Australian Retirement Trust

Sustainable Investment Report
2023-24

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Australian Retirement Trust Pty Ltd ABN 88 010 720 840 AFSL 228975, Trustee of Australian Retirement Trust ABN 60 905 115 063

Executive summary

Investing for the long term includes managing environmental, social and governance (ESG) risks, like climate change, today. Our approach to sustainable investing is guided by our legal duty to act in our members' best financial interests, our core investment beliefs, and our Sustainable Investment Policy.

Our Sustainable Investment Report 2023-24 provides details of our performance and achievements for the financial year ending 30 June 2024.

The focus for this past year has been on delivery of several key strategic initiatives and actions outlined in our Sustainable Investment Strategy and Climate Change Strategy, which included our Net Zero 2050 Roadmap (Roadmap), which were approved by the Australian Retirement Trust (ART) Board in June 2023. These strategies outline a 2-year plan to build our sustainable investment and climate-related capabilities across the Investment team, to help realise one of our core investment principles, that "sustainable investing leads to superior outcomes". We are one year in and at the mid-point of implementation.

Recognising the importance of disclosures for our members and other stakeholders, we were delighted to publish our Roadmap in September 2023, and our consolidated Sustainable Investment Policy in October 2023.

The Sustainable Investment team introduced a new team structure and increased resourcing to support the delivery of our strategies. This year, we were pleased to appoint Sustainable Investment "champions" internally to build capacity within the investment team to further support ESG integration within our investment portfolio.

We use ESG integration, stewardship (engagement and proxy voting) and in limited cases, screening (exclusions), as part of our approach to sustainable investment.

ESG integration

ESG integration is predominantly achieved through the selection and appointment of new external investment managers, and monitoring through assessment of, and engagement with, existing external investment managers. To support ESG integration within our investment managers, we have refreshed our assessment framework for investment manager ESG selection, appointment and monitoring and are well progressed on establishing a benchmark of our existing investment managers' ESG capabilities, in line with this framework. Substantial progress has also been made on incorporating climate change and modern slavery provisions into relevant external investment manager contractual documents.

Stewardship

Stewardship of investee companies is an important activity to manage ESG risk in our investment portfolio, including to support our emissions reductions targets and an equitable transition. During the year we enhanced our stewardship plan for direct engagement with a selection of ASX listed companies, including setting timebound objectives and creating an escalation framework for when companies aren't responsive. When engaging investee companies on ESG issues, we seek to improve behaviours, promote best practice, and develop a better understanding of business and strategic decisions.

ESG member choice investment option

On 1 July 2024 we launched our streamlined suite of investment options, moving to one ESG option, the Socially Conscious Balanced (SCB) option. While we consider ESG factors across all our available investment options, the SCB option offers all members the choice to invest in a diversified portfolio aligned with an extended set of ESG principles and is certified by Responsible Investment Association Australasia (RIAA)[1]. The QSuper Socially Responsible investment option was closed on 30 June 2024.

1 For more information about the Responsible Investment Association Australasia classifications, please visit responsibleinvestment.org/ri-certification/sustainability-classifications

Modern slavery

Our 'respect and remedy' framework guides our approach to assessing and addressing potential risks of modern slavery in our investments. In addition to supporting delivery of the investment actions outlined in our Modern Slavery Statement 2022-23, during the year we developed a modern slavery engagement assessment methodology to support our stewardship activities to assist our direct engagement activities with a selection of ASX listed companies.

Climate change

Climate change poses one of the most significant challenges of our time, creating both risks and opportunities for investment portfolios, and continues to be an important area of focus.

Our Roadmap outlines how we currently plan to transition our investment portfolio to a net zero greenhouse gas emissions portfolio by 2050[1] and sets out the following interim (by 2030) targets:

- **Carbon emissions intensity:** a 43% reduction in ART's financed emissions by 2030 for certain asset classes
- **Engagement:** engage with 100% of our 'priority' companies[2] within listed equities by 2030
- **Portfolio alignment:** 50% of our 'priority companies' within listed equities to be 'net zero' or 'aligned' by 2030
- The establishment of a climate-related investments target in FY24.

Details of how we are tracking against these interim targets is shown in the Climate change section.

Consistent with our Roadmap commitments, we have delivered on a number of strategic initiatives including:

- Harmonisation of the approach for managing climate risks within listed equities was completed during the reporting period with the result that from 1 July 2024 there is a single approach to managing the risks presented by climate change within listed equities.[3]
- An exclusion was approved by the Investment Committee during the reporting period. Effective from 1 July 2024, direct investment in companies within the Australian and International shares asset classes that generate more than 10% of total revenue in the most recent year of financial reporting from the mining of thermal coal and its sale to external parties was excluded, subject to some exceptions, with further details set out in and on the page following Table 9 in **Screening (Exclusions)**.
- The approval of an engagement program for climate-related 'priority companies' as defined in our Roadmap[2] to support our interim climate-related 'engagement' target. This program was implemented during the reporting period and incorporates setting time-bound engagement objectives for companies we engage with directly.
- Establishing a baseline and setting a climate-related 'green'[4] investments target of 4% of FUM by 2030 to ensure we focus on opportunities to deploy capital consistent with ART's Net Zero 2050 target and in accordance with members' best financial interests.

1 Scope 3 category 15 (investments) emissions. PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition. **2** 'priority companies' represent 70% of ART's financed scope 1 and 2 emissions within the listed equities asset class. **3** As detailed in previous Sustainable Investment Reports, our legacy funds (SunSuper and QSuper implemented different approaches for managing the risks presented by climate change in listed equities. **4** ART has defined climate-related 'green' investments as investments in sectors and activities identified as 'green' in the draft Australian Sustainable Finance Taxonomy V0.1, across certain asset classes.

Message from the Investment Committee Chair and Chief Investment Officer

On behalf of ART, we're pleased to present our Sustainable Investment Report 2023-24 – a summary of our approach to sustainable investing and the associated outcomes we've achieved.

The 2023-24 financial year saw us operate in a rapidly evolving sustainable investment landscape, from changing voluntary standards to policy and regulation, and the introduction of the Australian Government's Sustainable Finance Strategy. While challenging, this landscape has presented unique investment opportunities, and the ability to demonstrate how sustainable investment helps to create value for our members' retirement outcomes.

Delivering on our Net Zero 2050 Roadmap commitments

When we launched our Net Zero 2050 Roadmap (Roadmap) in September 2023, we committed to adopting a formal position on exclusions relating to climate change in the first half of 2024. On 1 July 2024, we added an exclusion of direct investment in companies within the Australian and International shares asset classes that generate more than 10% of total revenue in the most recent year of financial reporting from the mining of thermal coal and its sale to external parties, subject to some exceptions (further details can be found in and on the page following Table 9 in **Screening (Exclusions)**. By implementing this exclusion we are seeking to protect both the Fund from future risk of stranded assets and our members' retirement savings.

We also delivered on the establishment of a climate-related investment target, as set out in our Roadmap. This target aims to help us to focus on deploying capital towards companies and assets that seek to enable greenhouse gas emissions reductions in the broader economy, when doing so aligns with members' best financial interests.

Making a difference

We know that many of our members are becoming far more conscious of ESG issues and there is growing demand to understand how their retirement savings connect with sustainable objectives. We're pleased to have grown our capability in our Sustainable Investment team over the last year to further drive the implementation of ESG factors and especially climate change activities across our investment portfolio. Consistent with our Sustainable Investment Strategy, the Sustainable Investment team has been active in building a foundation of policies, processes, and people capability across a number of areas.

We seek an evidence-based approach to reporting sustainable investment outcomes, aiming for clarity and transparency for our members.

Our members matter

At ART, we believe integrating ESG factors into our investment processes alongside other traditional financial considerations helps us make better long-term decisions for our members' retirement outcomes.

We introduced a streamlined suite of investment options, available to all members from 1 July 2024. Members are able to choose from 15 carefully constructed choice investment options that cover a broad range of objectives, levels of risk and investment timeframes to suit their individual needs. With the creation of our new suite of investment options, all ART members who choose to have their investments made in line with an extended set of ESG principles will be invested in our Socially Conscious Balanced option.

We're committed to our more than 2.3 million members and exist to help members retire well with confidence. We encourage you to read our Sustainable Investment Report for 2023-24 and learn more about the great work our Sustainable Investment team do each and every day for our members.

Mark Burgess
Investment Committee Chair

Ian Patrick
Chief Investment Officer

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About Australian Retirement Trust

Who we are

We're one of Australia's largest super funds. At 30 June 2024, over 2.3 million Australians trust us to take care of more than $300 billion of their retirement savings. We're here to help our members retire well with confidence, focused on strong long-term investment returns, lower fees and the information and access to advice our members need to manage their super and retirement.

Our history

ART was formed through the merger of QSuper and Sunsuper in February 2022. After the merger, all QSuper and Sunsuper members became members of ART. With 140 years' combined history at merger and 2 years together as ART, we have the size, strength and scale that comes from being one of Australia's largest super funds. We aim to use our size and scale to find and make a broad range of investments, drive down investment costs and do things smarter by bringing our administration capabilities together.

Existing solely for members

As a profit-for-members fund open to all Australians, we don't pay shareholders, which means we're focused on lower fees and can reinvest profits back to members as better value products and services.

Open to all Australians

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

Our sustainable investment report

This report provides an update on the processes and actions taken to integrate sustainable practices into our investment portfolio for the period 1 July 2023 to 30 June 2024.

On the terms used in this report

The words "the Fund", "ART", "we", "us" and "our" are used to refer to Australian Retirement Trust (ART) and our activities. References to the "ART Board" are to the Board of directors of Australian Retirement Trust Pty Ltd (ABN 88 010 720 840), the trustee for Australian Retirement Trust (ABN 60 905 115 063). The Sustainable Investment Report does not cover ESG activities of ART in its corporate capacity as an enterprise and employer.

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

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

In March 2024 we unveiled a streamlined suite of choice investment options across super and retirement products, available to all members from 1 July 2024.

We let members know they would be able to choose from 15 carefully constructed choice investment options that cover a broad range of objectives and investment timeframes to best meet their goals and life stages.

It means both Super Savings and QSuper account holders now have the same choice of investment options.

We also adjusted the risk profiles of our MySuper offerings for Super Savings and QSuper account holders. Members in the default MySuper options now have more of their money invested in growth assets for longer. As a result, the options are expected to have higher returns over the long term for members of all ages but could also have a higher risk of negative returns in any given year. Because super is a long-term investment, we believe this change is in the best financial interests of our MySuper members.

The asset classes we invest in on behalf of our members are described in the PDS that applies to you. These can be found at **art.com.au/pds** and **qsuper.qld.gov.au/PDS**

Equities are commonly referred to as shares or stocks. The term 'listed equities' typically refers to shares listed and traded through an exchange such as the Australian Securities Exchange (ASX). In this report we use the terms 'listed equities' and 'shares'. 'Listed equities' includes equities held within ART's Australian and International shares asset classes and from time to time may also include equities held as security for financing trades undertaken by the Cash asset class, which is distinct from the Australian and International shares asset classes.

Sustainable investment, also known as responsible or ethical investment, is a broad-based approach to investing which factors in people, society and the environment, along with financial performance, when making and managing investments.[1] In 2023, the CFA Institute, Global Sustainable Investment Alliance and Principles for Responsible Investment (PRI) published 'Definitions for Responsible Investment Approaches' which contains this definition, as well as definitions for Screening, ESG integration, Thematic investing, Stewardship and Impact investing[2] – we have adopted these definitions for the different activities that fall within the broader ambit of sustainable investment within this report.

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 report on our sustainable investment activities annually.

This sustainable investment report covers actions and processes over the period 1 July 2023 to 30 June 2024, unless otherwise specified.

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

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

1 RIAA Responsible Investment Explained responsibleinvestment.org/what-is-ri/ri-explained/

2 2023 CFA Institute, Global Sustainable Investment Alliance and Principles for Responsible Investment. Definitions for Responsible Investment approaches available at responsibleinvestment.org/wp-content/uploads/2023/11/Definitions-for-Responsible-Investment-Approaches-Nov-2023.pdf

Our reporting suite

Annual report	The Australian Retirement Trust 2023-24 Annual report provides information in relation to Australian Retirement Trust for the period from 1 July 2023 to 30 June 2024. **art.com.au/corporate-governance**
Our approach to sustainable investment	More detail about our approach to sustainable investment can be found on the ART website: **art.com.au/sustainable-investing** and on the QSuper website: **qsuper.qld.gov.au/sustainable-investing**
Sustainable Investment Policy	This policy articulates ART's approach to sustainable investment within its investment portfolio, including the principles, roles and accountabilities, application, risk management and reporting that constitute ART's integration of ESG considerations: **art.com.au/sustainable-investing**
Investment Committee Charter	This charter outlines the roles and responsibilities of the committee including those pertaining to investment policy and management, operations and compliance: **art.com.au/corporate-governance**
Modern Slavery Statement	We submitted our most recent Modern Slavery Statement in December 2023. The statement can be found at: **art.com.au/corporate-governance** and the Australian Government register at **modernslaveryregister.gov.au**
Proxy voting records	Our proxy voting records can be found at: **art.com.au/prescribed-information**
Sustainable investment options holdings data	Portfolio holdings disclosure information for all of ART's Super Savings products, in line with the specific requirements of Australian law, can be found at **art.com.au/investments/what-we-invest-in** and **qsuper.qld.gov.au/investments/how-qsuper-invests/what-we-invest-in** The Super Savings Socially Conscious Balanced (SCB) option holdings can be found at **art.com.au/investments/what-we-invest-in**. Select "superannuation" or "retirement" investment holdings, and then the option. Information relating to the holdings of the Super Savings Socially Conscious Balanced option specifically prepared for the disclosure standards of RIAA certification can be found at **art.com.au/investments/options/socially-conscious-balanced**

What sustainable investment means to us

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

We deliver this vision as it relates to investment outcomes, through our core set of interrelated investment principles, including that "sustainable investing leads to superior outcomes", recognising:

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

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

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

What are ESG factors?

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

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

Our members

We engage our members through activities including surveys, webinars, responses to queries and our Annual Members' Meeting (AMM). We know from engaging with members through these avenues that interest in how we approach sustainable investing is growing. At the AMM in November 2023, several questions from members related to ESG issues, and we received a significant increase in queries from members on ESG issues over the past year, compared to previous financial years.

Sustainable investment governance

The ART Board is at all times responsible for our investment portfolio. This includes oversight of sustainable investment activities and approval of the Sustainable Investment Policy, along with climate change considerations for investments. Our Sustainable Investment Policy outlines the relevant governance approach and delegations, including climate change considerations, in further detail. Figure 1 sets out this approach for the reporting period as a diagram.

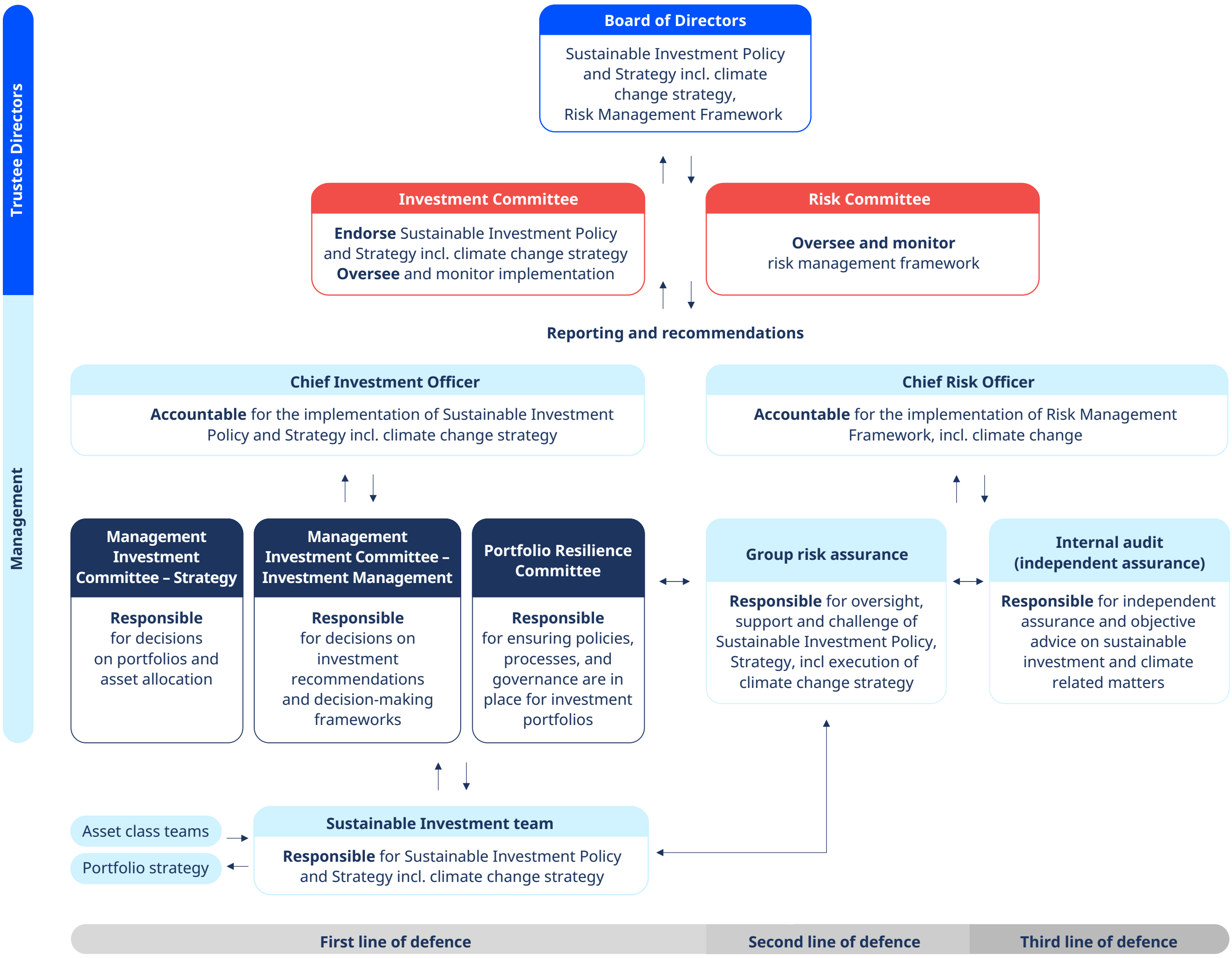


Figure 1: Sustainable investment governance during the reporting period

Developments in governance during the year included:

- The appointment of Dr Martin Parkinson AC to ART's Board of Directors and as a member of the Investment Committee. Dr Parkinson previously served as the Secretary of the Department of Climate Change for the Federal Government and also served as Secretary to the Commonwealth Treasury. Dr Parkinson's past board memberships include serving as a director on the NSW Net Zero Emissions and Clean Economy Board.
- Dr Guy Debelle continued as an external Adviser to the ART Investment Committee. Dr Debelle also co-chairs the Australian Sustainable Finance Institute Taxonomy Technical Experts Group, which is responsible for developing the Sustainable Finance Taxonomy for the Australian economy. Dr Debelle worked at the Reserve Bank of Australia for 25 years, including as Deputy Governor for 6 years. He also recently held a role as CFO and was previously a director at global green energy company Fortescue Future Industries. Dr Debelle previously chaired the climate change working group of the Australian Council of Financial Regulators.

- In June 2023 the Board approved our 2-year Sustainable Investment Strategy for FY24-25, and our Climate Change Strategy, which included our Roadmap. The Roadmap was published in September 2023 and outlines our current plan to transition the investment portfolio to our target of net zero greenhouse gas emissions by 2050.[1]
- We are now midway through the 2-year implementation period for both the Sustainable Investment Strategy and the Roadmap; the Investment Committee receives updates every 6 months on progress made against the key initiatives outlined in them. Further detail on the progress made against the specific actions outlined in each is provided in the **Sustainable Investment Strategy** and **Climate Change** sections.
- In October 2023, the Board approved our updated Sustainable Investment Policy. This policy articulates ART's approach to sustainable investment within its investment portfolio, including the principles, roles and accountabilities, application, risk management and reporting that constitute ART's integration of ESG considerations.
- The Head of Sustainable Investment continued as an approved representative on the Management Investment Committee – Investment Management (MIC-IM), which was responsible for reviewing and making decisions on certain investment recommendations. This position was also a standing member of our Portfolio Resilience Committee (see Figure 1 on the previous page).
- We have updated our material Sustainable Investment risks, as part of a broader review of ART's material investment risks. A review of the related risk controls is currently underway and expected to be completed in 2024-25.

Sustainable Investment Strategy

Following the Board's approval of our Sustainable Investment Strategy and update provided in last year's report, Table 1 outlines the progress made to date against the key strategic initiatives outlined in the strategy.

Table 1: Status of progress against ART's Sustainable Investment Strategy initiatives

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

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

A key milestone in 2023-24 was introducing a new team structure and increased resourcing of our Sustainable Investment team, with the team comprising 14 full time equivalents (FTEs) at 30 June 2024. We expect that the increased resourcing, which includes a dedicated ESG data and analytics role, will enable us to make progress on the ESG data and analytics strategic initiatives in 2024-25.

Progress in developing our impact investing capability has been slower than initially planned.

Capacity building

While we have expanded the size of our Sustainable Investment team over the past year, to more fully integrate the financial implications of ESG factors into our investment process, we need to enhance the sustainable investment capability of our entire investment team. To facilitate this:

- We have identified Sustainable Investment champions within each sub-investment team. They're a conduit for information flow between our Sustainable Investment team and our asset class teams; helping to ensure the Sustainable Investment Strategy is both practical and implementable. As one example, the Sustainable Investment champions are currently working on developing ART's approach to impact investing.
- Ongoing education on sustainable investment is made available to all investment team members. During 2023-24, the following educational sessions were conducted:
  - In October 2023, the Sustainable Investment team presented on ART's Net Zero 2050 Roadmap. All ART staff were invited.
  - In October 2023, ART's external auditor presented on climate related-financial disclosures.
  - In March 2024, a global law firm presented on the topic of climate-related financial disclosure and its potential impact on ART.
  - In May 2024, an external expert on the topic of carbon markets and offsets presented to several of ART's investment teams.
  - In May 2024, the Sustainable Investment team presented on progress made on the Sustainable Investment Strategy and the Net Zero 2050 Roadmap, which included discussion on ART's interim target for climate-related investments (please see the **Climate Change** section for more detail).
  - In June 2024, ART held a collaborative workshop with one of ART's external investment managers, on modern slavery risk and mitigation activities.
- Subject matter experts have also been invited to present to ART's Board, Executive and investment teams on specific climate-related topics. For example:
  - In June 2023, ART hosted an Investment Committee dinner with an external C-suite guest speaker on climate-related investment opportunities.
  - In June 2023, an Investment Committee meeting included a deep dive into directors' duties as it relates to greenwashing risk.
  - In August 2023, ART hosted a Strategic Partners Forum including a panel session on 'Investing in the energy transition' with participants comprising directors and C-suite executives from an Australian company, a think tank and an external investment manager.
  - In February 2024, a leading global external investment manager presented on global climate policy; transition and physical investment risk; climate-related financial risks and opportunities.

ASFI Leadership

The Australian Sustainable Finance Institute (ASFI) announced the 2024 cohort of its member Leadership Working Group, bringing together 18 finance leaders to share lessons and learn best practice strategies to transform sustainability leadership.

The Head of Sustainable Investment and the Associate Portfolio Manager – Real Estate, have both been appointed to the 2024 cohort.

The working group will meet over a 12-month period to identify key barriers to scaling sustainability, envisage solutions, build relevant capabilities and apply and reflect on these learnings throughout the program.

Prioritisation of ESG factors

Sustainable investment is a broad topic with a multitude of ESG factors that may give rise to financially material risks for a company or investment portfolio. As outlined in last year's report, we identified 3 ESG factors that were our key areas of focus during the reporting period and will remain so for FY25:

- **Climate change** – our current approach to managing climate-related risks and opportunities in the investment portfolio is outlined in our Net Zero 2050 Roadmap. Please refer to the **Climate Change** section to see our progress in this area.
- **Biodiversity** – we recognise the growing importance of biodiversity loss as a financial risk and intend to progress this in FY25.
- **Human rights** – focusing on modern slavery - please refer to **Our approach to modern slavery and associated human rights,** as well as First Nations – please refer to **Our approach to First Nations** for more detail on our progress.

Collaboration

We're a member of several organisations that provide expert advice, thought leadership and opportunities to work with the companies we invest in (refer to **Memberships and organisations**). We have a framework that we are trialling to guide our active participation in these member organisations, their initiatives and associated working groups. The framework includes ensuring that participation is an effective use of resources and supports the overall Sustainable Investment Strategy, and that we act in members' best financial interests.

During 2023-24, we participated in several working groups, seeking to progress sustainability considerations in our investment portfolio (Table 2).

Table 2: Membership of working groups and committees

Member organisation	Working Group / Committee	Rationale for participation
Australian Council of Superannuation Investors (ACSI)	• Board member • Member Advisory Council	To provide input into ACSI's research agenda and active ownership activities. See **Stewardship** for more detail on ACSI's role in our engagement activities.
Australian Sustainable Finance Institute (ASFI)	• Leadership Working Group	Brings together finance leaders to share lessons and learn best practice strategies to transform sustainability leadership.
Investor Group on Climate Change (IGCC)	• Board member • Investor Practice working group • Policy and Advocacy working group • Corporate Engagement working group • Climate Solutions sub-working group	To participate in and contribute to focused themes and projects aimed at connecting, collaborating and advocating on behalf of investors to responsibly manage climate risks and opportunities.
Investors Against Slavery and Trafficking Asia Pacific (IAST APAC)	• Company engagement workstream • Investor advocacy workstream	To promote effective action in finding, fixing, and preventing modern slavery in operations and supply chains through investor advocacy and collaborative engagement activity.
Responsible Investment Association Australasia (RIAA)	• First Nations Rights Working Group • Human Rights Working Group	To provide ART an opportunity for deeper understanding of human rights issues, identification and feedback into due diligence processes and to understand investor and company roles in remedy.

Advocacy

Policy advocacy is intended to focus on advocating for better management of systemic risks, while supporting our strategic initiatives. During 2023-24, we provided submissions on a number of consultations, to help drive better sustainable investment policy outcomes for our members, as shown in Table 3:

Table 3: Consultations on public policy and other initiatives led by member organisations

Consultation	Rationale for submission
Climate-related financial disclosure – second consultation – July 2023	Climate-related financial disclosures will help ART and our external fund managers to better assess the transition pathways set by our investee entities.
Sustainable Finance Strategy – December 2023	To provide input into the Government's Sustainable Finance Strategy. This strategy is an important step in creating a sustainable finance policy architecture for Australia, to address climate and other sustainability related financial risks and opportunities.
National Victims Compensation Scheme for Modern Slavery – December 2023	ART, along with other members of IAST APAC, was a signatory to a letter to the Australian Government, supporting the establishment of a National Victims Compensation Scheme for Modern Slavery.
Climate-related financial disclosure: exposure draft legislation – February 2024	Requesting clarity as to when mandatory climate-related financial reporting would commence for asset owners, and particularly superannuation funds, in Australia.
Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information – March 2024	Seeking clarity on how the forthcoming mandatory climate-related financial disclosure requirements would be applied to superannuation funds; and seeking guidance as to what information is expected from funds to ensure disclosure is in compliance with the reporting standard.
ASX Corporate Governance Council's Principles and Recommendations – 5th Edition Consultation – May 2024	While ART supported the majority of the principles and recommendations in the Consultation Draft, our submission focused on those areas where we considered a different approach to be more appropriate, specifically, the proposed removal of recommendations relating to bribery and corruption, CEO and CFO declarations for financial statements, and disclosure of a whistleblower policy.
Australian Sustainable Finance Taxonomy V0.1 – June 2024 (Australian Taxonomy V0.1)	ART provided some general comments on the draft taxonomy, as well as comments on a small number of technical aspects.

Reporting and disclosure

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

We were delighted to publish our Net Zero 2050 Roadmap in September 2023 and the ART Board approved our consolidated Sustainable Investment Policy in October 2023.

The outcomes for our current work program that were achieved in 2023-24 are outlined throughout this report.

Board appointments to member organisations.

Ian Patrick (Chief Investment Officer) – IGCC

IGCC is a network for Australian and New Zealand investors to share and respond to the risks and opportunities of climate change. IGCC's mission is to deliver real and accelerated progress on climate change by connecting, collaborating, and advocating on behalf of investors to responsibly manage climate risks and opportunities, and drive sustainable returns for investors and the beneficiaries they represent. Ian Patrick was appointed to the Board of IGCC in May 2023.

Nicole Bradford (Head of Sustainable Investment) – ACSI

ACSI exists to provide a strong voice on financially material ESG issues. Its members include Australian and international asset owners and institutional investors with a combined more than $1 trillion in funds under management. Through research, engagement, advocacy and voting recommendations, ACSI supports its members in exercising active ownership, which seeks to enhance the long-term value of the retirement savings entrusted to them to manage. Nicole Bradford was appointed to the Board of ACSI in October 2023.

ESG integration

ESG integration is the ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.[1]

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

External investment manager selection, appointment and monitoring

We primarily use external investment managers to invest on our behalf. Therefore, ESG integration is predominantly achieved through the selection and appointment of new investment managers, and monitoring through the assessment of, and engagement with, our existing investment managers.

During FY24, we undertook a project to uplift our approach to investment manager ESG selection, appointment and monitoring. The first phase of this project focused on:

1. Refreshing our investment manager ESG assessment framework, and
2. Benchmarking a selection of our investment managers' ESG capabilities, in line with the refreshed framework.

The outcomes of this project aim to provide a strong foundation for a structured and repeatable process with supporting resources including: a standardised ESG questionnaire, a documented assessment framework, individual investment manager ESG assessments for inclusion in investment recommendation papers for investment decision-making, and; a league table for comparable assessment of investment manager ESG capabilities across the portfolio and within asset classes.

The second phase of this project, currently planned to commence in FY25, will be to document the investment manager ESG monitoring and oversight approach, which will inform the prioritisation of our investment manager ESG engagement activities.

1 As defined by the 2023 CFA Institute, Global Sustainable Investment Alliance and Principles for Responsible Investment. Definitions for Responsible available at https://responsibleinvestment.org/wp-content/uploads/2023/11/Definitions-for-Responsible-Investment-Approaches-Nov-2023.pdf

Investment manager selection

In March 2024, the new investment manager ESG assessment framework was approved by an internal Management Investment Committee. The framework is for new investment manager selection and benchmarking existing investment managers' ESG capabilities. The framework has 5 modules, each of which has a number of underlying indicators.

The 5 modules are:

- **ESG strategy**
- **ESG integration**
- **Stewardship**
- **Climate change**
- **Modern Slavery**

Core Modules

Core ESG score

ESG strategy

considers the content of the manager's ESG policy, reporting and the ways in which the manager's activities are resourced (staffing and oversight, training and KPI alignment).

ESG integration

analyses how the manager identifies and integrates ESG risks and opportunities when deciding which investments to allocate capital to.

Stewardship

considers how the manager engages companies and/or assets in its portfolio and how it uses this information to inform its investment decisions or management of assets.

Thematic Modules

Climate change score

Climate change

considers the manager's approach to assessing and monitoring physical and transition climate risks, as well as any established climate-related targets and net zero alignment assessment of investee entities.

Modern slavery score

Modern Slavery

considers the manager's approach to identifying, assessing and addressing modern slavery risks in the investment portfolio.

Figure 2: Investment manager ESG assessment framework

The first 3 core modules assess how an investment manager approaches ESG in their investment process specific to their strategy and associated asset class. The core ESG modules have different weightings depending on the relevance of the module to the asset class, for example listed equities has a higher weighting to stewardship than private debt. We also explicitly assess an investment manager's maturity on 2 thematic topics: climate change and modern slavery. Separation between the thematic modules and core module provides the ability to add to the thematic modules over time without impacting the core benchmarking score. Scores are aggregated across the indicators within each module, and across the core modules.

Example investment manager assessment

Figure 3 provides an example of the quantitative outcomes of applying the ESG assessment framework to an investment manager.[1] The assessment criteria for each indicator are categorised into 4 tiers (Absent, Developing, Intermediate and Advanced) and are designed to provide a snapshot of an investment manager's ESG capabilities. Qualitative information is also documented to identify the strengths of the investment manager as well as areas for improvement. This information is for inclusion in internal investment recommendation papers for investment decision-making. When areas for improvement are identified, consideration may be given to incorporating these into contractual requirements with that investment manager, or may be identified as areas of focus for ongoing discussion with the investment manager.

New manager ESG assessment indicators, grouped by module

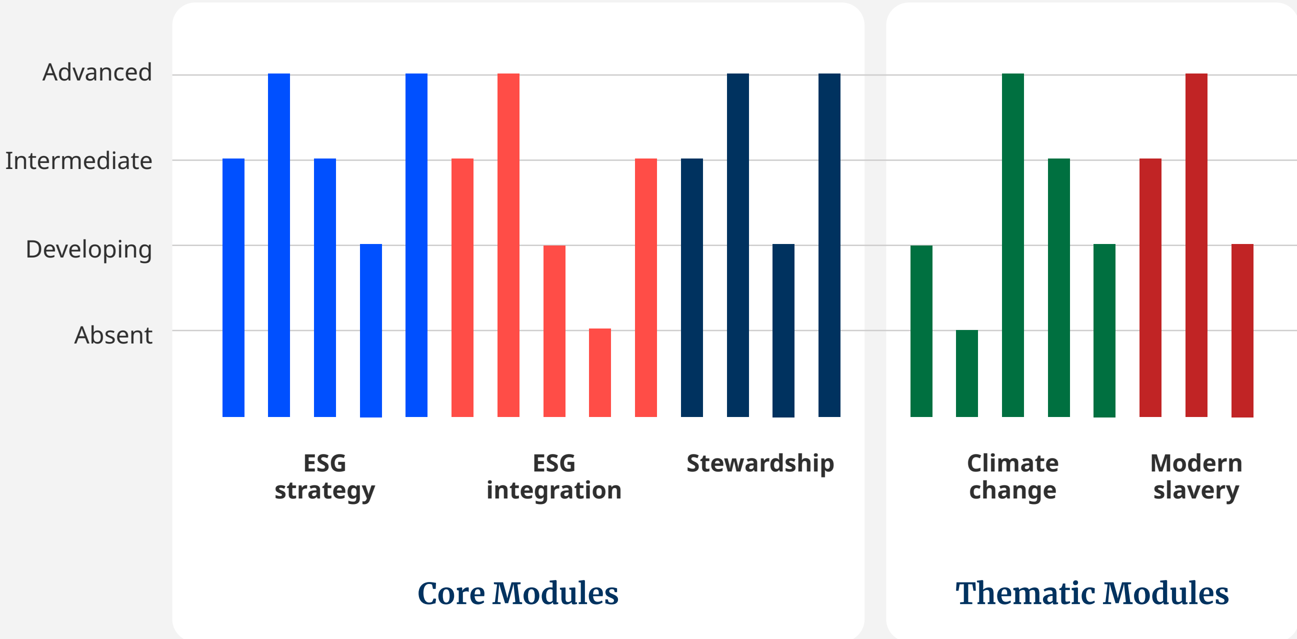


Figure 3: Investment Manager ESG assessment indicators.

Initial benchmarking of investment managers has focused on a subset of ART's investment managers across various asset classes (Table 4). Some investment managers manage capital on ART's behalf across more than one asset class, resulting in multiple ESG assessments at the asset class level for the same investment manager.

Table 4: ESG assessments carried out in 2023-24

Asset class	Assessed in 2023-24
Listed equity	9
Fixed income	7
Real estate	10
Infrastructure	5
Private equity	16
Private debt	6
Total	**53**

We currently plan to provide outcomes and insights from the initial benchmarking of investment managers in next year's sustainable investment report.

External investment manager appointment and monitoring

Where ART delegates investment activities to external investment managers, contractual documents outline the investment guidelines and the requirements of each party. Monitoring of investment managers on their ESG capabilities may be incorporated formally into contractual obligations, where relevant, or through ongoing discussions as part of investment manager ESG engagement activities (see **Manager selection, appointment and monitoring**). In addition to the assessment of an investment manager's ESG capabilities prior to appointment, the contractual agreements in place with investment managers provide us with an opportunity to incorporate ART's ESG-related expectations as appropriate.

1 The example is indicative and does not represent a specific manager in ART's portfolio.

Segregated accounts

Investment management agreements (IMAs) are contractual documents that outline ART's requirements and expectations to appointed investment managers, who manage segregated accounts on ART's behalf. As bilaterally negotiated agreements, these contracts can be customised to meet ART's requirements for the relevant mandate.

In FY24, we continued an ongoing program of work to incorporate climate change and modern slavery-related provisions into IMAs with investment managers. The provisions provide ART with information rights on climate change and modern slavery and seek to ensure these risks are appropriately considered by the investment manager, where relevant to the investment strategy. As at 30 June 2024, 42 IMAs included modern slavery provisions and/or climate change provisions.

Pooled vehicles

In 2023-24, we also sought to include ESG-related provisions into contractual agreements for investments in new private markets pooled vehicles as appropriate. As pooled vehicles involve an asset manager implementing an investment process on behalf of multiple investors, the ability to negotiate customised requirements is more challenging and not always possible, however ART seeks to include our preferred ESG provisions where relevant and feasible.

ESG integration for private asset due diligence

Consistent with the approach reported in previous years, we incorporate ESG integration into due diligence for all private asset investments that are approved by an internal Management Investment Committee. Due diligence for these new investments and co-investments seeks to identify financially material ESG risks and opportunities for consideration in direct investment decisions. Following this assessment, relevant ESG commentary and recommendations are incorporated in final investment recommendations to the internal Management Investment Committee. For example, these might include the requirement to report carbon emissions from an asset or health and safety statistics.

In ART's FY23 Sustainable Investment report, we reported on the monitoring of our infrastructure and real estate funds using the Global Real Estate Sustainability Benchmark (GRESB). As the coverage of our assets by GRESB was relatively low last year (below 30%), we have not used the GRESB assessments for our infrastructure and real estate funds over the past year and so have not included a comparable assessment in this year's report. We plan to review our ESG data and analytics service providers in FY25, including ESG service providers for private markets investments.

Case study

Private asset ESG due diligence

Background

In 2023-24, ART undertook due diligence for a prospective co-investment into a North American data centre platform company alongside one of our appointed investment managers.

Globally, data centres are significant energy consumers, reportedly accounting for approximately 1% of global electricity consumption,[1] which is projected to increase with further digitisation. Furthermore, data centres have been associated with substantial water consumption for cooling, fire suppression and landscaping.[2]

Objective

Consistent with all private asset investments that are approved by an internal Management Investment Committee, we undertook ESG due diligence to identify the material sustainability risks and opportunities facing this company and gain comfort that they're being appropriately managed.

Findings and outcome

ART's ESG due diligence identified that the company has taken steps to embed sustainable practices into its business strategy, including:

- Progressing work on development of a sustainability strategy, which is expected to be finalised in late 2024
- Targeting the availability of renewable energy sources for customers
- Targeting reductions in scope 3 GHG emissions
- Establishing waste management programs at each data centre location aimed at diverting a proportion of waste from landfills
- Implementing 2 water neutral campuses for new data centres in water stressed regions.

The findings from ESG due diligence were included in the investment recommendation paper, supporting the investment rationale to proceed with acquiring an interest in the North American data centre platform company.

1 International Energy Agency, September 2022 https://www.iea.org/energy-system/buildings/data-centres-and-data-transmission-networks
2 See for example https://www.arup.com/insights/how-can-we-cut-water-consumption-in-data-centres/

Stewardship

Stewardship is the use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common ESG assets on which their interests depend.[1]

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

We undertake stewardship activities through engagement and proxy voting for listed equities held within ART's Australian and International shares asset classes.

Engagement

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

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

Where engagement is undertaken with our investee companies, the following methods are used: direct, collaborative and through service providers (Table 6).

Other engagement with investee companies may be undertaken through our external investment managers. Our **ESG Integration** approach looks at how the manager engages with companies in its portfolio and uses this information to guide investment decisions.

Table 6: Engagement meetings undertaken in 2023-24

Direct

Involves a dialogue between ART and select 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 2023-24

76 meetings with 37 companies

Collaborative

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

Number of engagement meetings in 2023-24

54 meetings with 26 companies

Service provider

We appoint third-party service providers to undertake engagement on ART's behalf. We use ACSI for engagement with our Australian shareholdings and EOS at Federated Hermes (EOS) for engagement with our international shareholdings.

Number of ACSI engagement meetings in 2023-24

387 meetings with 196 companies

Number of EOS engagement meetings in 2023-24[2]

947 actions[3] with 525 companies

1 As defined in 2023 CFA Institute, Global Sustainable Investment Alliance and Principles for Responsible Investment. Definitions for Responsible Investment approaches, https://responsibleinvestment.org/wp-content/uploads/2023/11/Definitions-for-Responsible-Investment-Approaches-Nov-2023.pdf (accessed 15 August 2024).

2 ART appointed EOS as a service provider with effect from 1 April 2024. The engagement figures above reflect EOS' activities from that point to 30 June 2024.

3 EOS tracks actions, which include meetings and correspondence.

Direct engagement

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

This year, we selected 27 ASX-listed companies for which we developed direct engagement plans that included objectives relating to ART's key ESG topics. There was a formal process for selecting these companies, which included consideration of our holding size and an assessment of materiality against ART's key ESG topics. Most of the 27 companies that were selected had been designated as 'priority companies' under our Net Zero Roadmap. Companies selected for direct engagement will be reviewed annually. We also developed an escalation framework to complement these engagement plans (see next page).

Reactive direct engagement may occur on topics outside ART's key ESG topics, either with companies selected for direct engagement or with other investee companies depending on circumstances. This may be ad hoc in response to a controversy, or where there otherwise might be reputational considerations.

This year, we conducted 76 direct engagement meetings with 37 publicly listed companies and participated in 54 collaborative meetings with 26 publicly listed companies. In our direct and collaborative meetings, discussions included environmental topics in 63% of the meetings, social topics in 36% of the meetings, and governance topics in 45% of the meetings, noting that some meetings included discussions covering more than one of these topics.

Escalation framework for direct engagement

During the year, we developed an escalation framework to identify potential actions if companies do not progress on objectives laid out in an engagement plan. The framework includes a selection of measures that are available to ART on a case-by-case basis, with the choice of measure(s) that may be used depending on the circumstances at that time (Table 7). Divestment is the ultimate escalation measure for failing to meet objectives.

This approach provides flexibility to account for individual investee company circumstances for assessment of progress against an engagement plan. The escalation framework includes a governance structure with delegations that relate to the measure, or combination of measures, that are selected. For example, divestment from a company would require approval from the Investment Committee under the Screening (Exclusions) section of the Sustainable Investment Policy.[1]

Table 7: Escalation approach for direct engagement

	Menu of measures	
Business as usual (BAU) stewardship activities	• Increase the frequency of meetings with the company • Request a meeting between the company and ART's CIO, CEO, IC Chair or Board Chair • Write a private letter to the investee company Board Chair and/or CEO • Raise concerns with other investors including external investment managers (in compliance with RG128) • Raise concerns with brokers	• Vote against directors standing for election or re-election • Vote against other Board endorsed resolutions • Vote for a non-Board endorsed candidate • Vote for a non-Board endorsed resolution filed by other security holders
Public measures	• Make a public statement regarding the company • Write a public letter to the Board chair and/or CEO • Make commentary in the media regarding the company	• File a resolution to be put to a vote at a shareholder meeting • Nominate a director candidate • Publicly pre-declare voting intentions • Attend and ask questions at a shareholder meeting
Investment measures	• Restrict new investments in the investee company • Request representation at the company Board • Reduce holdings or divest from the company	
Legal measures	• Take legal action against the company	

1 Our Sustainable Investment Policy can be accessed here www.australianretirementtrust.com.au/investments/how-we-invest/sustainable-investing

Case study

Engaging across the biofuel supply chain

During 2023-24, ART held engagement meetings with a number of companies we've identified for direct engagement, and which are exploring opportunities related to biofuels. Biofuels are a lower carbon alternative to liquid fuels derived from fossil-based sources but are currently more costly to produce. There may be a potentially significant market for biofuels, for applications such as Sustainable Aviation Fuel (SAF) and biodiesel in hard to abate sectors.

Qantas is planning on using SAF to meet approximately 20-25% of its 2030 emission reduction target, based on the glidepath in its 2022-23 Sustainability Report. Qantas intends to meet its SAF needs from domestic and/or international sources.[1]

Rio Tinto has also identified biofuels as an important opportunity to reduce emissions. Approximately 14% of its 2023 Scope 1 and 2 emissions came from the use of diesel. The company has reportedly transitioned the heavy machinery of one of its US operations to 100% renewable diesel and has plans to do the same at another operation in 2024.[2]

Viva Energy and **Ampol** between them own the last 2 operating fuel refineries in Australia. Both companies are investigating opportunities to produce renewable fuels, initially via co-processing renewable feedstocks with traditional crude oil in their existing refineries to make a blended renewable diesel, typically called (hydrotreated vegetable oil) HVO diesel.

Viva Energy is progressing investment in infrastructure to introduce synthetic crudes, made from waste streams including soft plastics and tyres, at the Geelong refinery.[3]

Ampol is currently investigating the potential to develop a facility to produce next generation renewable fuels including HVO diesel and SAF in Brisbane adjacent to their Lytton refinery.[4]

Meanwhile, **GrainCorp** is also considering investing more than $500m into a biofuel feedstock plant with between 750ktpa and 1Mtpa of oilseed crushing capacity.[5]

ART's engagement with the potential users, producers and feedstock suppliers of biofuels, including those set out above, gives us a broad perspective into the challenges and the opportunities of this nascent industry. The insights gained allow us to better target our engagement with each of those investee companies as well as with industrial companies more broadly.

1 Source: Qantas 2023 Sustainability Report, https://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5ufYkCyEPjF1tpgyw/file/annual-reports/QAN_2023_Sustainability_Report.pdf (accessed 15 August 2024).

2 Source: Rio Tinto 2023 Climate Change Report, https://cdn-rio.dataweavers.io/-/media/content/documents/invest/reports/climate-change-reports/rt-climate-report-2023.pdf (accessed 15 August 2024).

3 Sources: Viva Energy 2023 Sustainability Report, https://www.vivaenergy.com.au/ArticleDocuments/1317/Viva%20Energy%20SR%202023.pdf Viva Energy HVO Fuel, https://www.vivaenergy.com.au/business/carbon-solutions/hvo-fuel (accessed 15 August 2024).

4 Source: Ampol 2023 Climate Report, https://www.ampol.com.au/-/media/files/ampol-au/sustainability/ampol_ctp2023_finalv11.ashx (accessed 15 August 2024).

5 Source: GrainCorp Turning fields of gold into a sustainable fuel source, https://www.graincorp.com.au/turning-fields-of-gold-into-a-sustainable-fuel-source/ (accessed 15 August 2024).

Collaborative engagement

During 2023-24, we continued to participate in investor-led engagements that encourage companies to take action on a particular issue such as climate change (through Climate Action 100+) or human rights (through Investors Against Slavery and Trafficking Asia-Pacific). We also continued to attend company-hosted roundtables, investor briefings and company presentations at broker conferences.

Engagement through service providers

Australia – ACSI

In Australia, ACSI engages listed companies and non-governmental organisations on our behalf (ART is a member of ACSI).

In 2023-24, ACSI focused its engagement on several ESG themes:

- **Environmental**: climate change, biodiversity and nature, and the circular economy.
- **Social**: social factors such as safety, sexual harassment and modern slavery; cultural heritage; and responsible gambling.
- **Governance**: remuneration, board renewal, director accountability, and board gender diversity.

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

In 2023-24, ACSI held 387 engagement meetings focused on material ESG matters, with 196 ASX-listed companies. This represented approximately 50% of ART's Australian equities holdings as at 30 June 2024.

ACSI noted improvements were made on 80% of its annual priority issues across the ESG thematic areas set out above.

Case study

Woolworths nature risk

ACSI has had constructive engagement with Woolworths on nature risk, which has coincided with the company clearly articulating a plan on their approach to nature as a material issue affecting its operations and supply chains.

Woolworths has included nature as part of their Sustainability Plan 2025 (Goal 4: "practise responsible stewardship of natural resources") in recognition that responsible stewardship of natural resources is material.[1]

Under its Sustainability Plan 2025, Woolworths has committed to:

1. Understanding the impact and dependencies of their priority fresh supply chains on nature and increase supplier adoption of sustainable and regenerative practice in these categories by 2025.
2. Reducing group water use by 10% by 2025 (from a 2020 baseline).

Having piloted the use of the Taskforce on Nature-related Financial Disclosures (TNFD) framework for its salmon and beef supply chains, Woolworths has said it will incorporate learnings from the pilots into its approach and management of nature-related risks and opportunities. ACSI has indicated that it supports this staged approach and will continue to engage with Woolworths as it undertakes assessments of its broader portfolio in line with its targets.

ACSI also participates in the Nature Action 100 collaborative investor group for Woolworths, which provides another engagement avenue to pursue nature risk and opportunities with the company.

Woolworths has set a public commitment of net zero deforestation by 2025 for high-risk commodities in its 'Own Brand' products – pulp, paper, timber, palm oil, cocoa, tea, coffee, soy and fresh beef, and aims to transition to net zero deforestation and conversion free supply chains. In engagement discussions, Woolworths stressed that one of the big challenges would be eliminating deforestation within its supply chain. It has different data mapping underway to understand the scope of the problem in its beef products. Overseas supply chains will be most challenging and will rely on third party certifications.

1 Source: Woolworths Sustainability Plan 2025, https://www.woolworthsgroup.com.au/content/dam/wwg/sustainability/documents/sustainability-plan/Woolworths_Group_Sustainability_Plan_2025_v2.0_2022.pdf (accessed 15 August 2024).

International – EOS

ART appointed EOS as our international engagement service provider from 1 April 2024.

EOS publicly state that their engagement is focused on ensuring companies are responsibly governed and well managed to deliver sustainable long-term value, as well as improving the lives of employees, promoting diversity and supporting communities.

EOS' focus of engagement for 2023-2024 was on 4 priority themes:

- Board effectiveness
- Climate change
- Human and labour rights
- Human capital

EOS use a 4-stage milestone system to track the progress of their engagement, relative to the objectives set for each company. When setting an objective, EOS also identifies the milestones that need to be achieved. Progress is assessed regularly and evaluated against the original engagement proposal.

EOS conducted 947 engagement actions (which include meetings and correspondence) with 525 of ART's international investee companies during the period 1 April – 30 June 2024. Engagement in this short period represented approximately 10% of ART's International equities holdings as at 30 June 2024.

Proxy voting

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

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

We make proxy voting outcomes available within 7 days of an AGM held by an investee company. Our proxy voting records can be found at: **art.com.au/prescribed-information**

Table 8: ART record of proxy voting outcomes, 1 July 2023 – 30 June 2024

Voting outcomes	Australia	International
Number of meetings	369	7,109
Number of resolutions	2,063	76,836
Votes For	1,725	61,133
Votes Against	305	10,942
Votes Abstain	33	979
Votes Take no action and other[1]	0	3,782

Australian environmental-related shareholder proposals[2]	Australia	International
Total environmental-related shareholder proposals	2	181
Environmental-related shareholder proposals with votes Against	2	53
% votes Against	100%	29%

1 In certain markets or circumstances, there may be technical issues that can affect the desirability of voting proxies or the ability to vote proxies (shareblocking provisions, restrictive power of attorney requirements, conflicts of interest, sanctions regimes, etc.). There are also several other voting options (like say-on-pay frequency votes).

2 Environmental-related shareholder proposals are as defined by Australian Retirement Trust's voting agent, CGI Glass Lewis. More information on its approach to environmental and social issues can be found here: https://www.glasslewis.com/wp-content/uploads/2023/11/2024-Shareholder-Proposals-ESG-Benchmark-Policy-Guidelines-Glass-Lewis.pdf (accessed 15 August 2024).

We may vote on proposals that are pro-ESG, anti-ESG, and/or anti-social (also known as "Trojan horse").

Case study

Voting at Woodside's 2024 Annual General Meeting

ART voted against Woodside's Climate Transition Action Plan (CTAP) at its 2022 AGM. ART also voted against the re-election of non-executive director Ian Macfarlane at Woodside's 2023 AGM, given our concerns about Woodside's climate strategy and the Board's responsiveness to shareholder concerns on its climate strategy.

Over the reporting year, we engaged with Woodside on several occasions in relation to climate change and their plans to manage the transition to a net zero economy. We have met with Woodside multiple times since the release of their 2023 full-year results and their 2023 CTAP, to discuss their climate change strategy.

We voted in line with the Woodside Board's recommendations for most resolutions at Woodside's 2024 AGM, except for the resolution to approve its CTAP.

In making our voting decision in support of the re-election of Board Chair Richard Goyder, we noted:

- Woodside had made some progress in addressing our broad concerns in the prior 12 months.
- Mr Goyder had been available for multiple consultation sessions, and we acknowledged Woodside was developing Board-level climate capability. We saw value in continued productive engagement with the company.
- Although Woodside still has work to do on its climate approach, it's unclear a hypothetical alternative Chair would pursue a materially different strategy that would outperform on financial and carbon metrics.

In support of the remuneration report, we noted:

- ART didn't identify any material concerns that would warrant us voting contrary to our service provider's recommendations.

In making our decision to vote against the CTAP, we noted the progress the company had made in the past 12 months, but also noted:

- While we were pleased Woodside had welcomed investor feedback in relation to its CTAP, ART believed Woodside had room to improve its climate strategy, in particular, disclosure on its large-scale abatement opportunities, consideration of its heavy reliance on offsets, and explanation for why it considers itself well-positioned in a 1.5°C scenario.
- Woodside had provided insufficient detail on large-scale abatement opportunities that are within its control. Although these projects are in the very early stages of investigation, the company could have moved faster to better scope and rank them, and to provide more detail on potential implementation.

We had no material concerns with any of the other resolutions.

We will continue to engage with Woodside on its climate change strategy where appropriate and will take into account the outcomes of our engagement meetings when considering our voting decisions at future shareholder meetings.

Screening (Exclusions)

Screening is applying rules based on defined criteria that determine whether an investment is permissible.[1]

ART applies negative screening rules, which we call **exclusions**, that determine when an investment is not permitted.

ART applies exclusions in limited cases. We generally prefer to retain our position in investments (rather than divest of them), because it can provide an opportunity for us or our investment managers to engage companies to potentially improve their practices, where we have the ability to do so (see **Stewardship** for more detail). There are some occasions however, when we consider it appropriate to exclude certain investments as part of our sustainable investment approach, and in accordance with members' best financial interest.

We use exclusions across our Australian and International Shares asset classes to exclude direct investment in certain companies. In some cases, a threshold applies before the company can be excluded. Consistent with our Roadmap commitment to adopt a formal position on exclusions relating to climate change in the first half of 2024, during the reporting period we determined to apply an exclusion relating to thermal coal within the Australian and International shares asset classes from 1 July 2024. The current exclusions (effective 1 July 2024) that we apply when we directly invest in the Australian and International Shares asset classes across all our investment options (aside from QSuper's Defined Benefit accounts and Self-Invest option) are shown in Table 9 below with exceptions to these exclusions set out on the following page.

Table 9: Exclusions from ART's Australian and International Shares asset classes across available options

Exclusions[2]	Description of exclusion criteria	Exclusion threshold
Thermal coal Thermal coal includes lignite, bituminous, anthracite and steam coal.	Mining of thermal coal and its sale to external parties.	10% total revenue threshold (estimated or reported) in most recent year of financial reporting.
Tobacco Tobacco products include 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.	Companies that manufacture tobacco products.	5% total revenue threshold (estimated or reported) in most recent year of financial reporting.
Cluster munitions Cluster munitions include a bomb, missile, rocket or shell that carries submunitions and disperses them over an area.	Companies that manufacture cluster munitions whole weapons systems, intended-use components, or dual use components of cluster munitions. This doesn't include companies that manufacture delivery platforms.[3]	Any involvement.
Landmines Landmines include anti-personnel and anti-vehicle landmine whole weapon systems, intended-use components, and dual-use components.	Companies with an industry tie to landmines that are flagged for landmine manufacturer, ownership by a landmines company, or ownership of a landmines company. This does not include companies with a reviewed and/or past involvement status.	Any involvement.

1 As defined by the 2023 CFA Institute, Global Sustainable Investment Alliance and Principles for Responsible Investment. Definitions for Responsible Investment approaches available at https://responsibleinvestment.org/wp-content/uploads/2023/11/Definitions-for-Responsible-Investment-Approaches-Nov-2023.pdf **2** Exclusions relating to thermal coal are based on MSCI ESG Climate Change Metrics Methodology and definitions (October 2023), data supplied through, and defined within, MSCI ESG Manager platform and the associated universe coverage. Exclusions relating to tobacco, cluster munitions and landmines are based on MSCI Business Involvement Screening Research Methodology and definitions (October 2023), data supplied through, and defined within, MSCI ESG Manager platform, and the associated universe coverage. **3** Delivery platforms are companies that manufacture an independent weapon system capable of carrying and deploying cluster munitions to the designated target area. Delivery platforms can include self-propelled rocket launcher systems and aircraft.

Exceptions to these exclusions

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

The thermal coal exclusion does not apply to companies deriving revenue from metallurgical coal (in other words, coal used in the production of steel); coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; revenue from coal trading; and royalty income for companies not involved in thermal coal extraction operations.

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

How we apply the exclusions

We rely on accuracy of data from a third-party provider (MSCI) to implement the exclusions. We update the exclusion lists twice a year. Following those updates, we tell external investment managers which listed equity shares must be excluded from new and existing investments. Further exclusions may be applied in accordance with our Sustainable Investment Policy.

We also offer an ESG member choice investment option to our members that incorporates further exclusions for direct investment in companies in the Australian and international shares asset classes.

Further information on the exclusion thresholds and detail on the exclusion criteria can be found in the Super Savings investment guide available at **art.com.au/pds** and QSuper investment guide available at **qsuper.qld.gov.au/PDS**

Socially Conscious Balanced option

The Socially Conscious Balanced option employs multiple responsible investment approaches, including the use of exclusions – see **Our ESG member choice investment options** for more detail.

Our ESG member choice investment options

QSuper Socially Responsible option

The QSuper Socially Responsible option was closed on 30 June 2024. Although we consider **ESG factors across all our available investment options**, from 1 July 2024 we now offer our members one ESG option, the Socially Conscious Balanced option.

Socially Conscious Balanced option

The Socially Conscious Balanced option[1] is a responsible investment product certified since 2007 by RIAA.[2]

The investment objective of the Socially Conscious Balanced option for Accumulation and Transition to Retirement Income accounts is to achieve an annual return of CPI + 3.5% (and for Retirement Income accounts, CPI + 4%) after investment fees and costs, transaction costs and, where applicable, investment taxes, measured over a rolling 10-year period. Further information in relation to the investment objectives for this option can be found in the PDS that applies to you available at **art.com.au/pds** and **qsuper.qld.gov.au/PDS**

Option-specific exclusions

The Socially Conscious Balanced option invests in line with an extended set of ESG principles in addition to those set out on page 9. We use several responsible investment approaches, including screening (exclusions), ESG integration, sustainability-themed investing and stewardship, as outlined in Table 11.

As well as the exclusions outlined in **Screening (Exclusions)**, the Socially Conscious Balanced option investments in the Australian and International shares asset classes exclude direct investment into companies that exceed specified screens as summarised in Table 10 below.

Table 10: Additional exclusions for direct investment in the Australian and international shares asset classes in the Socially Conscious Balanced option

Exclusions[3]	Description of exclusion criteria	Exclusion threshold
Thermal coal Thermal coal includes lignite, bituminous, anthracite and steam coal	Mining of thermal coal and its sale to external parties.	5% total revenue threshold (estimated or reported) in most recent year of financial reporting.
Metallurgical Coal Metallurgical coal includes coking coal.	Mining of metallurgical coal and its sale to external parties.	
Oil and gas Oil and gas includes conventional and unconventional oil and gas, oil sands, shale oil, shale gas, Arctic oil and Arctic gas.	Extraction and production or refining of oil and gas.	
Fossil fuel power generation This includes thermal coal, liquid fuel and natural gas-based power generation.	Fossil fuel power generation.	

1 During the reporting period the Socially Conscious Balanced option was only available to Super Savings members.

2 The RI Certification Symbol is issued by Responsible Investment Association Australasia (RIAA) ACN (641 046 666), AFSL (554110) and 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 Socially Conscious Balanced option adheres to the operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Socially Conscious Balanced option is assessed against RIAA's Responsible Investment Standard. The Certification Symbol is a Trademark of RIAA. For detailed information about RIAA, the Symbol and the Socially Conscious Balanced option's methodology, performance, stock holdings, remuneration and details about other responsible investment products certified by RIAA, refer to www.responsiblereturns.com.au and their Financial Services Guide.

3 Thermal coal, metallurgical coal, oil and gas, and fossil fuel power generation exclusions are based on MSCI ESG Climate Change Metrics Methodology and definitions (October 2023), data supplied through, and defined within, MSCI ESG Manager platform, and the associated universe coverage. The alcohol, gambling, adult entertainment, tobacco and alternative smoking products, controversial weapons and nuclear weapons exclusions are based on MSCI Business Involvement Screening Research Methodology and definitions (October 2023), data supplied through, and defined within, MSCI ESG Manager platform, and the associated universe coverage. The live animal exports exclusion applies to listed Australian shares companies identified by Australian Retirement Trust through internal desktop research.

Table 10: Additional exclusions for direct investment in the Australian and international shares asset classes in the Socially Conscious Balanced option (cont.)

Exclusions[3]	Description of exclusion criteria	Exclusion threshold
Alcohol Alcoholic products are any fermented liquor that contains ethyl alcohol or ethanol as an intoxicating agent	Companies that manufacture alcoholic products, including brewers, distillers and vintners. It also includes companies that own or operate wine vineyards.	5% total revenue threshold (estimated or reported) in most recent year of financial reporting.
Gambling Gambling facilities include casinos, racetracks, bingo parlors or other betting establishments, including horse, dog or other racing events that permit wagering; lottery operations; online gambling; fantasy sports that permit wagering; pari-mutuel wagering facilities; bingo; pachislot and pachinko parlors; slot machines; jai alai; mobile gambling; and sporting events that permit wagering.	Companies that own or operate gambling facilities.	
Adult entertainment Adult entertainment products are materials that fall into the following 6 categories: producer of X-rated films, producer of pay-per-view programming or channels, producer of sexually explicit video games, producer of books or magazines with adult content, live entertainment of an adult nature, producer of adults-only material on the internet.	Companies that produce, direct or publish adult entertainment materials.	
Tobacco and alternative smoking products Tobacco products include cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. Alternative smoking products include electronic cigarettes and tobacco inhalers.	Companies that manufacture tobacco products including companies that grow or process raw tobacco leaves, or products aimed to replace or supplement tobacco products.	No threshold (companies deriving any revenue from the manufacture of these products are excluded).
Controversial weapons Controversial weapons are cluster munitions, landmines, biological /chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons and/or nondetectable fragments.	Companies that have any ties to controversial weapons	Any involvement.
Nuclear weapons A nuclear weapon is an explosive device that derives its destructive force from nuclear reactions, either fission or a combination of fission and fusion.	Companies with an industry tie to nuclear weapons.	Any involvement.
Live animal exports	Australian shares companies that own and/or operate live animal export operations.	Australian shares companies identified by Australian Retirement Trust through internal desktop research that own and/or operate live animal export operations.

3 Thermal coal, metallurgical coal, oil and gas, and fossil fuel power generation exclusions are based on MSCI ESG Climate Change Metrics Methodology and definitions (October 2023), data supplied through, and defined within, MSCI ESG Manager platform, and the associated universe coverage. The alcohol, gambling, adult entertainment, tobacco and alternative smoking products, controversial weapons and nuclear weapons exclusions are based on MSCI Business Involvement Screening Research Methodology and definitions (October 2023), data supplied through, and defined within, MSCI ESG Manager platform, and the associated universe coverage. The live animal exports exclusion applies to listed Australian shares companies identified by Australian Retirement Trust through internal desktop research.

Exceptions to the exclusions

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

The thermal coal exclusion does not apply to companies deriving revenue from metallurgical coal (in other words, coal used in the production of steel), coal mined for internal power generation, intra-company sales of mined thermal coal, revenue from coal trading, or royalty income for companies not involved in thermal coal extraction operations.

The metallurgical coal exclusion does not apply to companies deriving revenue from thermal coal (in other words, coal used for power generation), intra-company sales of mined metallurgical coal, revenue from coal trading, or royalty income for companies not involved in metallurgical coal extraction operations.

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

How we apply the exclusions

We rely on accuracy of data from a third-party provider (MSCI) to implement the exclusions, other than the exclusion concerning live animal exports.

We update exclusion lists twice a year. Following those updates, we tell external investment managers which listed equity shares must be excluded from new and existing investments.

For other asset classes to which the screens in the table don't apply, we still take steps to integrate consideration of material ESG risks and opportunities into investment decisions we make for this option. We outline these in Table 11.

Enhanced approach to exclusions in Cash asset class

ART publishes portfolio holdings disclosure (PHD) biannually in line with legal requirements. During the reporting period, in the process of updating our PHD for the Socially Conscious Balanced option, we became aware that securities classified as "listed equity" included shares held as security for financing trades undertaken by the Cash asset class, which is distinct from shares in the Australian and International shares asset classes. On 28 March 2024 we enhanced our exclusions approach within the Socially Conscious Balanced option to better meet the expectations of our members, by applying the same set of exclusions that are applied to the Australian and International shares asset classes, to listed equities in the Cash asset class within the Socially Conscious Balanced option.

Table 11: Responsible investment strategies applied to the Socially Conscious Balanced option

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

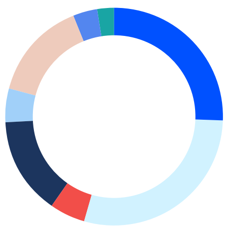
Table 11: Responsible investment strategies applied to the Socially Conscious Balanced option (cont.)

Asset class	Responsible investment strategies	Implementation
Alternative strategies	ESG integration	The option's alternative investments include ESG integration.
Cash	Not applied[1]	Invested in the ART Super Savings cash asset class.

Asset allocation and performance

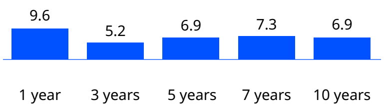
The Socially Conscious Balanced option's actual asset allocation at 30 June 2024 and investment returns to 30 June 2024 are shown in Figure 4.

Actual % asset allocation at 30 June 2024[2]

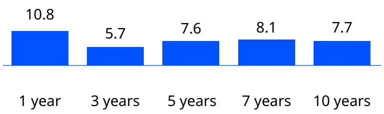


Australian shares	25.7
International shares	28.9
Private equity	5.2
Property	14.6
Infrastructure	5.0
Fixed income	14.6
Alternative strategies	3.6
Cash	2.4

Investment returns to 30 June 2024[3]



Accumulation accounts % p.a.



Retirement Income accounts % p.a.

Figure 4: SCB option asset allocations and investment returns

Changes made to the option

During the reporting year, as part of annual investment strategy review, we made changes to the Socially Conscious Balanced option's investment strategy. The key changes made were:

- To reallocate 2% from International Fixed income to the Private Fixed Income under the Alternative strategies effective from 28 September 2023.
- To reallocate 1% from Emerging Market Shares to Developed Market Shares in the International Shares asset class effective from 21 June 2024.

Case study

Neuberger Berman Private Equity Impact Fund I

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

NB PE Impact is diversified across industry, geography, and impact theme. NB PE Impact has identified 5 investable themes that address 15 of the 17 SDGs. The fifth theme, "promote gender and racial equality," is a cross-cutting theme.

In the "address climate change and energy needs" theme, NB PE Impact made a commitment in 2023 to a company that provides consultant expertise and services to help its customers comply with environmental regulations that support safer and cleaner environments, especially in the stormwater segment.

1 As noted above, on 28 March 2024 we enhanced our exclusions approach within the Socially Conscious Balanced option to better meet the expectations of our members, by applying the same set of exclusions that are applied to the Australian and International shares asset classes, to listed equities in the Cash asset class within the Socially Conscious Balanced option.
2 Weights may not sum to 100% due to rounding.
3 Past performance isn't a reliable indicator of future performance. Returns shown are after investment fees and costs, transaction costs and investment taxes (where relevant) but before all other fees and costs.

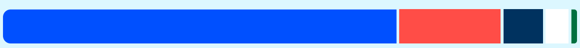
Case study

MetLife Investment Management Fixed income

One of ART's external investment managers, Affirmative Investment Management (AIM), was acquired by MetLife Investment Management (MIM). At MIM, the investment and public fixed income (PFI) sustainability research team (formerly of AIM) continue to apply their proprietary verification process which is designed and used to identify fixed income portfolios that generate positive environmental and social impact towards achieving the SDGs and consistent with the emissions reduction trajectory set out by the Paris Agreement. The portfolio predominantly holds labelled-use-of-proceeds bonds, and green bonds outweigh other types of impact bonds.

Each year, MIM reviews all holdings and collects allocation and sustainability data on projects and activities supported. For 2023 holdings, the PFI sustainability research team collected data covering 92% of the mandate managed by MIM. The other 8% comprises cash and bonds for which allocation and sustainability data was not available during the data collection period. The projects and activities supported by the portfolio are largely split into 3 sustainability categories: mitigation, adaptation and social. Some projects are categorised as mitigation and adaptation; whilst projects with benefits across all 3 sustainability themes are categorised as sustainability.

Sustainability theme



Mitigation	**70%**
Social	**18%**
Adaptation	**7%**
Mitigation and adaptation	**4%**
Sustainability	**1%**

Figure 5: 2023 sustainability focus (portfolio weight) in the MetLife Investment Management fixed income mandate.

According to the PFI sustainability research team at MIM, the ART portfolio invested in bonds supporting sustainable activities in 166 countries. In 2023, the top 3 sectors to which bond proceeds were allocated were all environmentally focused:

Other sectors to which the PFI sustainability research team reported that funds were allocated include:[1]

Global health	8%
Financial inclusion and sustainable enterprise	5%
Water and wastewater management	5%
Information and communication	3%
Resilience	3%
Land management and marine environment	3%
Social housing	3%
Empowerment of women and vulnerable groups	3%
Resource efficiency	2%
Education, training and employment	<1%

The PFI sustainability research team also uses engagements, with the aim of building closer relationships with issuers and to develop a more granular understanding of their sustainability strategies. They also provide a platform for the team to encourage issuers to raise the bar on ambition and transparency around sustainability. In the 12 months to the end of June 2024, MIM completed 85 unique engagements, covering 163 combined ESG topics for these portfolios.

1 Weights may not sum to 100% due to rounding.

Case study

Listed shares stewardship

In 2023-24, the appointed Australian and International shares manager for the Socially Conscious Balanced option, Federated Hermes,[1] undertook engagement on our behalf, using its stewardship services provider, EOS at Federated Hermes (EOS). EOS focused its stewardship activities on the issues with the greatest potential to deliver long-term sustainable returns for EOS clients. EOS carried out 284 engagement interactions with 85 companies in the option's listed shares portfolio. According to reports from EOS, approximately 49% of the companies engaged demonstrated progress on their engagement objectives across climate change, human capital management, executive remuneration and risk management, among other topics.

Figure 6 breaks down the number of engagements on objectives that EOS at Federated Hermes undertook for our Socially Conscious Balanced option listed shares strategy during 2023-24.

Company engagement objectives by topic[2]

Environmental	56
Social	44
Governance	19
Strategy, risk and communication	8
Total	**127**

Figure 6: EOS at Federated Hermes engagement topics for ART listed shares mandate in 2023-24

1 As at 30 June 2024, the assets under management of the Socially Conscious Balanced option's listed shares mandate with Federated Hermes was $283 million.

2 These figures cover interactions for EOS' core engagement program. For each of the companies identified in the program, at least one engagement objective is specifically set out. These figures exclude any issues that may be raised outside the scope of the engagement program.

Case study

Company engagement

As noted, the appointed Australian and International shares manager for the Socially Conscious Balanced option, Federated Hermes, undertook engagement on our behalf in 2023-24, using its stewardship services provider, EOS. One such engagement was with Zoetis, an American drug company, developing and manufacturing animal health medicines and vaccines for livestock and pets across the globe. The company has a history of innovation, giving it a differentiated product portfolio in areas such as dermatology, parasiticides, pain, and diagnostics, which provide a platform for consistent and sustainable growth.

Federated Hermes has indicated that the company compares favourably to peers across each ESG pillar, particularly governance. The company is reportedly receptive to engagement, with recent progress on Federated Hermes' engagement objectives. Recent discussions have included TNFD, climate strategy and diversity. The company confirmed to Federated Hermes that it is working on TNFD disclosures and is conducting a materiality assessment, in which Federated Hermes expressed an interest.

Antimicrobial Resistance (AMR) is an important topic and the company stated to Federated Hermes that its antibiotics business had shrunk in absolute terms, partly driven by its focus on pets. In addition, the company's product development strategy has focused on alternatives to antibiotics. While finding this reassuring, Federated Hermes has asked the company to include AMR in its annual reporting, which the company will consider.

On its climate strategy, Federated Hermes indicated that the company was receptive to their suggestion that it sought validation of its emissions reduction targets from the Science Based Targets Initiative (SBTi). Federated Hermes has also expressed concerns over the use of carbon offsets, although the company asserted that offsets were a tool of last resort. It also argued it has a robust internal approach to managing climate risks, including Task Force on Climate-related Financial Disclosures (TCFD) analysis and regular meetings with the executive committee and the board.

On diversity, the company was keen to receive feedback and Federated Hermes recommended analysing retention rates by demographic, suggesting it could inform targeted measures. Federated Hermes also suggested conducting analysis on the productivity and innovation improvements yielded from community outreach, possibly measuring a return-on-investment.

Our approach to modern slavery and associated human rights

Modern slavery is a labour standard that is integrated into our investment processes.

Consideration of human rights in the modern slavery context refers to whether people are provided "decent work" as set out by the International Labour Organisation,[1] which can reduce vulnerability and prevent exploitation (including modern slavery). In this context, 'decent work' includes but is not limited to rights such as freedom of association and the right to collective bargaining, freedom from discrimination and harsh treatment, freedom of movement, and the rights afforded to vulnerable groups such as women, migrant workers, and Indigenous peoples.

Our respect and remedy framework

ART continues to utilise our 'respect and remedy framework' (Figure 7) based on the United Nations Guiding Principles on Business and Human Rights, to guide our approach to assessing and addressing potential risks of modern slavery in our investments. Aligned to the identified activities of focus as set out in our 2022-23 Modern Slavery Statement, we're developing a broader approach to human rights that incorporates the risks of modern slavery. In 2024-25 we plan to develop our internal guidelines to accompany the framework. Once prepared, we plan to use these guidelines to articulate how we prioritise our actions and target areas of highest risk and/or influence in our sustainable investment activities.

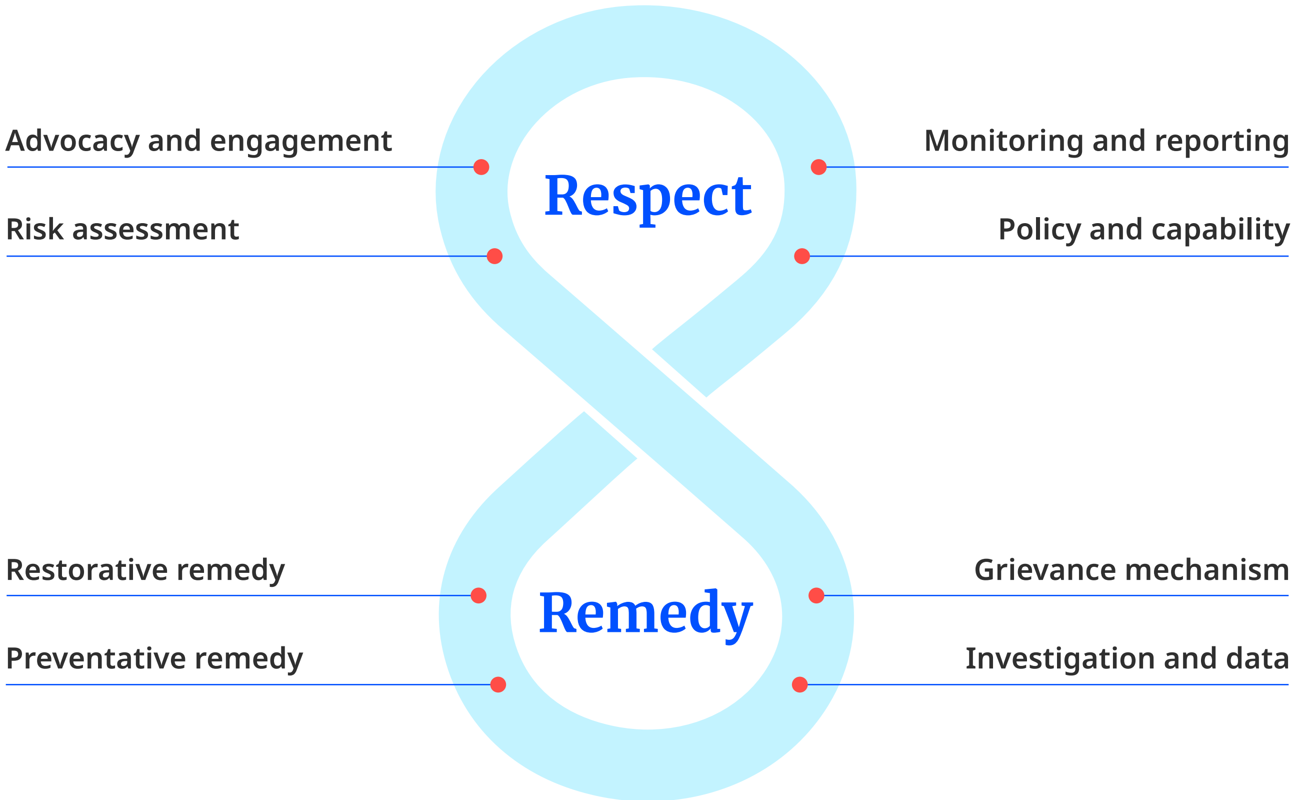


Figure 7: ART's respect and remedy framework

1 Decent work indicators, concepts and definitions can be found here https://www.ilo.org/publications/decent-work-indicators-concepts-and-definitions

Modern slavery risk

In December 2023, we released our second Modern Slavery Statement, available at **art.com.au/corporate-governance** (Under Reports), which outlined the actions we took to identify, assess and address modern slavery risks in our operations and supply chain during 2022-23. We will submit our Modern Slavery Statement for 2023-24 by 31 December 2024. During 2023-24, we have enhanced our approach to addressing modern slavery risk within the investment portfolio, which has included:

- development of a modern slavery engagement assessment methodology to support the development of investee company engagement plans with a selection of ASX listed companies,
- direct engagement with a selection of ASX listed companies (see **Stewardship**),
- the appointment of a new international shares engagement service provider (EOS) in April 2024 that included human and labour rights as a key priority theme for engagement with a selection of international investee companies (see **Stewardship**), and
- held a collaborative workshop on modern slavery with one of our external investment managers, working through our newly established training materials on risk and mitigation activities.

We have continued to use an external service provider to assess inherent modern slavery risks across the investment portfolio, as well as multiple sources to review alleged cases of modern slavery of which we become aware. The results were used to help inform our engagement activities. Consistent with previous years, alleged cases of modern slavery are reviewed through either engagement with the relevant external investment managers, external engagement service providers, or direct engagement with investee companies, dependent on our level of influence and the status of ongoing remedy.[1] In 2024-25 we plan to enhance our approach to modern slavery using guidance from the Australian Government's *Modern Slavery Act Commonwealth Guidance for Reporting Entities*.

Modern slavery engagements through our service providers ACSI and EOS have been included in our aggregated summary in the **Stewardship** section.

We also continue to be a member of the Investors Against Slavery and Trafficking Asia Pacific Initiative (IAST APAC), comprised of 49 investors.[2] IAST APAC was established in 2020 to engage companies in the Asia Pacific region and promote effective action in finding, fixing and preventing modern slavery in operations and supply chains. In January 2024, we joined other IAST APAC members in signing a letter to the Attorney General to express our support for the establishment of a National Compensation Scheme to support victim-survivors of modern slavery identified in Australia.[3]

The IAST APAC collaborative engagement workstream, which ART is a member of, undertakes engagement with identified companies across the consumer discretionary, consumer staples, technology, and healthcare sectors listed on exchanges in Australia, Hong Kong, Japan, the Philippines, Singapore, South Korea, Taiwan and Vietnam. This year we continued to participate as a support investor for one Australian and one Taiwanese company. For more information on IAST APAC's activities, please see its Annual Report FY23-24 available at **iastapac.org/tools-resources**

Our ongoing program of work incorporates modern slavery-related provisions into contractual agreements with our investment managers. As at 30 June 2024, 42 investment management agreements included modern slavery provisions. We will continue to progress this program of work over the coming year. See **Manager appointment and monitoring**.

Ongoing quarterly meetings continue to be held with international shares manager Pzena to discuss modern slavery.

Modern slavery engagement assessment methodology

During the year we developed a modern slavery engagement assessment methodology to support the development of engagement plans for the 27 ASX-listed companies detailed in the **Stewardship** section.[4] Of the 27 companies, 9 were selected for a focus on modern slavery-related performance. Through use of the assessment methodology, we have seen varying levels of maturity across the selected companies. For each company, we have developed engagement objectives tailored to address areas of development or areas of potential high impact in mitigating risks to people. Our team plans to engage with the selected companies on this topic in 2024-25, alongside our broader ESG focus areas.

1 More about our approach to remedy can be found in our 2023-24 Modern Slavery Statement

2 As at 12th August 2024

3 The letter can be read on IAST APACs website https://www.iastapac.org/2024/01/31/iast-apac-letter-to-australian-government-on-national-victims-compensation-scheme/

4 More details of the engagement assessment methodology are in our 2023-24 Modern Slavery Statement

QIC Modern Slavery workshop

In June 2024 our human rights subject matter expert led a collaborative workshop with one of our external investment managers, QIC, to deepen our relationship and improve our collective understanding of modern slavery risk and mitigation activities. The session was attended by members from QIC's portfolio management and ESG teams, as well as members from ART's Sustainable Investment and Private Markets Infrastructure teams.

Content covered in the workshop included modern slavery risks, definitions and risk indicators, industry-relevant exposures, guidance from the PRI on managing human rights risks,[1] and a summary of ART's approach to modern slavery and associated human rights. Discussions during the session included the tension between business risk and risk to people, good approaches observed across external investment managers including the prioritisation of risks, questions about the scope of the *Modern Slavery Act 2018 (Cth)*, and the extent of an external investment manager's responsibility to remedy impacts.

Our approach to First Nations

First Nations engagement assessment methodology

As noted in **Our respect and remedy framework**, we are developing a broader approach to human rights, which also incorporates consideration of Australian First Nations cultural heritage for selected companies.

The engagement assessment methodology developed during the year to support the development of engagement plans for the 27 ASX-listed companies detailed in the **Stewardship** section has also included consideration of First Nations cultural heritage for selected companies. Twelve of the 27 ASX-listed companies selected for direct engagement have been selected on the basis of having elevated First Nations cultural heritage-related risks. Where appropriate, we have developed engagement objectives for some of these companies, tailored to address areas of development or areas of potential high impact in mitigating relevant risks for these companies. Our team plans to engage further with the selected companies on this topic in 2024-25, alongside our broader ESG focus areas.

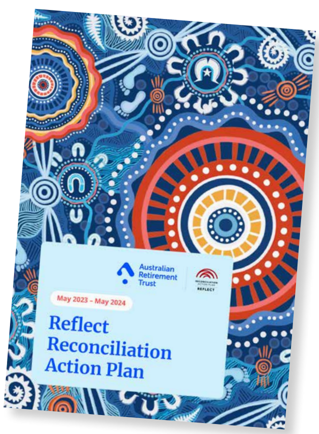
Reconciliation Action Plan

This year we have maintained our commitment to reconciliation with Aboriginal and Torres Strait Islander people through the final stage of our Reflect Reconciliation Action Plan (RAP), and through our approach to respect First Nations peoples' rights in our sustainable investment activity.

Our investment team has participated in ART's RAP working group, seeking opportunities to listen, learn and share insights with our colleagues across the organisation. The key accountability for our Sustainable Investment team was to seek to amplify the voices of Aboriginal and Torres Strait Islander peoples within our sphere of influence through input on the structure and content to aid the development of the Dhawura Ngilan Business and Investor Initiative (DNBII) as a member of RIAA's First Nations Peoples' working group.

Members from the RAP working group and our Sustainable Investment team attended the First Nations Super Summit in February 2024 on Gadigal Country in Warrane (Sydney). The summit focused on practical ways we can work together to help make our super system more inclusive and improve retirement outcomes for First Nations members. This was the first time the summit was hosted and led by the First Nations Foundation.

In 2024-25 our team will continue to work with the RAP working group as we prepare to move to the next stage of Innovate. An Innovate RAP outlines what we need to do to achieve our vision for reconciliation as we seek to embed reconciliation into our workplace culture.



Read more about ART's Reflect RAP **art.com.au/reconciliation**

1 Guidance can be found here https://www.unpri.org/human-rights/how-to-identify-human-rights-risks-a-practical-guide-in-due-diligence/11457.article

Dhawura Ngilan Business and Investor Initiative's (DNBII) Guide Launch

Established in 2021, the DNBII brings together First Nations, business and investor communities and is focused on strengthening Australia's First Peoples' heritage laws and standards for the private sector to uphold the human rights of First Peoples.

This year we continued providing input on the structure and content of the DNBII's Guides as part of our membership of RIAA's First Nations Peoples' Rights Working Group.[1] The DNBII Guides were launched on 19 March 2024 on Ngunnawal and Ngambri Country and are designed to support businesses and investors to engage with First Nations people more respectfully, protect Indigenous cultural heritage and respect First Nations peoples' rights. These are the only First Nations-led guides for businesses and investors on Indigenous cultural heritage protection in our region.

Our Sustainable Investment team has incorporated principles from the DNBII Guides into the First Nations engagement assessment methodology set out on the previous page and within the topics planned for engagement with those 12 ASX-listed companies in 2024-25.

1 Terri Jenke and Company Pty Ltd, 2024, A Guide for Businesses and Investors – Dhawura Ngilan (Remembering Country): A Vision for Aboriginal and Torres Strait Islander Heritage, Dhawura Ngilan Business and Investor Initiative.

Climate change

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

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

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

The ART Board approved the Net Zero 2050 Roadmap (Roadmap) that was published in September 2023, available at **art.com.au/corporate-governance** (Under Other Documents). The Roadmap outlines the actions we have currently planned to help achieve our NZE2050 target. This includes how we invest, approach to stewardship and working with other organisations to learn, share knowledge and advocate for change. We have developed interim climate-related targets across selected asset classes and in this year's report we report on progress made against these.

Given the evolving understanding of climate change, we will review the Roadmap every 2 years, and our approach is subject to change should circumstances or assumptions that have been relied upon change. We will continue to produce a report annually (currently this Sustainable Investment Report) detailing our progress.

We have used the new standard from the International Sustainability Standards Boards (ISSB) climate-related disclosures standards,[2] which builds on the recommendations of the TCFD, where information is accurate and available, as a guide for reporting our work on climate change in relation to our investment portfolio. This foundation is expected to form the basis of pending mandatory climate-related disclosures in Australia.

New climate disclosure legislation

Climate-related financial disclosure will become mandatory in Australia for large companies and asset owners, such as superannuation funds, in the coming years. It has been described by a key regulator as the biggest change to corporate reporting in a generation[3] and reflects the importance of the mandatory climate-related disclosures in supporting the Australian economy's transition to net zero by 2050. The Australian Accounting Standards Board (AASB) has drafted the reporting standards to which adherence will be required and which once finalised, are expected to be closely based on the published standards of the ISSB on climate-related disclosures.[4]

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

2 IFRS – IFRS S2 Climate-related Disclosures available at https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures

3 Start preparing now: Early ASIC guidance on the mandatory climate disclosure regime | ASIC available at https://asic.gov.au/about-asic/news-centre/speeches/start-preparing-now-early-asic-guidance-on-the-mandatory-climate-disclosure-regime/

4 As at 28 August 2024 the reporting standards remained in draft form.

Climate Change Governance

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

Updates relating to climate change are provided by the Sustainable Investment team on a half-yearly basis to the Investment Committee and relevant internal management committees and stakeholders. During 2023-24, climate change was formally on the agenda of 3 Investment Committee meetings.

Internal Management Investment Committees reviewed and discussed papers prior to submissions to the ART Board and Investment Committee.

Training sessions provided during the year to the Board and its sub-committees and to the Investment team on relevant climate-related topics are also outlined in **Capacity building**.

The Roadmap outlines the specific actions and timeframes we have identified as milestones to measure our progress in achieving our NZE2050 target. Governance and risk management actions for 2023-24 outlined in the Roadmap are shown in Table 12, along with progress made during the year.[1]

Table 12: Governance and risk management actions for 2023-24

Focus area		Action and timeframe Jul 2023 – Jun 2024	Status
Governance	**Principles**	Adopt new guiding principles and associated actions	Complete
	Accountability	Review Board and Management responsibilities	Complete
		Review delegations to enhance climate change oversight, as required	Complete
		Review reporting frequency to Board and Management Committees	Complete
Audit and risk management	**Internal audit**	Internal audit to assess the management and disclosure of investment climate-related financial risks	Complete
	Risk management	Review internal climate risk controls	In progress
	Training	Annual training to Board and Investment team (Management)	Complete
Target setting	**2030 interim targets**	Adopt GHG emissions intensity target for asset classes with available data	Complete
		Adopt Portfolio Alignment target for listed equities	Complete
		Adopt Engagement target for listed equities	Complete
		Define and measure baseline for climate-related opportunities	Complete
		Define investment target for climate-related opportunities	Complete
Data and analytics	**Emissions data**	Calculate financed emissions annually for listed equities, real estate, infrastructure, private equity, and corporate fixed income (listed corporate debt)	Complete
		Commence capturing asset and company climate change targets (both 2050 and interim) for listed equities, real estate, infrastructure and other asset classes if available	Complete
	Data	Assess and enhance climate related data and tools for investment portfolio	To commence in FY25
Review and disclosure	**Disclosure**	Publish interim targets and Net Zero 2050 Roadmap	Complete
		Annual external climate change reporting	Complete

1 In our 2022-23 Sustainable Investment report, we reported on progress against actions identified in the Roadmap that were completed or in progress as at 30 June 2023. In this year's report, we show progress against actions identified for the full financial year. As a result, there is some repetition of progress and actions that were shown in last year's Sustainable Investment report – the actions that are being reported for the first time in this year's report are shaded.

We expect that an increase in resourcing in the Sustainable Investment team, including a dedicated ESG data and analytics capability, will enable us to make greater progress in the area of climate-related data and analytics in 2024-25. We provide more detail on the baseline and target for climate-related investment opportunities later in this section.

Strategy and risk management

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

APRA has provided guidance to its regulated entities, including superannuation funds, on how a prudent organisation should consider the financial implications of climate change risks and opportunities for its investment portfolio (Figure 8).[1]

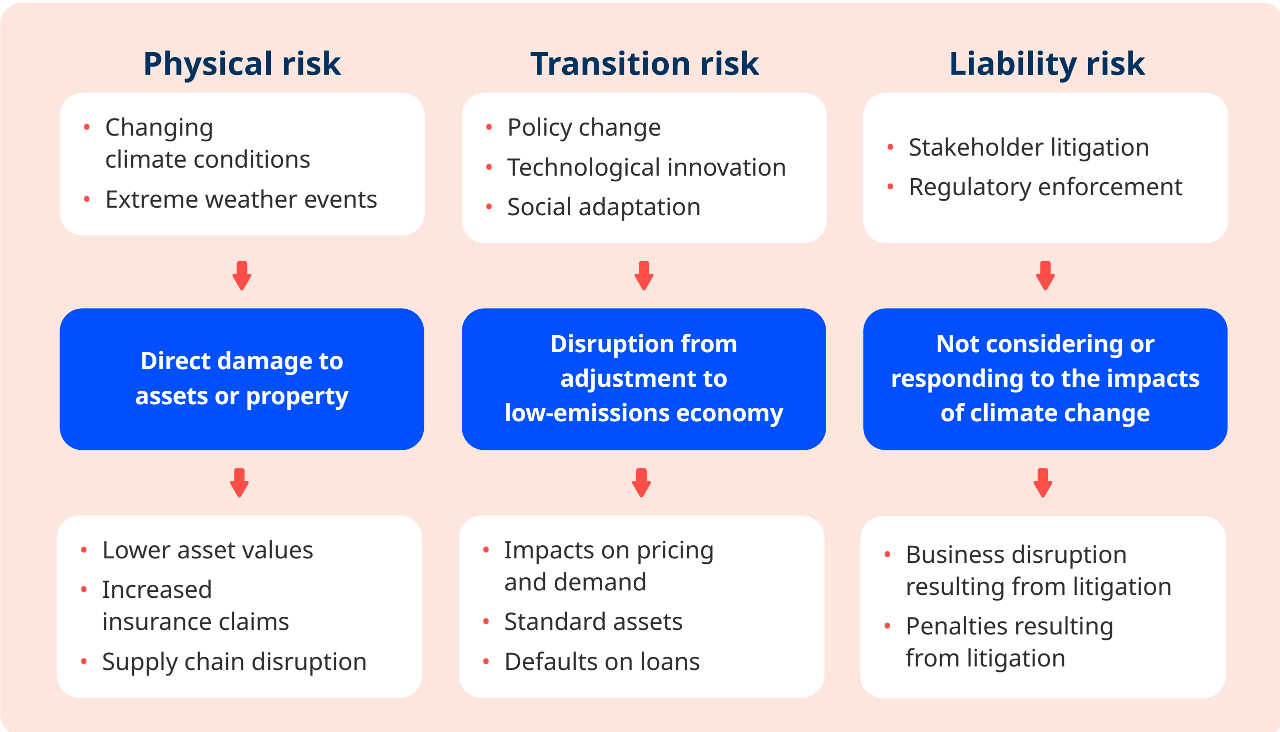


Figure 8: APRA's view of the risks and financial effects of climate change

Our investment approach

Asset allocation

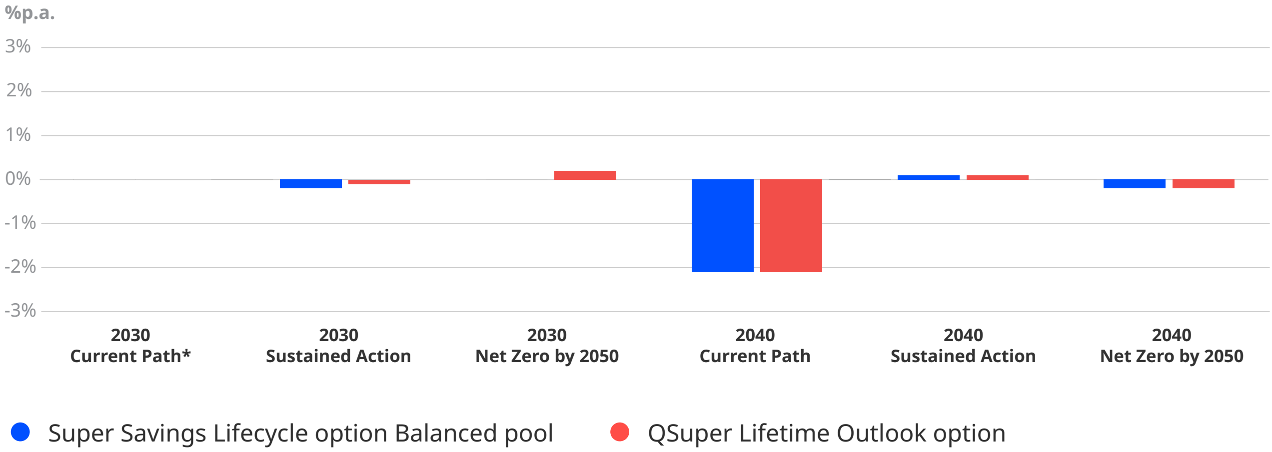
Discussions with international peer funds, and the scenario analysis carried out by our asset consultant JANA (see next page), confirms our view that it is challenging to incorporate the effects of climate change into top-down asset allocation decisions. Transition and physical risks will have different effects on our investments under different scenarios and so modelling the effects of climate change on economic activity and on asset returns is subject to a large degree of uncertainty.

The effects of climate change are more easily incorporated into bottom-up asset and security level decisions. Consequently, our focus has been to continue to improve the quality and breadth of our climate-related data, including greenhouse gas emission data at the asset class level, with the intention that this will help to inform both engagement activities and portfolio decisions within asset classes in the future.

1 Prudential Practice Guide CPG 229 – Climate Change Financial Risks

Scenario analysis

In our Roadmap, we have indicated that we will examine ways to incorporate scenario analysis and undertake stress-testing of selected options annually, modelling the effects on returns for various time horizons. In 2023-24, our asset consultant, JANA, again carried out scenario analysis to consider the potential effects of climate change on ART's default options, the Super Savings Lifecycle option Balanced pool and the QSuper Lifetime Outlook option. JANA has enhanced its analysis from the 2022-23 scenarios. Figure 9 below shows the reduction in expected returns over 2 different time horizons for 3 scenarios, which are based on assumptions from the International Energy Agency (IEA).[1]



* Values for 2030 Current Path are 0

Figure 9: Reduction in expected returns (%p.a.) for 3 different climate scenarios. Source: JANA

The 2040 Current Path, for example, shows that a 2% per annum reduction in returns is expected between 2023 (when the analysis was undertaken) and 2040. The main conclusions from this analysis are that climate change and related risks will impact future investment returns for the options considered, primarily through transition risks and physical risks. Of the 3 different scenarios modelled by JANA, the scenario of delayed to minimal policy action ("Current Path"), which leads to elevated market uncertainty and increased physical climate risk, is the most detrimental for longer-term asset returns.

While the implementation of stated policies and a more aggressive policy response ("Sustained Action" and "Net Zero by 2050" scenarios respectively) have an adverse impact on asset returns in the intermediate term, the portfolio is less negatively impacted over the long term under these more rapid transition scenarios. compared to the Current Path scenario. The analysis reinforces our position that taking action to help mitigate climate risk is in our members' best financial interest.

As noted in last year's report, there are challenges in using such scenario analysis to assist with top-down asset allocation decisions. We have commenced developing a qualitative approach to scenario analysis to help inform our own understanding of the different approaches to scenario analysis and how different approaches might assist with portfolio analysis and decision making. In accordance with the actions outlined in our Roadmap we intend to make further progress on this work in 2024-25.

1 The scenarios chosen are based on the "World Energy Outlook 2022" report from the International Energy Agency (IEA).

Investment portfolio and stewardship actions for 2023-24 outlined in the Roadmap are shown in Table 13, along with progress made during the year.[1]

Table 13: Investment portfolio and stewardship actions for 2023-24

Focus area		Action and timeframe Jul 2023 – Jun 2024	Status
Investment Portfolio	**Investment strategy and resilience**	Annual stress testing of selected options to assess long term return impacts of climate change	Complete
	External managers	Enhance approach to incorporate climate change into selection and appointment of new managers	Complete
		Benchmark existing external managers on climate change	Largely complete
	Listed equities	Harmonisation of listed equity climate change approaches across the investment portfolio	Complete
		Establish a policy position on exclusions relating to climate change	Complete
		Measure and report Scope 3 emissions of investee listed equities companies	Complete
	Fixed interest (Fixed income)	Explore opportunities to invest in sovereign and corporate green bonds, if appropriate	Complete
	Infrastructure and real estate	Define minimum climate-related requirements for new and existing infrastructure and real estate investments	To commence in FY25
		Embed climate change expectations into asset management process and baseline current assets maturity	To commence in FY25
		Analyse existing infrastructure and real estate assets exposure to physical / transition risk and ability to transition to NZE2050	To commence in FY25
	Private equity and listed corporate debt	Commence collection of emissions data from external investment managers and investee companies	Complete
Stewardship	**Engagement**	Formalise engagement objectives for 'priority companies' under direct engagement	Complete
		Incorporate Equitable Transition principles into engagements	Ongoing
		Develop approach to assessing participation in collaborative engagement initiatives	To commence in FY25
	Proxy voting	Develop governance approach for 'priority companies' and climate-related shareholder resolutions	Complete
		Actively vote at AGMs for all 'priority companies' from their first AGMs in FY24	Ongoing

1 In our 2022-23 Sustainable Investment report, we reported on progress against actions identified in the Roadmap that were completed or in progress as at 30 June 2023. In this year's report, we show progress against actions identified for the full financial year. As a result, there is some repetition of progress and actions that were shown in last year's Sustainable Investment report – the actions that are being reported for the first time in this year's report are shaded.

External investment managers

Progress made on benchmarking our existing external investment managers on climate change is outlined in **ESG integration**. This includes evaluating investment manager capabilities in assessing physical climate risks associated with assets or companies in which they may invest on our members' behalf.

Listed equities

As detailed in previous Sustainable Investment reports, our 2 legacy funds (Sunsuper and QSuper) implemented different approaches for managing the risks presented by climate change within listed shares. As part of the process to deliver a single ART investment menu, the harmonisation of these 2 approaches was completed during the reporting period, with the result that from 1 July 2024 there is a single approach to managing the risks presented by climate change within listed equities. This includes the use of climate-aware indices[1] for the passive component of the Australian and International shares portfolios, along with the use of a "carbon budget"[2] for the active investment managers.

Consistent with our Roadmap commitment to adopt a formal position on exclusions relating to climate change in the first half of 2024, during the reporting period we determined to apply an exclusion from 1 July 2024 relating to direct investment in thermal coal companies within the Australian and international shares asset classes that generate more than 10% total revenue in the most recent year of financial reporting from the mining of thermal coal and its sale to external parties, subject to some exceptions, across our available investment options. Full details and exceptions to this and other exclusions can be found in and on the page following Table 9 in **Screening (Exclusions)**.

Fixed interest (Fixed income)

For the purpose of determining ART's baseline exposure to climate-related investments (see **Climate-related investments** later in this section), ART's exposure to relevant green and sustainability-linked bonds at 31 December 2023 was determined. These contributed to our baseline exposure and will contribute to our climate-related 'green' investments interim target (defined later in **Climate-related investments**), and so opportunities to increase our exposure will be explored in FY25, where this is consistent with making decisions in the best financial interests of our members.

Infrastructure and real estate

Due to competing priorities as well as 2023-24 being a period of building out the Sustainable Investment team, a number of actions that were initially scheduled in the Roadmap for completion in 2023-24 have been moved to 2024-25. This includes the 3 actions for infrastructure and real estate noted in the table above.

Whilst the strategic priorities for these asset classes have been rescheduled, new investments in infrastructure and real estate incorporate climate change considerations in the due diligence process, where relevant, for investments that are approved by an internal management investment committee. All new investments are required to specify if the asset has made a commitment to net zero by 2050, on a comply or explain basis. See also **ESG integration for private asset due diligence**.

Engagement

Progress that was made on formalising engagement objectives for 'priority companies' under direct engagement is outlined above in **Stewardship**.

1 MSCI Custom Low Carbon Target (LCT) Indices

2 Carbon budget refers to a carbon reduction target relative to a benchmark, that is agreed with an external investment manager

Metrics and targets

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

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

Interim climate-related targets have been developed as milestones to measure our progress in achieving our NZE2050 target. An important part of identifying, assessing and managing risks and opportunities posed by climate change in our portfolio is measuring and reporting our progress in relation to these interim targets. We're also very clear on what interim targets apply to what asset classes, which is driven by where we can measure and have available data.

A summary of ART's interim climate-related targets and current assessments of these is provided below (Table 14).

Table 14: Interim climate-related targets

	1 Emissions intensity	2 Engagement	3 Portfolio alignment	4 Climate-related investments
Interim target	43% reduction in emissions intensity by 2030 (for listed equities, infrastructure and real estate asset classes)	Engage with 100% of our 'priority companies' within listed equities by 2030	Portfolio alignment with 50% 'priority companies' to be 'net zero' or 'aligned' within listed equities by 2030	Climate-related 'green' investments of 4% of total funds under management (FUM) by 2030
Description	• Relates to ART's scope 3 category 15 (investments) emissions.[1] • These are also referred to as ART's financed scope 1 and 2 emissions • An emissions intensity metric enables comparison of investment portfolios' emissions, regardless of size. • This metric is used to compare ART's portfolio emissions each year and to track progress as we grow.	• 'Priority companies' are defined as companies that together contribute 70% of our listed equities financed emissions. • We review our 'priority companies' on an annual basis. • Engagement can occur through direct, collaborative or service providers. • Objectives, timeframes and escalation measures are set for direct engagements.	Assesses the position of 'priority companies' within the listed equities portfolio on the pathway towards NZE2050. Our investee companies are classified as either: • achieving net zero; • aligned to a net zero pathway; • aligning towards a net zero pathway; • committed to aligning; • not aligned; or • not assessed (due to insufficient information).	Investment in sectors and activities identified as 'green' in the Australian Taxonomy V0.1 that, on a reasonable basis, are intended to support real-world decarbonisation, consistent with ART's Net Zero 2050 target and in accordance with members' best financial interest. Includes exposure to assets that can be mapped to one or more of the 'green' activities.
Applicable asset classes	• Listed equities • Infrastructure • Real estate	• Listed equities ('priority companies')	• Listed equities ('priority companies')	• Listed equities • Infrastructure • Real estate • Private equity • Fixed income • Private debt
Metric	Emissions intensity: tCO2e/$m invested	% of 'priority companies' engaged	% of 'priority companies' classified as 'net zero' or 'aligned'	% of ART's total FUM invested in climate-related 'green' investments
Baseline date	30 Jun 2021	30 Jun 2022	30 Jun 2022	31 Dec 2023
Baseline assessment	62.7 tCO2e/$m invested	74%[2]	8%	2.7%
30 June 2023 assessment	**Unadjusted:** 35.9 tCO2e/$m invested **Adjusted:** 37.9 tCO2e/$m invested	74%[2]	4%	Not applicable

1 PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition.

2 Assessment based on engagements over FY23 with ART's 'priority companies' identified as at 30 June 2022.

We provide further information on each of the interim targets and our current assessment of the relevant portfolio metrics below.

1 Emissions intensity

Interim target: 43% reduction in emissions intensity (financed scope 1 and 2 emissions) by 2030 (for listed equities, infrastructure and real estate asset classes)

GHG 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 CO2-equivalent (tCO2e).
Emissions intensity	This metric normalises financed emissions by a specific unit – tonnes of carbon dioxide-equivalent per million dollars invested (tCO2e/$ million). It allows us to compare the financed emissions over time as we grow our funds under management.

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

As previously reported, in August 2022, we established our FY21 emissions baseline for the aggregated portfolio across 3 key asset classes: listed equities, infrastructure and real estate. As at 30 June 2021, these 3 asset classes represented 54% of the ART portfolio by asset value; whilst as at 30 June 2023 they represented 62% of the portfolio by asset value.

This year, in addition to the 3 key asset classes we have again included 2 other asset classes (private equity and listed corporate debt) when calculating the aggregated emissions metrics, which results in coverage of 71% of ART's portfolio by asset value as at 30 June 2023 (noting the challenges for these 2 other asset classes that are set out below). **Appendix B** outlines the rationale for inclusion or exclusion of each asset class in our GHG emissions calculation.

Table 15 shows the evolution since our baseline assessment of our aggregated portfolio financed emissions and emissions intensity for:

- The 3 asset classes that made up our baseline assessment and which are included in our 2030 interim target (i.e. listed equities, infrastructure and real estate).
- The same 3 asset classes plus listed corporate debt and private equity. It remains challenging to obtain the same levels of emissions coverage for these 2 asset classes, compared to the 3 asset classes included in our baseline assessment. However, we believe reporting what we can represents progress and once we have sufficient confidence in the coverage and quality of the data for listed corporate debt and private equity, we may consider updating our emissions baseline and the 2030 emissions intensity reduction target to incorporate these 2 additional asset classes.

Appendix C provides more detail on the financed emissions for the five asset classes for which we collected greenhouse gas emissions data for FY23. This includes disclosure on data that is proxied (i.e. that we estimate), and the percentage of data collected that our external investment managers or investee assets have reported as verified or assured. We have not assessed the accuracy of any claims of data that has been identified as verified or assured.

Table 15: ART portfolio emissions for FY21, FY22 and FY23[1]

Financial Year	2023	2022	2021[2]
Asset classes included	**Listed equities Infrastructure Real estate**	**Listed equities Infrastructure Real estate**	**Listed equities Infrastructure Real estate**
% of ART's total portfolio covered by included asset classes	62%	59%	54%
Financed scope 1 and 2 emissions			
Financed scope 1 and 2 emissions (tCO2e)	4,931,844	4,289,486	6,726,724
$M AUD invested	137,199	117,298	107,220
Unadjusted financed scope 1 and 2 emissions intensity (tCO2e/$M invested)	35.9	36.6	62.7
Unadjusted % change from baseline (2021)	-43%	-42%	-
Adjusted financed scope 1 and 2 emissions intensity (tCO2e/$M invested)	37.9	35.0	-
Adjusted % change from baseline (2021)	**-40%**	**-44%**	-
Financed scope 3 emissions			
Financed scope 3 emissions (tCO2e)	35,255,823	32,574,436	30,419,575
Asset classes included	**Listed equities Infrastructure Real estate Listed corporate debt Private equity**	**Listed equities Infrastructure Real estate Listed corporate debt Private equity**	**Listed equities Infrastructure Real estate**
% of ART's total portfolio covered by included asset classes	71%	68%	54%
Financed scope 1 and 2 emissions			
Financed scope 1 and 2 emissions (tCO2e)	5,291,238	4,729,186	6,726,724
$M AUD invested	157,208	136,024	107,220
Unadjusted financed scope 1 and 2 emissions intensity (tCO2e/$M invested)	33.7	34.8	62.7
Financed scope 3 emissions			
Financed scope 3 emissions (tCO2e)	35,933,508	33,662,987	30,419,575

1 Source: Emissions data for listed equities and listed corporate debt calculated on MSCI Analytics.

2 Scope 1 and 2 emissions data was collected for the listed equities, infrastructure and real estate asset classes only. Scope 3 emissions data was collected for the listed equities asset class only.

As at 30 June 2023:

- The total financed emissions (scopes 1 and 2 of our investee companies) for the 3 asset classes related to our 2030 interim target was 4,931,844 tCO2e, compared to our baseline assessment of 6,726,724 tCO2e.
- A breakdown of the financed scope 1 and 2 emissions by asset class as at 30 June 2023 is shown in Appendix B.
- On an unadjusted basis, the FY23 emissions intensity of 35.9 tCO2e/$m invested for the 3 asset classes related to our 2030 interim target represents a 43% reduction from our FY21 baseline.[1]
- On an adjusted basis, the FY23 emissions intensity of 37.9 tCO2e/$m invested for the 3 asset classes related to our 2030 emissions intensity reduction target represents a 40% reduction from our FY21 baseline. The rationale for adjusting the calculated emissions intensity is provided below.

Adjusting for changes in enterprise value

Emissions intensity is the metric we use to compare financed emissions over time as we grow our funds under management, allowing us to track progress in meeting our interim emissions reduction target. However, due to how a company's emissions are attributed to investors (which is based on the amount invested, divided by the company's enterprise value including cash),[2] this metric is influenced by changes in market value, which reduces its usefulness when making comparisons at different points in time. We have therefore adjusted the financed emission intensity metric for all years after the baseline year.[3]

While adjusting for enterprise value changes is a meaningful step towards isolating the real-world emission changes within investee companies, there are other factors that this adjustment does not account for. For example, it doesn't account for ART's changing levels of exposure (through investments or divestments) to investee companies. To illustrate, after the FY21 baseline was established, there was an investment strategy change within our listed equities portfolio to reduce exposure to some high-emitting companies, which contributed to a reduction in our financed emissions in subsequent years. The impact of such portfolio changes is not captured within the current adjustment to enterprise values.

Progress against our emissions intensity reduction target

In line with our Roadmap, we report portfolio emissions intensity against a target trajectory and guardrails each year. Figure 10 shows both the adjusted and unadjusted change in emissions intensity from the FY21 baseline against our target trajectory with upper and lower guardrails.[4] While the adjusted numbers are closer to representing the changes resulting in real-world emissions, the majority of the reduction in emissions intensity from the baseline is still most likely driven by changes to our investment strategy, such as the one noted earlier, rather than being a reflection of real-world emission reductions.

Other observations from this year's data include:

- For listed equities (the asset class with the largest weighting in the aggregate portfolio),[5] unadjusted emissions intensity decreased by approximately 6% over the year. This was driven by slightly lower portfolio weights to some of the more emissions intensive sectors (such as utilities and energy) and higher weights to lower emissions intensive sectors (such as information technology).
- The main reason for the small increase in adjusted emissions intensity for the aggregate portfolio over the year is an increase in the emissions intensity for the infrastructure asset class. This is largely due to a small number of emissions intensive assets now reporting emissions data; for which we were previously using proxies (estimates).
- Given the current progress against our emissions intensity target and the ability to collect emissions data for additional asset classes, consideration will be given to updating the baseline in the forthcoming Net Zero 2050 Roadmap review scheduled for 2025.

Appendix C provides further details of FY23 GHG emissions by asset class.

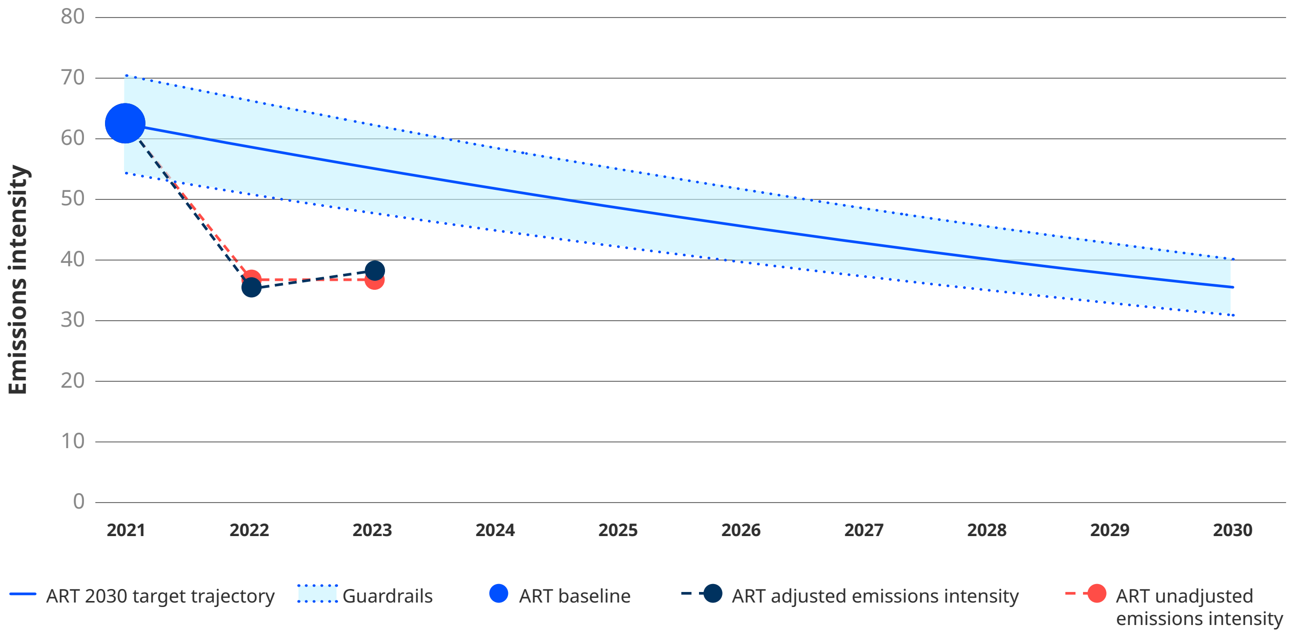
1 Based on the asset classes to which our interim emissions intensity reduction target applies (listed equities, infrastructure and real estate).

2 See Appendix A for more detail

3 The aim of this adjustment is to keep a company's enterprise value unchanged since the baseline assessment, thereby providing a better estimate of the changes in the real-world GHG emissions attributable to a portfolio's holdings.

4 The emissions intensity reduction target was adopted from the 2022 Intergovernmental Panel on Climate Change (IPCC) report with a median reduction of 43%. See GHG emissions reductions from 2019 % C1 [97] limit warming to 1.5 degrees (>50% probability) with no or limited overshoot: page 18 https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SummaryForPolicymakers.pdf We defined guardrails for the expected 2030 interim emission intensity reduction target transition pathway. These guardrails were informed by the 5th to 95th percentiles from the IPCC report [34%-60%], respectively. In the Roadmap, we committed to reporting progress in emissions reduction against the guardrails.

5 Based on the three asset classes which make up the interim target (listed equities, infrastructure and real estate).



Asset classes included: Listed equities, infrastructure and real estate. Blue shading represents guardrails.

Figure 10: Emissions intensity compared with target trajectory and guardrails

Figure 11 shows ART's financed emissions (for the five asset classes that we capture this data for) split by sector[1] and compares this to ART's FUM for these asset classes. ART's financed emissions are concentrated in 4 sectors: materials, utilities, energy, and industrials, despite these sectors only representing a small part of our portfolio holdings by weight. This pattern is broadly reflected across the asset classes and so this year we have chosen to only show this data at the portfolio level (by sector) rather than for the individual asset classes as shown in last year's report.

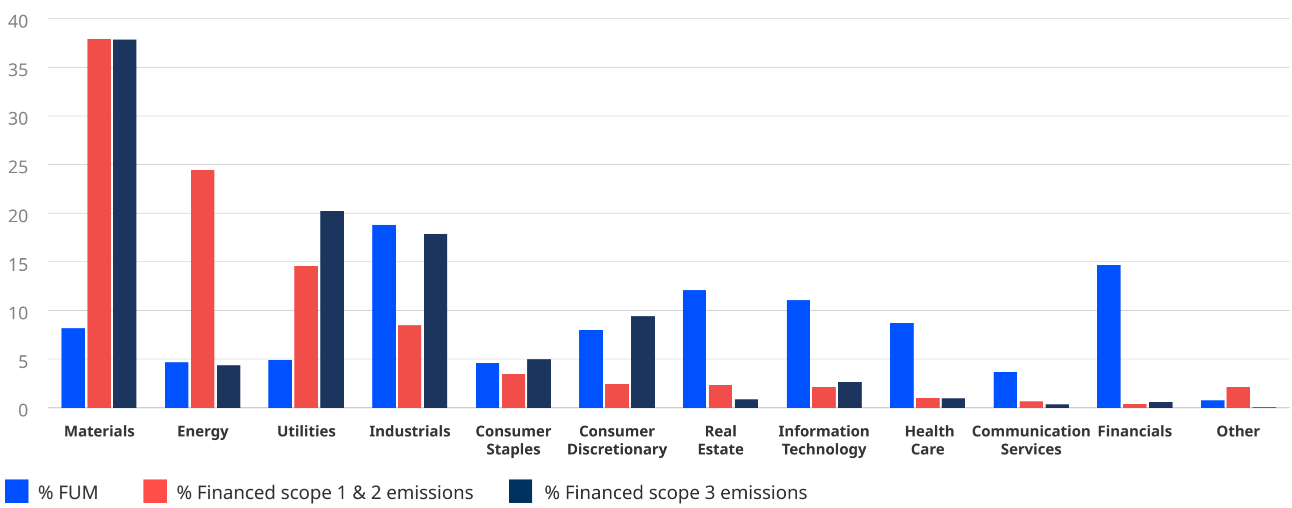


Figure 11: Portfolio financed emissions and FUM, split by sector, as at 30 June 2023.

1 Sector names are GICS sectors, with some infrastructure and real estate assets manually categorised under appropriate sectors on a best endeavours basis. See Appendix C for full financed scope 1, 2 and 3 emissions details, including data coverage.

The investee companies or assets that are the top 10 contributors to ART's financed scope 1 and 2 emissions are shown in Table 16. They represent 33% of ART's financed scope 1 and 2 emissions (of that component of ART's investment portfolio that was assessed) and are in either the listed equities or infrastructure asset classes. They're also concentrated in the utilities and materials sectors. All listed equity investee companies in the top 10 largest emitters are 'priority companies' for engagement, in line with our Roadmap.

Table 16: Top 10 largest emitters (as % of ART's financed scope 1 and 2 emissions) as at 30 June 2023.

Entity	Asset class	Sector	% of ART's financed scope 1 and 2 emissions
Utility business (North America)	Infrastructure	Utilities	5.3%
South32	Listed equities	Materials	4.7%
Alumina	Listed equities	Materials	4.4%
AGL Energy	Listed equities	Utilities	3.0%
Origin Energy	Listed equities	Utilities	2.9%
Waste management business (South America)	Infrastructure	Utilities	2.8%
Bluescope Steel	Listed equities	Materials	2.7%
BHP Group	Listed equities	Materials	2.6%
Arcelormittal SA	Listed equities	Materials	2.4%
Utility business (Australia)	Infrastructure	Utilities	2.0%
Total			**32.7%**

Financed scope 3 emissions

This year we have again reported financed scope 3 emissions from investee companies for the listed equities, infrastructure, real estate, private equity and listed corporate debt asset classes (Table 15).[1] Consistent with our previous years' reporting, we report ART's financed scope 3 emissions separately from our financed scope 1 and 2 emissions, as they do not form part of our interim 2030 emissions intensity reduction target. However, for certain sectors, we recognise that financed scope 3 emissions can be material, and so we're taking the first step in reporting this data for asset classes, where possible. We have not proxied any data for financed scope 3 emissions given the lower levels of coverage and the limited extent to which reported or estimated data is verified or assured by a third party.

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

2 Engagement

Interim target: Engage with 100% of our 'priority companies' within listed equities by 2030.

Table 17: Percentage of climate change priority companies engaged with during FY24.

	Direct	Collaborative	Service Provider	Total
FY22 baseline (% of priority companies)	12	34	28	**74**
FY24* (% of priority companies)	21	32	21	**74**

*Excludes climate change priority companies that were acquired during FY24 and dual-listed companies where ART held positions in multiple entities. Numbers rounded to the nearest %. As mentioned in the Stewardship section of this report, ART has also engaged EOS to engage with internationally listed companies. Those engagements have not been included in the statistics in this table because that agreement was not in effect for the full year.

ART identified 75 'priority companies' that comprised 70% of ART's financed scope 1 and 2 emissions within the listed equities asset class as at 30 June 2023. This included 31 companies that are ASX listed and 44 international companies. Table 18 sets out the engagement activities with our priority companies undertaken in FY24. All Australian priority companies were engaged; whilst 57% of International priority companies were engaged.

Table 18: Number of climate change priority companies engaged with during FY24, by region.

	Direct	Collaborative	Service Provider	Total
Australian priority companies	15	1	15	**31**
International priority companies	1	23	1	**25**
All priority companies	16	24	16	**56**

3 Portfolio alignment

Interim target: 50% of 'priority companies' to be 'net zero' or 'aligned' within listed equities by 2030

ART developed a Portfolio Alignment target that assesses the position of ART's 'priority companies' within the listed equities portfolio on a pathway towards NZE2050. This was done by classifying the 75 'priority companies' that make up 70% of ART's financed scope 1 and 2 emissions within the listed equities asset class as either 1) achieving net zero, 2) aligned to a net zero pathway, 3) aligning towards a net zero pathway, 4) committed to aligning, 5) not aligned or 6) not assessed (due to insufficient data). The assessment criteria were informed by international guidance and tailored internally to be suitable for our investment portfolio.[1]

Assessment against the criteria was again informed by data from Climate Action 100+ (CA100+) Net Zero Company Benchmark and the Transition Pathway Initiative (TPI). This year, we also utilised data from MSCI, which enabled us to reduce the percentage of priority companies that were 'not assessed' from 27.0% last year to just 2.6% this year (Table 19). We also made some improvements in assessing each criterion – whilst this resulted in a reduction in the percentage of priority companies assessed as 'aligned' or 'aligning' (from 20.3% last year to 10.4% this year), we believe it is a more accurate assessment of alignment. We will continue to focus our engagement efforts with these priority companies and also on enhancing our assessment methodology.

Table 19: Portfolio alignment of priority companies in listed equities

	Achieving Net Zero	Aligned	Aligning	Committed	Not aligned	Not assessed
FY22 Baseline (% priority companies)	0.0	7.9	12.4	30.3	22.5	27.0
FY23 (% priority companies)	0.0	3.9	6.5	41.6	45.5	2.6

1 This approach has been informed by the Paris Aligned Investment Initiative Net Zero Asset Owners Framework and can be viewed in more detail in ART's Net Zero 2050 Roadmap.

4 Climate-related investments

Interim target: Climate-related 'green' investments of 4% of FUM by 2030

The Roadmap included a commitment to define and measure a baseline for climate-related investments and subsequently to define a 2030 target for these by the end of 2023-24. One of the guiding principles directing our approach in the Roadmap is that capital is required for both existing and new investments that support real world decarbonisation. This creates an opportunity for ART to invest in those activities that enable GHG emissions reductions in the broader economy, as well as supporting organisations that need capital to transition themselves, when doing so aligns with members' best financial interests.

There is no globally consistent approach or methodology to determine what constitutes a climate-related investment. Our approach was guided by the draft Australian Sustainable Finance Taxonomy V0.1 (Australian Taxonomy V0.1), which was released on 28 May 2024 and which is intended to support the Government's plans of mobilising private capital to support the transition to a low carbon economy.

ART has defined climate-related 'green' investments as investment in sectors and activities identified as 'green' in the Australian Taxonomy V0.1 that, on a reasonable basis, are intended to support real-world decarbonisation, consistent with ART's Net Zero 2050 target and in accordance with members' best financial interest.

ART's baseline exposure to climate-related 'green' investments was approximately $7.2b as at 31 December 2023 or 2.7% of funds under management (FUM), across listed equities; private equity; infrastructure; real estate; fixed income and private debt. The interim (2030) target is 4% of ART's total FUM.

While the target pertains to 'green' investments, we acknowledge the importance of investing in transition assets and activities that also support real world decarbonisation. However, it has not been possible to set a target for investment in transition assets and activities at this stage, given that a reasonable basis is needed to determine exposure to these; which relies in part on the Australian taxonomy that is not due for completion before the end of 2024. We will however continue to seek opportunities to invest in transition assets where appropriate and in line with members' best financial interests.

Partners

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

Partner actions identified in the Roadmap for the 2023-24 year are outlined in Table 20.[1]

Table 20. 2023-24 Partner actions

Focus area		Action and timeframe July 2023 – June 2024	Status
Partners	**Member organisations and industry forums**	Develop an evaluation framework for assessing climate-related initiatives and collaborations	In progress
		Actively participate in member organisations and forums	Ongoing
	Positions	Review carbon markets, offsets and pricing to build investment team knowledge for due diligence, asset management and stewardship	In progress
	Advocacy	Actively participate in external stakeholder roundtables and policy advocacy that support climate change strategy	Ongoing

Positions

We're in the process of developing a framework for the use of carbon offsets by our investee companies. The framework will highlight the key elements we believe are important for their credible use in voluntary commitments, with reference to relevant international standards and guidelines. We expect this to support our efforts in assessing the credibility of our investee companies' transition plans. We understand the markets and standards are continuing to evolve in this area, and we will review our position periodically to ensure it reflects the latest developments.

Member organisations and industry forums

During 2023-24, we participated in a number of climate-related working groups. These are described in the **Collaboration** section in **What Sustainable Investment means to us**.

Advocacy

During 2023-24, we provided 5 submissions related to climate change and climate-related financial disclosures – these are described in the **Advocacy** section in **What Sustainable Investment means to us**.

1 In our 2022-23 Sustainable Investment report, we reported on progress against actions identified in the Roadmap that were completed or in progress as at 30 June 2023. In this year's report, we show progress against actions identified for the full financial year. As a result, there is some repetition of progress and actions that were shown in last year's Sustainable Investment report – the actions that are being reported for the first time in this year's report are shaded.

Memberships and organisations

We're members of several professional associations that address ESG matters such as climate change, modern slavery and reporting standards. As well as advocating to government, industry and other stakeholders, these organisations provide expert advice, thought leadership and opportunities to work with the companies we invest in.

ACSI
acsi.org.au

ASFI
www.asfi.org.au

Climate Action 100+
www.climateaction100.org

IAST APAC
www.iastapac.org

IGCC
igcc.org.au

PRI
www.unpri.org

RIAA
responsibleinvestment.org

The path ahead

- In 2023-24, we made substantial progress against the majority of our strategic sustainable initiatives and the actions outlined in our Roadmap, while building our Sustainable Investment team, policies and processes.
- We're operating in a rapidly maturing sustainable investment landscape, shifting from one based on voluntary standards and reporting to an environment with much greater policy and regulatory oversight.
- While this will lead to an increase in the quality and depth of reported information, it will also require an increase in the resourcing needed to meet regulatory requirements. The increase in our Sustainable Investment team enables us to address these challenges.
- Whilst we recognise the ESG movement has faced headwinds in some overseas jurisdictions, the release by the government of Australia's Sustainable Finance Strategy is a clear recognition of the importance of considering issues such as climate change, in making investment decisions.
- As a global investor, we're committed to doing our part towards investing in a net zero economy and sustainable activities that help to deliver investment outcomes for our members' retirement.

In 2024-25, we look forward to:

- Continuing to implement our Sustainable Investment Strategy
- Delivering on key actions in our Net Zero 2050 Roadmap in line with set timeframes
- Preparing for the next 2-year work plans for both our Sustainable Investment Strategy and Net Zero 2050 Roadmap, which will take effect from the beginning of 2025-26
- Reporting on our progress.

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

Glossary of terms and abbreviations

ESG	Environmental, social and governance
ESG integration	The ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.[1]
IPCC	Intergovernmental Panel on Climate Change: the United Nations body responsible for assessing the science related to climate change. **www.ipcc.ch**
ISSB	International Sustainability Standards Board: a standard-setting board established to "deliver a comprehensive global baseline of sustainability-related disclosure standards". **www.ifrs.org/groups/international-sustainability-standards-board/**
GHGs	Greenhouse gases (GHGs) are gases in the earth's atmosphere that trap heat. Seven gases are mandated under the Kyoto Protocol to be included in national inventories under the United Nations Framework Convention on Climate Change (UNFCCC)— carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and nitrogen trifluoride.
GHG protocol	Greenhouse gas protocol: provides standards, guidance, tools and training for business and government to measure and manage climate-warming emissions. **ghgprotocol.org**
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 **www.msci.com/our-solutions/indexes/gics**
IEA	International Energy Agency: comprising 31 member countries and 13 association countries and four accession countries, the agency promotes energy efficiency, aims to ensure energy security, tracks clean energy transitions, collects data, and provides energy education and training programs around the world. **www.iea.org**
Impact investing	Investing with the intention to generate positive, measurable social and/or environmental impact alongside a financial return.[1]

1 As defined by the 2023 CFA Institute, Global Sustainable Investment Alliance and Principles for Responsible Investment. Definitions for Responsible Investment approaches available at https://responsibleinvestment.org/wp-content/uploads/2023/11/Definitions-for-Responsible-Investment-Approaches-Nov-2023.pdf

JANA-developed scenarios	JANA has used the International Energy Agency (IEA) scenarios and economic assumptions from the Network for Greening the Financial Systems (NGFS) scenarios to develop three scenarios in their climate change scenario model. **Current Path (3 degrees):** This scenario maps out a trajectory that reflects current policy settings, based on a detailed sector-by-sector assessment of what policies are actually in place or are under development by governments around the world. However, it assumes there are no material policy implementations unless they are backed with detail on how they're achieved. **Sustained Action (2 degrees):** This scenario assumes that all aspirational targets announced by governments are met on time and in full, including their long-term net zero and energy access goals. Thus, demand for all fossil fuels decline by 2030. Emissions peak in the mid 2020s and fall to 12 Gt in 2050, resulting in a projected global median temperature rise in 2100 of 1.7°C. **Net Zero by 2050 (1.5 degrees):** This scenario maps out a way to achieve a 1.5°C stabilisation in the rise in global average temperatures, alongside universal access to modern energy by 2030. In this scenario, CO_2 emissions fall to 23 Gt in 2030 and to zero in 2050, a trajectory consistent with limiting the temperature increase to less than 1.5°C in 2100.
MSCI	Global provider of equity, fixed income, real estate indexes, multi-asset portfolio analysis tools, ESG and climate products. **www.msci.com**
NZE2050	IEA's net-zero emissions by 2050 scenario: An emissions trajectory consistent with keeping the temperature rise in 2100 below 1.5°C (with a 50% probability), universal access to modern energy services and major improvements in air quality – and shows a pathway to reach it. Sets out a pathway for the global energy sector to achieve net zero CO_2 emissions by 2050. **www.iea.org/reports/world-energy-model/understanding-weo-scenarios**
Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change adopted by 196 countries in 2015. Its aim is to limit global warming to well below 2°C (preferably below 1.5) compared to pre-industrial levels. Countries commit to reach a global peak of greenhouse gas emissions as soon as possible. Companies and other organisations that want to limit and reduce their emissions can set targets aligned to the Paris Agreement. **unfccc.int/process-and-meetings/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. **carbonaccountingfinancials.com**
Scope 1 emissions	Direct GHG emissions that occur from sources owned or controlled by the reporting company — i.e. emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc[1]

1 PCAF, 2022: "The Global GHG Accounting and Reporting Standard Part A: Financed Emissions, Second Edition"

Scope 2 emissions	Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated.[1]
Scope 3 emissions	All other indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions and downstream emissions: Upstream emissions include all emissions that occur in the life cycle of a material/product/service up to the point of sale by the producer, such as from the production or extraction of purchased materials. Downstream emissions include all emissions that occur as a consequence of the distribution, storage, use, and end-of-life treatment of the organization's products or services.[1]
Scope 3 category 15 (investments) emissions	This category includes scope 3 emissions associated with the reporting company's loans and investments in the reporting year, not already included in scope 1 or scope 2.[1] For ART, this could include financed scope 1, 2 and / or 3 emissions from investee companies. The applicable scopes will be specified in any disclosures.
Screening (Exclusions)	Screening is applying rules based on defined criteria that determine whether an investment is permissible.[2]
Stewardship	Stewardship is the use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common ESG assets on which their interests depend.[2]
Sustainable Development Goals (SDGs)	A framework of 17 objectives for improving human society, ecological sustainability and the quality of life, published by the United Nations in 2015. They cover a broad spectrum of topics, from eliminating hunger and combating climate change to promoting responsible consumption and making cities more sustainable.
Thematic investing	Selecting assets to access specified trends.[2] Thematic investing involves constructing a portfolio of assets, chosen via a top-down process, that are expected to benefit from specific medium- to long-term trends. These can include ESG trends, such as climate change.
UNGP	United Nations Guiding Principles on business and human rights. Endorsed by the United Nations Human Rights Council in 2011, the principles are the global normative framework on business and human rights and are based on 3 pillars: 1. The state's duty to protect human rights. 2. The corporate responsibility to respect human rights. 3. Access to remedy.

1 PCAF, 2022: "The Global GHG Accounting and Reporting Standard Part A: Financed Emissions, Second Edition"

2 As defined by the 2023 CFA Institute, Global Sustainable Investment Alliance and Principles for Responsible Investment. Definitions for Responsible Investment approaches available at https://responsibleinvestment.org/wp-content/uploads/2023/11/Definitions-for-Responsible-Investment-Approaches-Nov-2023.pdf

Appendix A: Greenhouse gas emissions, and climate-related data measurement method

Greenhouse gas emissions

We use the Global GHG Accounting and Reporting Standard, available at **carbonaccountingfinancials.com/standard#the-global-ghg-accounting-and-reporting-standard-for-the-financial-industry**, for the finance industry developed by the Partnerships for Carbon Accounting Financials (PCAF) to calculate emissions. Consistent with the draft ISSB standard, we selected a financial reporting year (2020-21) as our baseline year.[1] Emissions data used in this report is presented to align with financial years, although it may be made available or provided to ART for different time periods. We have attempted to align emissions data with the reported financial year to the extent possible.

This year we measured emissions from the following asset classes, which represented 71% of funds under management as at 30 June 2023:

- Listed equities (including Australian and international shares asset classes)
- Infrastructure
- Real estate
- Private equity
- Listed corporate debt (physical)

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

For listed equities and listed corporate debt (physical), there is broad coverage of the issuers and reliable data, along with reputable third-party estimates where gaps exist. MSCI data was used for this purpose.[2]

We collected emissions, valuation and other decarbonisation target data from the external investment managers of our real estate, infrastructure and private equity assets, and we proxied data where it was not available.

Some infrastructure and real estate external investment managers reported scope 2 emissions as either 'location' or 'market' based.[3] This means ART's reported financed scope 2 emissions contain a mixture of both approaches. In the instances where those managers provided both numbers for certain holdings we opted to take the 'location based' data, given it was the most commonly used and often the more conservative (higher) of the 2. As reporting guidance on this subject is clarified, ART will look to incorporate this specificity into future reporting.

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

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

2 Certain information contained herein (the "Information") is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates ("MSCI"), or information providers (together the "MSCI Parties") and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund's assets under management or other measures. MSCI has established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided "as is" and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees the originality, accuracy and/or completeness of the Information and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with any Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

3 GHG Protocol Scope 2 Guidance available at https://ghgprotocol.org/sites/default/files/2023-03/Scope 2 Guidance.pdf, defines 'location based' as: based on average energy generation emission factors for defined geographic locations, and 'market based' as: reflecting emissions emitted by the generators from which the reporter contractually purchases electricity bundled with contractual instruments.

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 income
- Shares (derivatives)
- Corporate debt (derivatives and other instruments)
- Private credit
- Commodities
- Alternatives
- Cash.

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

The ART emissions baseline comprises the scope 1 and 2 emissions of investees’ and borrowers’ emissions, also known as financed emissions.

We do not include financed scope 3 emissions in our baseline.[1]

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

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

To allow for better tracking of ART’s emission reduction progress against baseline, financed emissions adjusted for changes in company valuations were also calculated, with reference to method suggested by PCAF. Adjustments were done on 2021-22 and 2022-23 reported Scope 1 and 2 figures for the following asset classes:

- Listed equities (including Australian and international shares asset classes)
- Infrastructure
- Real estate

The ‘Adjustment factor’ formula sets out the methodology used.

For all GHG emissions and climate related metrics, ART relies on the accuracy of data provided by external investment managers and third-party providers and will continue to engage and work with them to better understand and improve the accuracy of this data over time.

1 For definitions of emissions by scope, please see the Glossary.

The metrics and methodologies we use to calculate our emissions are:

Financed emissions

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

For listed companies:

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

For unlisted companies:

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

Where:

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

Emissions intensity (carbon footprint)[1]

For listed companies:

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

For unlisted companies:

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

Where:

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

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

Adjustment factor

The formula below is used for calculating the adjustment factor to be applied to the unadjusted financed emissions intensity figure for each asset class:

$$\sum_{c} \text{Weight}_{c,t} \times \frac{\text{Enterprise Value including cash}_{c,t}}{\text{Enterprise Value including cash}_{c,b}}$$

Where:

- **Weight**
  portfolio weight
- **Enterprise Value Including Cash**
  market capitalisation plus book value of total debt and cash (to avoid negative enterprise values)
- **t**
  current year
- **b**
  baseline year
- **c**
  borrower or investee company

Adjustments for changes in enterprise value

For FY23, the financed scope 1 and 2 emissions intensity for listed equities, infrastructure and real estate were adjusted by factors of 1.03, 1.16 and 1.14 respectively, resulting in an adjusted financed scope 1 and 2 emissions intensity (for the 2030 interim target asset classes) of 37.9 tCO_2e/\$m invested (unadjusted figure was 35.9 tCO_2e/\$m invested.)

For FY22, the financed scope 1 and 2 emissions intensity for listed equities, infrastructure and real estate were adjusted by factors of 0.93, 1.08 and 1.05 respectively, resulting in an adjusted financed scope 1 and 2 emissions intensity (for the 2030 interim target asset classes) of 35.0 tCO_2e/\$m invested (unadjusted figure was 36.6 tCO_2e/\$m invested.)

Appendix B: Emissions coverage for ART portfolio by asset class and rationale for inclusion or exclusion

Table 21 outlines the coverage by percentage of ART's total FUM in each asset class and the rationale for inclusion or exclusion in our GHG emissions calculation. Our coverage is based on availability of the Partnership for Carbon Accounting Financials (PCAF) methodology for each respective asset class, in addition to the availability of GHG emissions data. Compared with our portfolio coverage of 54% based on data as at 30 June 2021, emissions coverage across the investment portfolio increased to 68% as at 30 June 2022, and now to 71% as at 30 June 2023.

Table 21: Emissions coverage for ART portfolio by asset class and rationale for inclusion or exclusion as at 30 June 2023.

Asset class	Asset allocation	ART included	PCAF standard methodology	ART rationale for inclusion / exclusion
Listed equities (physical)	71%	✓	✓	PCAF 'listed equity and corporate bond' approach was used. Broad coverage of issuers and data reliability. Service providers estimate any data gaps.
Infrastructure		✓	✓	PCAF 'unlisted equity' approach was used. Sufficient coverage and improving reliability. Sourced from external investment managers and asset operators. Proxy data required for assets where no reported/ estimated data was provided or available.
Real estate		✓	✓	PCAF 'commercial real estate' covers both equity and debt investment and most asset types. ART data is sourced from external investment managers and asset operators. Sufficient coverage and improving reliability for equity investments. Proxy data required for assets where no reported/estimated data was provided or available (e.g. debt holdings).
Private equity		✓	✓	PCAF 'unlisted equity' approach was used. Just over 50% coverage and ART's first year collecting data in this asset class. Sourced from external managers and portfolio companies. Proxy data used for the remainder of the asset class.
Fixed income (physical listed corporate debt)		✓	✓	PCAF 'listed corporate bonds' approach was used for issuers with sufficient reported market and GHG data, and proxy data used for remainder of physical listed corporate debt.
Fixed income (sovereign debt)		✗	In progress	Although PCAF has provided guidance on sovereign bonds, at the time of assessment this was pending GHG Protocol review and approval.[1]
Derivative exposures (listed shares and corporate fixed income)	29%	✗	✗	Derivative financial products not yet covered by PCAF.
Fixed income (other debt instruments)		✗	✓	Although PCAF provides guidance on 'listed corporate bonds', ART holds some other instruments, such as mortgage-backed securities, where there is limited or no GHG or market data.
Commodities		✗	✗	Methodology not developed
Alternative assets		✗	✗	Methodology not developed
Cash		✗	✗	Methodology not developed

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

Appendix C: FY23 greenhouse gas emissions by asset class

Table 22. Financed scope 1 and 2 emissions by asset class as at 30 June 2023.[1]

FY23 emissions	Listed equities	Infrastructure	Real estate	Total (2030 interim target asset classes)	Private equity	Listed corporate debt	Total (2030 interim target asset classes + private equity + listed corporate debt)
Asset class financed emissions coverage	90%	100%	100%	93%	100%	67%	93%
Data reported / estimated	88%	97%	84%	89%	58%	46%	85%
Data proxied	2%	3%	16%	3%	42%	21%	8%
Excluded	10%	-	-	7%	0%	33%	7%
$M (AUD) invested	95,529	27,761	13,910	137,199	15,559	4,450	157,208
Financed scope 1 and 2 emissions (tCO2e)	3,938,955	880,753	112,137	4,931,844	239,883	119,511	5,291,238
Unadjusted emissions intensity (tCO2e/$M invested)	**41.2**	**31.7**	**8.1**	**35.9**	**15.4**	**26.9**	**33.7**
Emissions adjustment factor	1.03	1.16	1.14	1.05	-	-	-
Adjusted emissions intensity (tCO2e/$M invested)	**42.4**	**36.7**	**9.2**	**37.9**	**-**	**-**	**-**
% of financed emissions verified or assured	-	59%	46%	-	39%	-	-
Weighted PCAF data quality score	2.0	-	-	-	-	1.8	-
% of FUM with net zero plan or target	33%	77%	43%	43%	7%	26%	39%

1 Source: Emissions data for listed equities and listed corporate debt calculated on MSCI Analytics.

To be transparent, we identify any data that is proxied (i.e. that we estimate). We have also highlighted the percentage of data collected that our external investment managers or investee assets have reported as verified or assured. We have not assessed the accuracy of any claims of data that has been identified as verified or assured. All emissions data measurement and disclosures are point-in-time assessments and may be subject to changes over time that result from such factors as:

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

We provide some comments below on the results of the financed scope 1 and 2 emissions for the different asset classes.

Listed equities

As expected with a growing portfolio, the financed scope 1 and 2 emissions increased by around 11% over the year, however the unadjusted emissions intensity decreased by approximately 6% to 41.2 tCO_2e/\$m invested. This was driven by growth in how much was invested in the asset class and having slightly lower portfolio weights to some more emissions intensive sectors, such as utilities and energy, and higher weighting to lower emissions intensive sectors such as information technology.

Infrastructure

Financed scope 1 and 2 emissions and emissions intensity measures increased compared to the results from last year. This is largely due to a small number of emissions intensive assets now reporting data to ART's external investment managers and where we were previously proxying these assets. We view this as a positive first step in our ongoing engagement with these managers to better understand the transition plans of these assets and their role in a net zero world.

Real estate

While financed scope 1 and 2 emissions and emissions intensity increased slightly, this was mostly driven by a combination of data on new assets that entered the portfolio since last year and a slightly lower amount invested in the real estate asset class.

Private equity

Pleasingly, we were able to obtain greater coverage of emissions data reported from our external managers, increasing from 52% in 2022-23 to 58% in 2023-24. 39% of financed scope 1 and 2 emissions was reported to be verified or assured by a third party, up from 25% last year. With this greater coverage and improved data quality, we also saw an increase in financed emissions and emissions intensity, as external investment managers are providing more granular data on their portfolio companies.

Listed corporate debt

Both financed scope 1 and 2 emissions and emissions intensity decreased by over 50% compared to last year, driven by a number of factors, including:

- A slight portfolio level shift away from the more emissions intensive sectors, such as energy and materials, into less emissions intensive sectors, such as financials.
- An improvement in data quality, with an increase in the use of company reported data and less reliance on the use of proxies and estimates.

Table 23. Financed scope 3 emissions by asset class as at 30 June 2023.[1]

FY23 emissions	Listed equities	Infrastructure	Real estate	Total (2030 interim target asset classes)	Private equity	Listed corporate debt	Total (2030 interim target asset classes + private equity + listed corporate debt)
Asset class financed scope 3 emissions coverage	88%	61%	58%	79%	33%	46%	74%
Data reported / estimated	86%	61%	58%	78%	33%	46%	73%
Data Proxied	2%	0%	0%	1%	0%	0%	1%
Not reported	12%	39%	42%	32%	67%	54%	36%
Financed scope 3 emissions (tCO2e)	**32,565,384**	**2,566,103**	**124,336**	**35,255,823**	**129,972**	**547,713**	**35,933,508**

1 Source: Emissions data for listed equities and listed corporate debt calculated on MSCI Analytics.

Australian Retirement Trust

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