5,816
Number of resolutions	5,505	4,388	7,485	46,847	64,225
Votes	334 52 5,119	351 175 3,862	635 218 6,632	3,753 1473 41,621	5,073 1918 57,234

Table 7: *Super Savings* international share voting outcomes, 2021-22

Total climate-related shareholder proposals	
SHP Climate votes AGAINST	62
SHP Climate Total	107
% votes AGAINST	57.9%

Table 8: *Super Savings* shareholder proposals on climate change-related matters, 2021-22

Voting results legend

- Votes **FOR**
- Votes **AGAINST**
- Votes **ABSTAIN**

The voting undertaken by QSuper followed an in-house approach and used CGI Glass Lewis as a vote implementation platform. The voting policy followed ACSI's Governance Guidelines across domestic and international holdings, augmented by CGI Glass Lewis for any active voting activities (where we review the meetings and resolutions).

Active voting was undertaken for the top 25 Australian and international holdings and climate change resolutions. Any votes against voting policy were escalated to the Chief Investment Officer. Table 9, Table 10, and Table 11 show the aggregated record of all votes cast for QSuper Australian and international shares over the period.

QSuper share voting outcomes

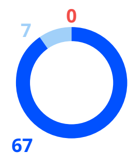
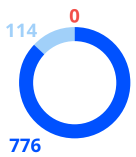
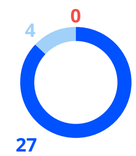
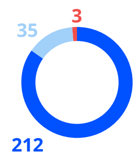
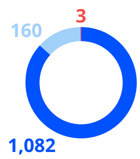
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Number of meetings	12	149	11	41	213
Number of resolutions	74	890	31	250	1,245
Votes	 7 0 67	 114 0 776	 4 0 27	 35 3 212	 160 3 1,082

Table 9: QSuper Australian share voting outcomes, 2021-22

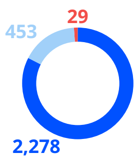
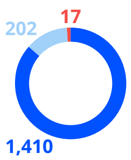
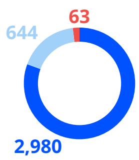
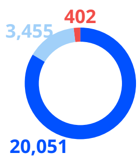
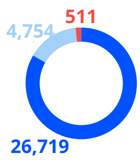
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Number of meetings	292	223	365	1,815	2,695
Number of resolutions	2,760	1,629	3,687	23,908	31,984
Votes	 453 29 2,278	 202 17 1,410	 644 63 2,980	 3,455 402 20,051	 4,754 511 26,719

Table 10: QSuper international share voting outcomes, 2021-22

Total climate-related shareholder proposals	
SHP Climate votes AGAINST	34
SHP Climate Total	115
% votes AGAINST	29.6%

Table 11: QSuper shareholder proposals on climate change-related matters, 2021-22

Voting results legend

- Votes **FOR**
- Votes **AGAINST**
- Votes **ABSTAIN**

Detailed proxy voting records for each heritage fund can be found at **australianretirementtrust.com.au/prescribed-information**

Memberships and certifications

We maintain memberships in several professional associations that specialise in governance matters like climate change, modern slavery, gender diversity 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/

Climate Action 100+

https://www.climateaction100.org/

IAST APAC

https://www.iastapac.org/

RIAA

https://responsibleinvestment.org/

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

ART's *Super Savings* Socially Conscious Balanced option has also been certified by Responsible Investment Association Australasia since 2007. See **Our socially responsible investment options**.

Climate change

Climate change represents one of the most significant challenges of our time. As global investors, we're committed to doing our part towards investing in a low-carbon economy and creating a more sustainable future for all Australians.

We believe that a net-zero greenhouse gas emissions target by 2050 (NZE2050) will increasingly be accepted by markets as the base case through which economies will operate. Guiding the ART portfolio to this path will help us avoid unrewarded risks as businesses and economies transition to a low-carbon future and will result in better outcomes for our members.

The Fund's Climate Change Policy[34] outlines our approach to managing climate-related investment risks and opportunities in the investment portfolio. We will develop a Climate Change Roadmap to support implementation of the Climate Change Policy in the coming year.

ART has commenced using the framework of the voluntary recommendations from the Taskforce for Climate-related Financial Disclosure (TCFD) as a guide for reporting our work on climate change. We recognise that this report reflects the current status of our progress using this reporting framework, while acknowledging we will have much work to do. **Appendix A** shows our progress against the framework of the TCFD recommendations, recognising that we are early in our TCFD journey.

34. **australianretirementtrust.com.au/investments/how-we-invest/responsible-investing**

Climate change governance

The governance structure and processes for climate change replicate the Trustee's oversight of other investment risks and opportunities, which is described under **Sustainability governance** and outlined in our Climate Change Policy.

The Board has identified climate change as a material risk to the Fund. It will receive a report at least annually on activities pertaining to the identification, assessment and management of climate change risk within the investment portfolio.

Management is responsible for implementing the requirements outlined in the Climate Change Policy and further described in this report. Various management committees exist to guide different aspects of the integration process.

Strategy and Risk management

For ART, 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 and the selection of our investment managers. Climate change is recognised as a financial risk, and there are different approaches to considering how best to incorporate it (and opportunities) into the investment strategy. We are on the early stages of this journey and continue to work on our approach.

Climate change as a financial risk

Governments, regulators, communities and members are increasingly focused on climate change and the role of capital in effecting the transition to a low-carbon global economy. As such, managing the risks and opportunities of climate change is an important factor in pursuing the best financial interests of members.

The Australian Prudential Regulatory Authority (APRA), which regulates superannuation funds, has clearly stated that climate change poses risks to the financial system. APRA has provided guidance[35] to its regulated entities, including super funds like ART, on how a prudent organisation will consider the financial implications of climate change risks and opportunities for investment portfolios. Figure 12 outlines APRA's view of the risks and financial effects of climate change.

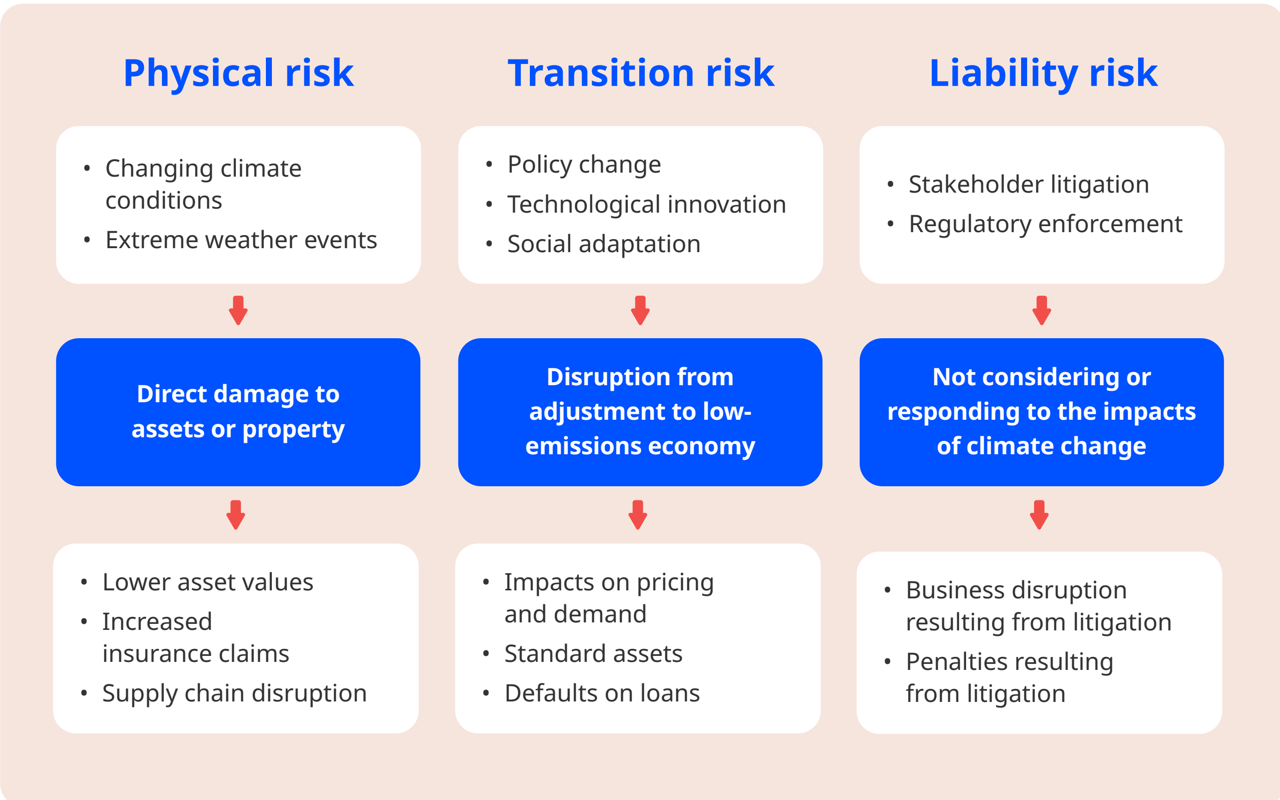


Figure 12: APRA's view of the risks and financial effects of climate change

35. **www.apra.gov.au/sites/default/files/2021-11/Final%20Prudential%20Practice%20Guide%20CPG%20229%20Climate%20Change%20Financial%20Risks.pdf**

Asset allocation

ART recognises 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 that integrating consideration of climate change into asset allocations is challenging, and we will explore emerging approaches in this area.

Both heritage funds undertook work on climate change. As ART, we have prepared an aggregated portfolio-wide emissions baseline (carbon foot-printing) where we have data available, which is discussed in **Metrics**. The work is a combination of our heritage approaches and that of the newly merged organisation.

Listed shares

In 2021-22, the heritage funds implemented different approaches for managing the risks presented by climate change within the listed shares portfolio .

QSuper assessed the carbon intensity and transition readiness for existing companies; those that did not meet the criteria were removed from the strategy (this is also known as a climate change overlay), resulting in lower emissions than before the adjustment. The same approach was subsequently applied to the single-sector Australian and International Shares investment options.

This work was also informed by scenario analysis of listed shares within the strategy. The physical and transition effects on the companies were stress-tested under a range of hypothetical climate futures: business as usual, orderly transition to a low-carbon economy, and rapid de-carbonisation (representing a disorderly transition). The analysis was performed in-house with input from specialist consultants.[36]

For *Super Savings* externally managed passive strategies, Sunsuper adopted a climate-aware index. This followed scenario analysis that informed the levers available to reduce emissions in the listed shares portfolio. This was implemented by managing the underlying investment portfolios to replicate customised low-carbon indices rather than the standard indices.

This strategy was designed to deliver minimal performance difference between low-carbon indices and standard market benchmarks while limiting the ongoing transaction costs of implementation and reducing the downside exposure to climate change risk.

The results of financed emission reduction from these activities are presented in **Metrics** and aggregated to reflect the new ART portfolio. It is important to acknowledge these efforts to reduce the carbon exposure in our portfolio are designed to manage investment risk and do not necessarily reduce emissions in the economy.

Fixed interest

ART's investment strategy provides for allocations to government, quasi-government, securitised and corporate debt issuance. These securities are exposed to climate risks in ways that may affect creditworthiness of loans and bonds.

There is currently no agreed approach for assessing the emissions baseline and managing climate risks of sovereign fixed interest. ART has therefore not implemented any associated climate-aware strategies.

This asset class does present investment opportunities with a growing universe of debt issuance (green bonds) that may act to reduce climate change risks. Our socially responsible investment options and the *Super Savings* fixed interest asset class currently have allocation to green bonds.

Real estate, infrastructure, private equity and private credit

Assets like property and infrastructure will in many cases be exposed to climate risks, both transition and physical. Such assets are often unlisted, and we may hold them for several decades, making consideration of climate risks during the initial investment decision phase important. Climate change has been incorporated into the Manager ESG Rating and private asset due diligence outlined under **ESG integration**.

ART recognises the need to work with our unlisted investment managers to align assets they manage on our behalf to a net-zero target. (As at 30 June 2021,

36. The assessment used "carbon value at risk" (CVaR) in the portfolio by projecting present-day impacts at stock level under three warming scenarios (1.5°C, 2°C, 3°C) to 2100 (both upside and downside). This assessment used the MSCI CVaR database and MSCI's carbon metrics to inform carbon footprint assessment. The results demonstrated the potential future portfolio exposures under the three different warming scenarios on an un-adjusted basis if nothing was done to manage climate-related risks.

approximately 65.7 per cent and 37.8 per cent of infrastructure and real estate asset classes by funds under management, respectively, have a net-zero target in place.) We will continue to work with our managers to gain a deeper understanding of climate transition pathways for our assets.

In relation to QSuper, these discussions were informed by a bespoke scenario analysis tool it developed for real estate and infrastructure before the merger.[37] The tool considers potential effects on key revenue and cost drivers across different sectors[38] and geographies under three International Energy Agency transition scenarios[39] from 2021 to 2050. It can also project climate transition pathways out to 2050 under two of these scenarios[40] and compare these to any emissions reduction targets in place. This tool has also been used to help assess climate transition risk during the initial due diligence phase for real estate and infrastructure. ART will explore how best to apply and improve these valuable assessment tools across these assets.

Private equity and private credit investments will have exposures to climate change risks that may also present as opportunities, depending on the profile of the underlying assets. Reporting on climate risk metrics for these investments has historically been more opaque than those in listed markets. The focus now is to seek better data from our investment managers.

Physical risk

In 2021-22, the QSuper portfolio assessed the physical climate risk exposure of unlisted infrastructure and real estate assets to seven hazards (tropical cyclone, river flood, sea level rise, fire stress, drought stress, heat stress and precipitation stress) under three IPCC scenarios (RCP 2.6, 4.5 and 8.5[41]), and over three timeframes (2030, 2050 and 2100).[42]

This analysis highlights that hazards increase in severity under warmer scenarios and over time. Accordingly, assets may face physical climate conditions that are new or increase in severity and frequency across timeframes. These insights will help inform our understanding of the resilience of these assets.

37. Adapted from the Cambridge Institute of Sustainability Leadership framework.
38. Sectors include transport, real estate, oil and gas, energy, consumer staples, healthcare, industrials, materials and retailing services.
39. International Energy Agency's World Energy Outlook scenarios, including STEPS, SDS, and NZE2050; for more detail, please see the **Glossary**.
40. STEPS and NZE2050 (detailed in **Glossary**).
41. Representative concentration pathway. For more information on the IPCC's RCP scenarios, see the **Glossary**.
42. Using climate data from reinsurer MunichRE.

Metrics

The climate change risks described above all affect the probability that ART will meet its investment objectives, and therefore it is essential to identify, assess and manage them. A key part of this is being able to measure and report on progress against metrics.

Establishing the baseline

In August 2022, we completed an ART emissions baseline for the aggregated portfolio for asset classes where data is available. (Work on this commenced during the reporting period.) A date of 30 June 2021 was selected because the draft standards from the International Sustainability Standards Board[43] recommend that companies align their financial year reporting. This date is also the closest financial year before the merger. The purpose of the emissions baseline is to assist scenario analysis, interim target setting and future reporting.

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.
Weighted average carbon intensity (WACI)	Expressed as tonnes of carbon dioxide-equivalent per million dollars revenue (tCO_2e/$ million). This measure does not seek to attribute emissions to an investor's capital; it is a useful additional carbon metric for identifying a portfolio's exposure to carbon-intensive investments.

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 B**.

We have reported on two metrics as at 30 June 2021: financed emissions for the portfolio were 6,726,724 tonnes, and the emissions intensity (carbon footprint) was 62.7 tonnes of CO_2 per $ million invested (Table 12). The table also identifies sources of data, coverage and proxied data.

	Listed shares[44]	Infrastructure[45]	Real estate[46]	TOTAL
Asset class greenhouse gas emissions coverage[47]	90.0%	100.0%	100.0%	N/A
Data reported / estimated	87.0%	99.0%	78.8%	N/A
Data proxy[48]	3.0%	0.98%	21.2%	N/A
Excluded[49]	10.0%	-	-	N/A
Financed emissions (tCO_2e)	5,892,294	741,234	93,196	6,726,724
Emissions intensity (tCO_2e / $ million invested)	73.7	47.8	7.9	62.7
$M invested	**79,928**	**15,518**	**11,774**	**107,220**
Emissions Intensity carbon footprint (financed emissions (tCO_2e) / $M invested)	**73.7**	**47.8**	**7.9**	**62.7**

Table 12: Total emissions baseline and asset class breakdown as at 30 June 2021

43. More detail can be found in the **Glossary**.
44. Equities data (both reported and estimated) sourced from MSCI.
45. Data sourced from investment managers.
46. Data sourced from investment managers.
47. Coverage by portfolio weight.
48. Data proxied by Sustainable investments team at each asset class level by either median or average emissions.
49. Derivatives were excluded for listed equities.

The baseline includes listed Australian and international shares, infrastructure and real estate and represents a portfolio coverage of approximately 54 per cent of funds under management. Derivatives were excluded from the listed shares calculation because there is no accepted measurement method. Table 13 outlines the coverage by asset class and the rationale for inclusion or exclusion.

Asset class	Asset allocation[50]	ART included / excluded	PCAF Standard methodology	ART rationale for inclusion / exclusion
Listed shares (physical)	~54%	✔	✔	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 managers and asset operators. Proxy data required for minority of holdings.
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 majority of debt holdings.
Private equity	~46%	✖	✖	Although PCAF covers 'unlisted equity', private equity that refers to investment funds is not included in this asset class. ART primarily invests through external investment managers, and emissions data is limited.
Private corporate credit		✖	✖	Although PCAF covers 'business loans' for general corporate purposes, these are for on-balance sheet and not for investment funds. ART invests primarily through investment managers and emissions data is limited.
Listed shares (derivatives)		✖	✖	Derivative financial products are not covered by PCAF.
Fixed interest (sovereign)		✖	✖	Sovereign bonds are not covered by PCAF. Issues with double counting. Data cannot be aggregated within baseline portfolio and must be addressed as separate emissions.
Fixed interest (corporate)		✖	✔	'Listed corporate bonds' for general corporate purposes are covered by PCAF. Does not include use of proceeds or green bonds. Consistent internal approach to be agreed for this asset class.
Commodities		✖	✖	Methodology not developed.
Alternative assets		✖	✖	Methodology not developed.
Cash		✖	✖	Methodology not developed.

Table 13: Emissions baseline coverage for ART portfolio by asset class and rationale for inclusion/exclusion

50. Asset allocation numbers are approximate only and exclude the QSuper Defined Benefit holdings.

Listed shares, scopes 1 and 2 financed emissions

The data availability in publicly traded shares is easier to obtain than for other asset classes because there is greater transparency of company information. Reporting shown in Table 14 is for the aggregated ART listed shares portfolio for 2020-21 and 2021-22. The ART financed emissions are not comparable to carbon metrics previously disclosed by QSuper and Sunsuper because of differences in attribution using equity market capitalisation and enterprise value including cash (EVIC).

Financed emissions and emissions intensity both reduced during 2021-22 (see Table 14). The weighted average carbon intensity (WACI) also reduced over the year (see Figure 13). These reductions in the portfolio are due to the activities outlined under **Strategy and risk management** for listed shares.

Financed emissions for listed shares are concentrated in the materials, utilities and energy sectors while representing only a small part of our holdings per dollar invested (see Figures 14 and 15). This is not unexpected, because emissions are concentrated in these sectors in the standard market equity indices. The top 10 contributors are from these three sectors and represent 35.6 per cent of our financed emissions (see Table 15).

	June 2021	June 2022
Total financed emissions (tCO_2e)		
	5,892,294	3,444,241
Emissions intensity (tCO_2e) / $M invested)		
	73.7	43.1

Table 14: Comparisons of total greenhouse gas emissions and emissions intensities for listed shares in 2020-21 and 2021-22

Weighted average carbon intensity (scope 1 and 2 intensity in tCO_2e/ A$ million revenue)

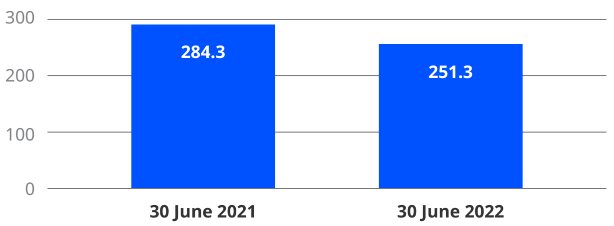


Figure 13: WACI comparison for aggregated ART listed shares in 2020-21 and 2021-22

GICS sector comparison of financed emissions with investment as at 30 June 2022

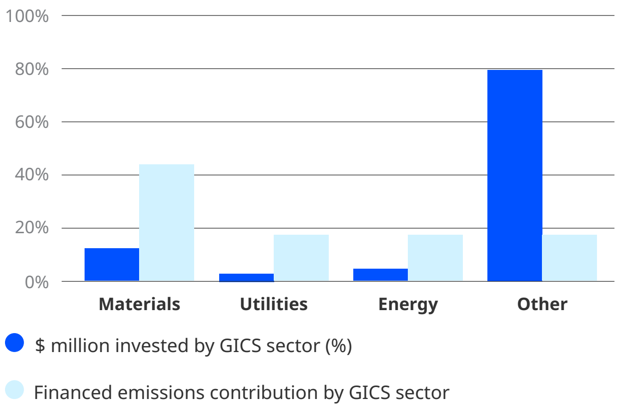


Figure 14: GICS sector comparison of financed emissions with investment as at 30 June 2022

Company name	GICS sector
South32	Materials
BHP	Materials
Origin	Utilities
Santos	Energy
Woodside	Energy
Rio Tinto	Materials
AGL	Utilities
Alumina	Materials
Incitec Pivot	Materials
Bluescope Steel	Materials

Table 15: Top 10 holdings by financed emissions for listed shares as at 30 June 2022

Listed shares, scope 3 financed emissions

Figure 15 shows our scope 3 emissions for listed shares.[51] 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.

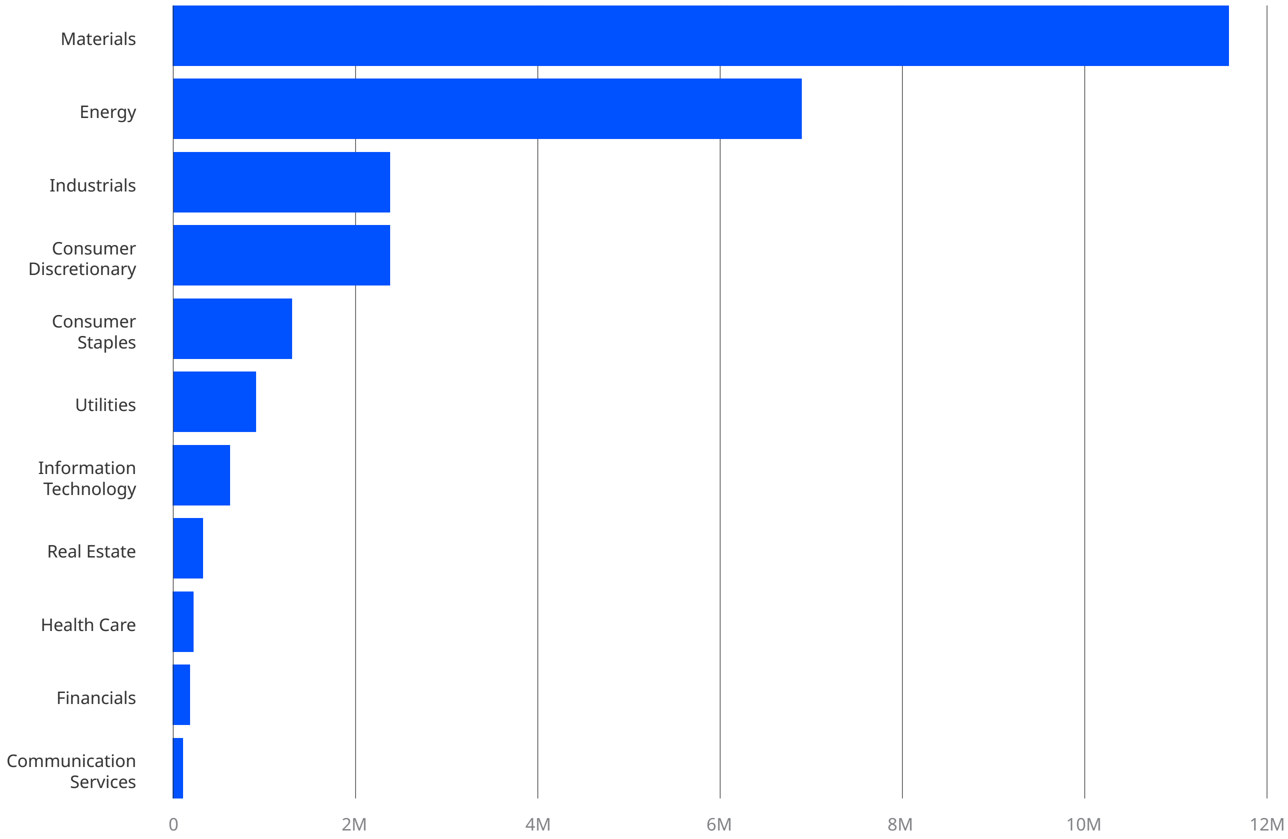


Figure 15: Scope 3 emissions by GICS sector in listed shares, tonnes / CO_2e as at 30 June 2022

Targets

Decarbonisation and the transition to a low-carbon future represent a shift in the global economy and present potential financial risks and opportunities that we need to manage. A net-zero emissions target by 2050 is being increasingly accepted by markets as the base case through which economies will operate.

ART has adopted a target of a net-zero emissions portfolio by 2050 (NZE2050). We will also adopt interim targets to guide our journey and measure our progress.

51. Data sourced from MSCI ESG Manager.

The path ahead

Size and scale are often cited among the chief benefits of a merger. Members should rightly expect to see lower costs and increased efficiency now that two well established organisations have joined forces.

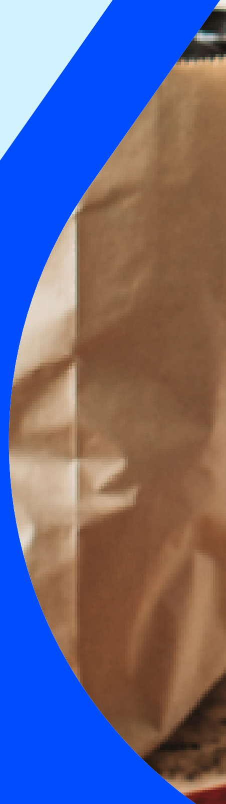
Indeed, we are working hard on delivering these outcomes, along with superannuation products and services that we aim to ensure will suit our members on their journey to retirement. With a combined 140 years of history and experience, we are confident we can do this better together than we did as our heritage funds.

As a new super fund, however, we also have a unique opportunity to reassess our goals and our operations. Our future and our success are intertwined with the world our members will retire in, so how can we use our size and scale to create new investment opportunities to deliver member returns that also contribute positively to social and environmental issues? How can we continue to serve our members over the long term in ways that also benefit society at large?

As we implement our new ART investment strategy, we look forward to sharing our achievements with members and stakeholders, including the activities already underway:

- an ART sustainable investments strategy,
- Climate Change Roadmap,
- clarity in our reporting, and
- harmonisation of our proxy voting process.

Most of all, we are looking forward to demonstrating how we can deliver on our duty to promote members' financial interests in conjunction with sustainable investments.



Glossary of terms and abbreviations

Active ownership*	Also often referred to as corporate engagement or shareholder action, active ownership entails executing shareholder rights and fulfilling obligations to influence corporate behaviour, including through direct corporate engagement (communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines and policies and accompanied by disclosure of activities and outcomes.
CA100+	Climate Action 100+: investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. ART is a member.
ESG	Environmental, social, governance.
ESG integration*	The explicit inclusion by investment managers of ESG risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources. This approach rests on the belief that these factors are a core driver of investment value and risk.
IGCC	Investor Group on Climate Change: a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. ART is a member.
IPCC	Intergovernmental Panel on Climate Change: the United Nations body responsible for assessing the science related to climate change.
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
GRESB	Global Real Estate Sustainability Benchmark: investor-led organisation that provides actionable and transparent ESG data and benchmarks.
GRI	Global Reporting Institute: provider of global best practice for sustainability impact reporting.
IEA	International Energy Agency: comprising 31 member countries and 8 association countries, the agency promotes energy efficiency, aims to ensure energy security, tracks clean energy transitions, collects data, and provides energy education and training programs around the world. The IEA uses scenarios in its World Energy Outlook: STEPS, SDS, and NZE2050, also defined in this glossary.

ISSB	International Sustainability Standards Board: a standard-setting board established to "deliver a comprehensive global baseline of sustainability-related disclosure standards".
MSCI	Global provider of equity, fixed income, real estate indexes, multi-asset portfolio analysis tools, ESG and climate products.
Negative / exclusionary screening*	The exclusion from a fund or portfolio of specific sectors, companies, countries or issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer to product categories (weapons, tobacco), company practices (animal testing, violation of human rights, corruption) or controversies.
Norms-based screening*	Screening of investments against minimum standards of business practice based on international norms and standards, such as those issued by the Organisation for Economic Co-operation and Development, International Labour Organization, United Nations and the UN Children's Emergency Fund (UNICEF).
NZE2050	IEA's net-zero emissions by 2050 scenario: in addition to SDS requirements, global economies reach NZE2050, limited global warming to 1.5°C. Deeper and more rapid cuts to emissions, particularly in hard-to-abate sectors.
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.[52] 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.
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.[53]
RIAA	Responsible Investment Association Australasia: membership organisation that champions responsible investing and a sustainable financial system in Australia and New Zealand. ART is a member.

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

Scope 1	Direct emissions from owned or controlled sources.
Scope 2	Indirect emissions from the generation of purchased energy.
Scope 3	All indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.
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.
STEPS	IEA's Stated Policies Scenario: assumes a world with no further climate policy development; projects climate effects based on a granular, sector-by-sector examination of existing and developing policies and measures.
Sustainability-themed / thematic investing*	Investment in themes or assets that contribute to sustainable solutions – environmental and social – where impact is intentional and measured (sustainable agriculture, green buildings, lower-carbon portfolio).
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 three pillars: 1 The state's duty to protect human rights. 2 The corporate responsibility to respect human rights. 3 Access to remedy.
WACI	Weighted average carbon intensity: measures the exposure to carbon-intensive businesses, expressed in tonnes of carbon dioxide-equivalent (tCO_2e).*

* As defined by Responsible Investment Association Australasia.

53. **carbonbrief.org/**

Appendix A:

Taskforce for Climate-related Financial Disclosures recommendations

The Taskforce for Climate-related Financial Disclosures (TCFD) was established in 2015 by the G20's Financial Stability Board to develop a set of recommended climate-related disclosures in annual filings and reports.

The voluntary recommendations[54] aim to improve the quality and consistency of financial-impact reporting from climate-related risks, which allows investors to better assess and price those risks. By increasing decision-useful information through TCFD disclosures, global investors will drive allocations to sustainable investments, helping to safeguard the resilience of the global economy.

The recommendations call for companies to communicate climate-related risks and opportunities against four core areas: governance, strategy, risk management, and metrics and targets.

Table 16 shows ART's current reporting against the TCFD recommendations, recognising that we are early on our TCFD journey.

TCFD recommendations	Comments	Reference
Governance		
a Describe the board's oversight of climate-related risks and opportunities.	Board has oversight of climate change risks and opportunities.	Refer to **Sustainability governance** and **Climate change governance**.
b Describe management's role in assessing and managing climate-related risks and opportunities.	Further detail on management's role will be addressed in future Climate Change Roadmap.	Refer to **Sustainability governance** and **Climate change governance**
Strategy		
a Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	We recognise the transition, physical and liability risks that climate change poses, and these inform our ongoing work on our climate change strategy.	Refer to **Strategy and risk management**.
b Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Impacts and levers to influence asset classes have been identified. Impacts will be addressed in more detail in future Climate Change Roadmap.	Refer to **Strategy and risk management**.
c Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	ART has commenced scenario analysis for several asset classes and undertaken value at risk assessments for unlisted assets.	Refer to **Strategy and risk management**.

54. **www.fsb-tcfd.org/recommendations/**

TCFD recommendations	Comments	Reference
Risk management		
a Describe the organisation's processes for identifying and assessing climate-related risks	Process exists for identifying and assessing listed shares, unlisted infrastructure and real estate.	Refer to **Strategy and risk management**.
b Describe the organisation's processes for managing climate-related risks.	Awareness and disclosure on actions taken for relevant asset classes.	Refer to **ESG integration**, **Stewardship** and **Strategy and risk management**.
c Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Fund level risk management in place.	Refer to **Climate change governance**.
Metrics and Targets		
a Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.	Disclosure of key metrics, methodology and rationale.	Refer to **Metrics**.
b Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Portfolio baseline disclosure for asset classes where data is available. Scope 3 disclosed for listed shares.	Refer to **Metrics**.
c Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Long-term target and baseline established. No current disclosure of interim targets or performance against targets.	Refer to **Targets**.

Appendix B:

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.[55] Emissions data used was the most recent available.

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

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

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

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

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

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

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

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

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

The ART emissions baseline comprises the scope 1 and 2 emissions of investees' and borrowers' emissions, also known as financed emissions. We do not include financed scope 3 emissions[56] in our baseline.

55. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (exposure draft, March 2022), p. 35. **https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf**
56. 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[57] method of calculating financed emissions of investment in a company:

For listed companies:

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

For unlisted companies:

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

Where:

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

Emissions intensity (carbon footprint)[58]

For listed companies:

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

For unlisted companies:

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

Where:

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

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

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

c borrower or investee company

57. For more detail on the PCAF Standard, see the **Glossary**.

58. PCAF, The Global GHG Accounting & Reporting Standard for the financial industry, p 102, **https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf**

Appendix C:

Diversity, equity, and inclusion (survey of investment managers' employees)

Recognising there is no widely used or standardised approach for defining, measuring and reporting on diversity in a respectful, accurate and inclusive way, we used a multi-dimensional approach to survey external investment managers and their employees:

Gender	Gender diversity of investment teams.
Cultural identity	We adapted the ABS' Australian Standard Classification of Cultural and Ethnic Groups classification structure as a way to survey cultural identity. We adopted an identity-based definition of cultural identity, that is, the group(s) to which an employee feels they belong to or identify with. Employees could nominate more than one group. We use the term "indigenous" to refer to more than 300 million indigenous people across the world. Among the indigenous peoples are the Inuit and Aleutians of the circumpolar region, the Saami of Northern Europe, the Mayas in Guatemala, the Aymaras in Bolivia, and the Lakota in the United States of America. The Maori of New Zealand were grouped into a separate category, as were Aboriginal and/or Torres Strait Islander Australians. We used the term "Aboriginal and/or Torres Strait Islander Australian" where "and/or" recognises that some individuals belong to both groups interchangeably. We acknowledge that this term does not reflect the diversity of Aboriginal and/or Torres Strait Islander Australians. We acknowledge that many Aboriginal and/or Torres Strait Islander Australians prefer to be known as "First Nations", "First Peoples" or by their specific tribal group, language group, clan, mission, regional group or some other group.
Language	Number of languages employees in investment teams speak. The employee need not be fluent in each language.
Global experience	Defined as living and/or working in another country for more than six months.
Field of education	Arts; business, commerce and/or economics; law; science, technology, engineering and/or mathematics; other; and not applicable. Employees could nominate more than one field of education.
Investment experience	First financial crisis employees in investment teams experienced while working in the investment industry.

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