our path to net zero

HESTA

An Industry SuperFund

Super with impact

what's inside?

About this report

Recognising that climate change poses a systemic risk to the financial system, the Financial Stability Board drove the establishment of a task force to develop a framework to guide the assessment and disclosure of climate-related financial risks. This framework, the Recommendations of the Task Force on Climate-related Financial Disclosures (**TCFD**), was published in 2017.

Since 2017, the TCFD has become a globally accepted framework as the standard for assessing, managing, and disclosing on climate-related financial risks. This document provides a report on progress in applying our Climate Change Transition Plan since the publication of our first Climate Change Report in August 2021 and gives regard to the recommendations of the TCFD. This includes an update on our progress against portfolio decarbonisation targets from 30 June 2020 to 30 June 2022, as well as discussion of recent examples of our approach to active ownership. The primary focus of this report is on our approach to managing economic transition risks. For further discussion on our approach to physical and liability-related climate risks, please refer to our 2021 Climate Change Report.

Throughout this report, we refer to our expectations of companies to set strategies that move toward alignment with the Paris Agreement if we are to achieve real world emissions reductions and minimise climate-related risks. When we refer to alignment towards the Paris Agreement goals, we are referring to the need to *hold the increase in global average temperate to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C*. Throughout this report, we may also refer to this as a **"1.5°C pathway"**. You can find other important key terms on page 11.

message from the Chair and CEO

Every decision we make, from where we invest to how we seek to influence our portfolio companies, reflects our belief that members' financial interests are best served by a deep commitment to responsible investing. Using our expertise and influence to deliver strong long-term returns, while accelerating our contribution to a more sustainable world, is central to delivering our vision for 'super with impact.'

Hon Nicola Roxon, Chair
Debby Blakey, CEO

Since our first climate change report in 2021, the world has adjusted to a "new normal" following prolonged COVID lockdowns. You may recall images[1] that showed how quickly the planet healed when the world came to a stop and many carbon intensive sectors and emissions producing activities shut down virtually overnight. The smog that blanketed so many large cities lifted, and waterways were clear, abundant with marine life[2].

Fast forward two years, and we are once again back in the full swing of life and routine. As people make up for precious lost time, air travel is close to pre-pandemic levels[3], and the roads are full of commuters, avoiding public transport as they seek to minimise their exposure to COVID. Geopolitical tensions in Europe have caused rising fuel and energy prices. These rising costs caused some nations progressed in their energy transition to pivot back to carbon intensive technologies, at least in the shorter-term, as they prioritised domestic energy security[4]. We are aware of the impact that international energy pressures have had on the cost of living here in Australia, affecting so many of our members.

It's why we are proud to announce that, despite this backdrop of resurgent global fossil fuel use, HESTA has achieved its interim portfolio emissions reduction target of 33% in normalised portfolio emissions[5], eight years ahead of its original 2030 target. That target was set in June 2020, when we were one of the first major Australian super funds to announce a plan to reach net zero portfolio emissions by 2050. In achieving this target, we have considered the Australian Government's increased commitment as well as the updated scientific research and strengthened our 2030 interim target from 33% to 50% reduction in normalised (intensity based) portfolio emissions, measured against the same 2020 baseline.

At HESTA, we believe the science is clear that this decade is critical to get ahead of the climate emergency. The latest Intergovernmental Panel on Climate Change (IPCC) report highlights that the climate commitments made by governments around the world will need to accelerate if we are to limit global warming to well below 2°C. That's why we're allocating capital to climate solutions that seek to contribute to the transition to a low carbon world. In 2022, HESTA set a target to have 10% of the portfolio invested in climate solutions, such as renewable energy and sustainable property[6], by 2030.

1. https://travel.earth/environmental-impact-of-covid-19/
2. https://www.theguardian.com/environment/2020/mar/20/nature-is-taking-back-venice-wildlife-returns-to-tourist-free-city
3. https://www.bitre.gov.au/statistics/aviation/domestic#:~:text=There%20were%204.87%20million%20passengers,in%20pre%2DCOVID%20December%202019
4. https://www.bloomberg.com/news/articles/2022-12-22/germany-returns-to-coal-as-energy-security-trumps-climate-goals#xj4y7vzkg
5. Normalised carbon emissions scope 1 and 2 (tonnes CO2e / $m invested) below the 2020 baseline. We've chosen normalised carbon emission as it represents HESTA's share (based on Enterprise Value) of real-world emissions. As at 30 June 2022.
6. Identification of opportunities has been based upon the Sustainable Development Investment Asset Owner Platform (SDI AOP) Taxonomy. Investments that are aligned to SDG 7, 11.1 and 13 have been included in the baseline.

The super sector collectively invests more than $3 trillion in superannuation savings[7] on behalf of hard-working Australians. Along with the investment expertise that manages it, this is an incredible advantage for Australia in powering the national transition to a low carbon future.

At HESTA, we want to get closer to the fast-developing hydrogen industry and emerging technologies that can inform thinking right across the portfolio and present new opportunities. We've recently signed a term sheet with Renu Energy for the investment of up to $100 million in proposed domestic green hydrogen projects – the cleanest form of hydrogen production. And, through 2023 and beyond, we're continuing to focus on opportunities to invest in the development of innovative technologies and businesses at the forefront of decarbonisation.

Along with the emergence of the hydrogen sector as a potential new 'clean green' export market, we have seen progress in the development of policy that can attract future investment in the transition. We're encouraged by recent government announcements around mandatory reporting and are now looking for legislative certainty to embed targets and modelling on how sectors will transition.

To achieve our targets, we'll need to continue to adjust and advance our approach to manage climate-related risks as circumstances change. We'll seek to use the tools available to us as a large global investor to mitigate climate-related risks, to help reduce real-world carbon emissions and support an orderly transition.

Our approach to climate-related risk management prioritises engagement with high emitting companies as we believe these companies have an important role to play in reducing Australia's emissions and supporting climate risk mitigation for HESTA members' investments. We use active ownership to encourage companies to move toward alignment of their business strategies with the goals of the Paris Agreement.

We have been engaging with emissions-intensive companies through both direct and collaborative programs for many years and we're able to amplify the effectiveness of our active ownership program through collaboration with other large investors. There's been progress from engagement, particularly in relation to disclosure aligned with global standards and net zero commitments, as we discuss in this report, but as the need to mitigate climate-related risk grows more urgent, we're increasingly concerned about any gaps between company commitments and their actions to transition their businesses towards the goals of the Paris Agreement.

An example of how we use our influence as an active owner is through our ongoing engagement with AGL, Australia's largest emitter of greenhouse gases. In 2022 AGL proposed to de-merge its business into two entities, which would have resulted in coal fired power assets and renewable energy assets held in separate businesses. We publicly expressed our intent to vote against the proposed demerger, and due to increased pressure from shareholders, the AGL Board decided to withdraw the demerger proposal.

Following the failed demerger, AGL refreshed its board, updated its climate strategy and committed to the early closure of coal fired power stations. AGL have estimated the early closure of these power stations will reduce its emissions by 52 percent[8] by 2035 and move the company towards the goals of the Paris Agreement. This shift in AGL's strategic direction will have a positive impact on Australia's pathway to net zero, as well as lowering the overall systemic risk exposure of our members' investments.

Without ownership, responsible investors have little ability to influence high emitting companies. We believe active ownership, using the tools of company engagement, share voting and advocacy, is more effective than divestment. Simply selling shares in high emitting companies, without first attempting to change company behaviour, does little to mitigate the broader systemic risks of climate change. Our members' investments held across the globe are still exposed to these long-term climate-related risks and divestment effectively moves the problem to the next buyer of these shares.

Our approach to managing climate-related risks is carefully considered and informed by a wide breadth of investment expertise and research that prioritises members best financial interests. And we believe the approach detailed in this report and our progress towards our targets, can most effectively support a timely, equitable and orderly transition to a less carbon-intensive future we all want.

[7] https://www.apra.gov.au/quarterly-superannuation-statistics
[8] https://www.agl.com.au/content/dam/digital/agl/documents/about-agl/sustainability/ctap.pdf

why climate change matters to HESTA

HESTA's approach to managing climate-related risks rests on our core investment belief that members' best financial interests are served by having a deep commitment to responsible investing. This includes a timely, equitable and orderly transition to net zero emissions by 2050 in order to minimise the risks of climate change. Responsible investment is an approach to investing that incorporates the consideration of environmental, social and governance ('ESG') risks and opportunities into investment decision making and active ownership[9], to promote the best financial interests of members.

As long-term investors, we manage a broad range of risks and opportunities that have the potential to affect the performance of our investment portfolio, and ultimately, the returns we can deliver to members. We therefore incorporate responsible investment factors into our investment decision making to manage risks and opportunities, efficiently allocate capital, seek to enhance company performance and generate strong long-term returns for our members.

You can read the HESTA Responsible Investment policy to find out more about our approach to responsible investment.

Climate change is one of these factors that poses a material financial risk that is relevant to HESTA's management of its investment portfolio in the best financial interests of members.

Climate-related risk includes physical, transition and liability risks which can cause damage to assets, reduced revenue, increased costs, changes in asset viability, business disruption and penalties. Additionally, industries that fail to adapt to a low-carbon economy, may have workforces that become displaced, resulting in unemployment and precarious economic conditions for some communities.

As a large, and diversified asset owner, long-term climate-related risks exist for HESTA members, regardless of portfolio assets, as the risk is systemic. Systemic risks are those that threaten the functioning of the economic, financial and wider systems on which investment performance relies[10]. Management of the systemic risk that climate change presents, requires a Paris Agreement-aligned transition of the economy, which seeks to hold the increase in global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C.

The social impacts of climate change are of relevance to HESTA members, as the health and community services (HACS) sector is at the front line of dealing with impacts such as heatwave-related deaths, the spread of infectious diseases, and the potential social dislocation caused by climate refugees.

[9] https://www.unpri.org/investment-tools/stewardship/active-ownership-20
[10] Freshfields Bruckhaus Deringer, A legal framework for impact – sustainability impact in investor decision making, report commissioned by UNEP FI, The Generation Foundation and PRI, 2021.

HESTA has an important role to play in the transition to a low-carbon economy in line with the Paris Agreement goals, and we think there are investment opportunities that will help deliver long-term value for HESTA members while helping to facilitate the transition. To guide our actions, we have developed a Climate Change Transition Plan ('CCTP').

Climate Change Transition Plan

Governance

- HESTA Governance Framework
- Risk Appetite Statement
- Responsible Investment Policy
- Climate Change Statement
- Ongoing Board and Executive capacity building

Targets

- Net zero by 2050
- 50% normalised emissions reduction by 2030[1]
- 10% of portfolio invested in climate solutions by 2030[1]

Investment integration

- Portfolio objectives
- Climate Change Working Group
- Investment managers
- Investment opportunities

Active ownership

- Engagement and collaboration
- Escalation and exclusion
- Advocacy

Our actions are defined by

- **Net zero and interim targets**
- **Clear engagement pathways and escalation**
- **Focused industry advocacy**
- **Supporting the caring economy through the transition**

[1] Strengthened targets were announced in September 2022

The progress of the CCTP is explained in detail throughout this report. The actions related to HESTA's CCTP are centred around the belief that to manage climate-related risk, change must be achieved in the real economy, not just within our investment portfolio. With this focus, there are key elements to the CCTP that prioritise three areas of:

Integration

Integration of climate change into investment decision-making and capital allocation through portfolio-wide targets to reduce carbon emissions and invest in climate solutions.

Active Ownership

Engagement with portfolio companies to influence a shift in their strategy, governance and disclosure towards alignment with the goals of the Paris Agreement.

Our approach of active ownership enables us to use our shareholder voice to seek to influence companies with material climate-related risks and opportunities.

Advocacy

Advocating for targets aligned with net zero emissions by 2050 and support for an orderly and equitable transition to a low-carbon economy.

United Nations Sustainable Development Goals (SDGs)

HESTA endorses the ambitions of the United Nations Sustainable Development Goals (SDGs) as an ambitious framework to address systemic risks and identify areas of opportunity.

Our resourcing prioritises a number of SDGs including SDGs 7 and 13 that support the climate transition:

Through capital allocation, active ownership, and advocacy we aim to contribute to positive outcomes aligned with the aims of the SDGs.

the journey to net zero

LEGEND

- Denotes HESTA climate related actions
- Denotes external market events

2001

Launched the HESTA Eco Pool (evolved into what is now Sustainable Growth) investment option, an early adopter of select fossil fuel exclusions

IPCC Third Assessment Report finds human-induced emissions of greenhouse gases are the main cause of global warming

2005

Became a founding member of Investor Group on Climate Change (IGCC), including being represented on the Management Committee

Kyoto Protocol enters into force, committing 30+ industrialised nations to limit greenhouse gas (GHG) emissions

2006

One of the world's first pension funds to become a signatory of the Principles for Responsible Investment (PRI)

Became a signatory of the Carbon Disclosure Project (CDP)

First renewable energy investment through IFM Investors

The Principles of Responsible Investment (PRI) launches attracting 190 signatories worth USD9trn within 12 months

2007

The Climate Disclosures Standards Board (CDSB) is founded

2008

Represented the Australian industry funds on the P8 initiative[12]

Committed to the Poznan Communique on Climate Change

2009

Signed the Global Investor Statement on the Urgent Need for a Global Agreement on Climate Change

Undertook a climate change risk review

2010

Participated in the Australian Institute of Superannuation Trustees project to calculate the carbon footprint of HESTA's equities investments

Appointed Federated Hermes EOS to undertake engagement with international equities companies including on climate change

2011

Signed the Global Investor Statement on Climate Change

Surveyed our investment managers on the impact of the price on carbon

2012

HESTA's Board approved a Climate Change Policy

Introduced the first iteration of a low carbon equities portfolio

Australia's Clean Energy Finance Corporation launched to increase flows of finance into the clean energy sector ($10bn in first decade)

2013

Launched a Climate Change Policy Implementation Guide

The daily average concentration of CO_2 (carbon dioxide) in the atmosphere surpasses 400 parts per million (ppm) for the first time

2014

Restricted investment in unlisted and newly listed (from listing onwards) companies deriving 15% or more revenue from new or expanded thermal coal production across the HESTA portfolio

The Montreal Carbon Pledge mobilises 120 investors to measure, disclose and reduce their portfolio carbon footprints

2015

Committed to the Montreal Carbon Pledge

Introduced a low carbon international equities portfolio

Committed to the Paris Pledge for Action

The Paris Agreement is adopted by 196 parties at COP21

United Nations released the 2030 Agenda for Sustainable Development with 17 Sustainable Development Goals (SDGs)

Science based targets initiative (SBTi) established to enable companies to set emission reduction targets in line with leading climate science

2016

Reported the carbon footprint of our listed equities

Developed a climate change video for member education

2017

Reported the carbon footprint of our property investments

Introduced an exclusion of companies deriving any revenue from the mining of thermal coal for the HESTA Sustainable Growth investment option

Joined the Climate Action 100+ initiative

Adopted priority SDGs including SDG7 Affordable and Clean Energy and SDG13 Climate Action

Task Force for Climate-related Financial Disclosures (TCFD) recommendations announced

Victoria becomes the first state in Australia to legislate a net zero emission target[13]

Climate Action 100+ launched to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change, with HESTA a signatory

2018

Initiated development of HESTA's Climate Change Transition Plan

Signed on as a supporter of the Task Force for Climate-related Financial Disclosures

IPCC released special report calling for urgent climate action

2019

Certified carbon neutral operations under the Australian Federal Government's 'Climate Active' program (Trustee operations only)

Joined a working group for the Australian Sustainable Finance Institute (ASFI)

The European Commission commits to 'no net emissions of GHG by 2050' for the EU

2020

Pledged support for the Transition Pathway Initiative (TPI)

Strengthened thermal coal exclusion to apply to all listed companies, regardless of listing date

Announced emissions reduction target of 33% by 2030 and net zero by 2050

The IEA reports that solar PV becomes the cheapest source of energy in history[14]

The COVID-19 pandemic highlights the interconnections between health, poverty and climate change and the stability of the global financial system[15]

49% of global GDP covered Net Zero policies or legislation[16]

2021

Became a signatory of the Paris Aligned Investment Initiative (PAII)

Released HESTA's first climate report, Our Path to Net Zero

Signed the Institutional Investor Roundtable (IRR) letter to G7 leaders in support of the establishment of the International Sustainability Standards Board (ISSB)

Australia's Federal government announced a policy target of net zero emissions by 2050, with an interim target of 26-28% reductions by 2030[17]

2022

Strengthened our interim normalised emissions reduction target from 33% to 50% by 2030 (against a 2020 baseline)

Committed to investing 10% of the investment portfolio in climate solutions, such as renewable energy or green property, by 2030

Joined the Board of the Australian Sustainable Finance Institute (ASFI)

Strengthened fossil fuel exclusions, both portfolio wide and for the Sustainable Growth investment option

Australia's new Federal parliament legislates an emissions reduction target of 43% by 2030 and net zero by 2050

81% of global GDP covered by intended or legislated Net Zero commitments[18]

12. The P8 initiative brings together senior leaders from some of the world's largest pension funds to discuss global issues, including climate change.
13. https://www.legislation.vic.gov.au/in-force/acts/climate-change-act-2017/005
14. https://iea.blob.core.windows.net/assets/a72d8abf-de08-4385-8711-b8a062d6124a/WEO2020.pdf (page 18)
15. Carol A. Adams, Subhash Abhayawansa, Connecting the COVID-19 pandemic, environmental, social and governance (ESG) investing and calls for 'harmonisation' of sustainability reporting, Critical Perspectives on Accounting, Volume 82, 2022,
16. https://eciu.net/media/press-releases/2020/almost-half-of-global-gdp-under-actual-or-intended-net-zero-emissions-targets
17. https://www.smh.com.au/politics/federal/net-zero-by-2050-plan-uniquely-australian-morrison-20211026-p5937b.html
18. As per publicly sourced information available on https://zerotracker.net/. As at 29 September 2022.

progress towards net zero

We have been working to manage climate-related risks and capitalise on opportunities in our portfolio. We believe that this is not only in the best financial interests of our members, but will progress our contribution to a more sustainable world in which our members live, work and retire in. Our progress as at June 2022 includes:

Achieved 33% normalised (intensity based) reduction in measured portfolio emissions between 2020 and 2022 – 8 years ahead of our original 2030 target[19]

Strengthened our interim emissions reduction target to 50% reduction in normalised (intensity-based)[20] portfolio scope 1 & 2 emissions by 2030.

36% reduction in HESTA's own operational emissions from a FY19 baseline

Targeting net zero portfolio carbon emissions by 2050

More than 5% of the portfolio invested in climate solutions, and introduced a new target of 10% by 2030

Introduced a fund-wide exclusion for 'pure play' unconventional oil and gas companies[21]

Through Climate Action 100+, became lead investor on AGL

19. HESTA's normalised portfolio emissions measurement (and therefore tracking of progress against its 2030 target) covers scope 1 and 2 emissions of investments that sit within asset classes that at June 2022 comprised approximately 78% of funds under management, and included Australian and international equities, infrastructure, property, private equity, and the global credit and alternative credit components of global debt). Within those asset classes, due to data limitations, approximately 11% of infrastructure FUM and 3% of alternative credit FUM is subject to estimation; and reporting covered 94% of private equity FUM. Emissions associated with cash, alternatives, derivatives and global debt (ex-global credit and alternative credit) are not included due to lack of suitable emissions methodology for these asset classes. Some asset classes such as equities maintain a small cash allocation which is also excluded from the emissions measurement, however listed equities funds' market value may include allocations of cash. Where cash is included in market value, this may lead to a small understatement of emissions intensity than if this had been excluded. HESTA will seek to extend the coverage of its portfolio emissions measurement as new emissions measurement methodologies are developed, and to lower levels of estimation within its reporting as data availability improves.

20. Normalised carbon emissions scope 1 and 2 (tonnes CO_2e / $m invested) below the 2020 baseline. We've chosen normalised carbon emission as it represents HESTA's share (based on Enterprise Value) of real-world emissions.

21. You can read more about this on page 31.

key terms

This report makes references to terms that the reader may not be familiar with. As such, we have prepared this glossary to explain technical terms associated with our management of climate-related risks in HESTA's investment portfolio.

1.5°C pathway	A path of emissions reduction for a country, sector or company that aligns with or is moving toward alignment with the goals of the Paris Agreement to limit warming to well below 2°C and pursuing efforts to limit it to 1.5°C.
Active ownership	Active ownership (or stewardship) is how we influence management of responsible investment issues that can impact long-term returns at the company and market level by engaging with investment managers, portfolio companies, regulators and policy makers. HESTA pursues active ownership through the tools of engagement, voting and advocacy.
Carbon emissions	Carbon emissions has been used throughout this report to refer to greenhouse gas emissions. While the primary greenhouse gas is carbon dioxide, other greenhouse gases include methane, nitrous oxide, sulfur hexafluoride and specific hydrofluorocarbons and perflurocarbons. Carbon emissions or greenhouse gas emissions are measured as tonnes of carbon dioxide equivalent (CO2-e).
Carbon footprint	A carbon footprint is the total amount of greenhouse gas emissions that are generated by an individual or organisation's activities. An investment portfolio's carbon footprint is the sum of a proportional amount of each portfolio company's emissions (proportional to the amount of stock held in the portfolio).
Climate change	Climate change refers to long-term shifts in the average conditions, such as temperature and rainfall, in a region. This is in contrast to weather which refers to short term atmospheric conditions.
Climate solutions	Climate solutions are those that assist to address climate change and reduce the amount of carbon dioxide and greenhouse gases emitted into the atmosphere. Climate solutions may include (but not limited to) renewable energy assets, battery and storage technology and green property. HESTA identifies climate solutions using the SDI AOP Taxonomy and includes investments with alignment to UN Sustainable Development Goals (SDGs); SDG 7: affordable and clean energy, SDG 11.1: sustainable cities and communities and SDG 13: climate action.
Decarbonisation	Decarbonisation is the reduction of carbon emissions or greenhouse gas emissions resulting from human activity, for example, the use of low carbon power sources which results in a lower output of greenhouse gasses into the atmosphere.
Fossil fuel	A fossil fuel is a hydrocarbon, naturally formed from the buried remains of dead plants and animals that can be used as a source of energy. Coal, crude oil, and natural gas are all considered fossil fuels because they were formed from the fossilized, buried remains of plants and animals that lived millions of years ago.
Just transition	A just transition means, in seeking to achieve net-zero emissions and climate resilience, transforming the economy and economic system in a way that is as inclusive and fair as possible to everyone concerned, creates decent work opportunities and leaves no one behind.

Normalised scope 1, 2 and 3 emissions	From the point of view of an investor, we view emissions as: *Scope 1* – direct greenhouse gas emissions from a company's operations, e.g., emissions created by burning a fossil fuel (i.e. thermal coal, oil or gas, please see definition of fossil fuel in glossary) at a company's own facility *Scope 2* – indirect emissions from a company's operations, e.g., emissions created through electricity production which is used to power a factory. These emissions do not occur at a company's own facility. *Scope 3* – all other indirect emissions associated with a company's emissions supply chain that they do not own, i.e., the emissions associated with production of purchased inputs and emissions generated by a customer consuming the product a company involved in the production of fossil fuels. When we refer to emissions related to the HESTA portfolio, we refer to scope 1 and 2 normalised emissions in tonnes CO_2e per $AUDm invested. We have chosen normalised carbon emissions as it represents HESTA's share (based on Enterprise Value) of real-world emissions. Scope 1 and 2 carbon emissions are assessed based on the scope 1 (direct combustion) and scope 2 (electricity use) emissions of our investments. This is on the basis that reducing scope 1 & 2 will have flow on effects across the economy, thereby reducing scope 3 (value chain) emissions. We are still prioritising scope 3 emissions in engagement with companies, but in terms of target setting, we note that data availability for scope 3 emissions remains poor.
Operational emissions	Operational emissions refer to the total greenhouse gas emissions associated with an organisation's operations and includes, for example, emissions associated with office electricity consumption as well as air travel. For an investor, this is distinct from portfolio greenhouse gas emissions.
Paris Agreement	The Paris Agreement is a global framework to strengthen the global response to the threat of climate change and seeks to hold the increase in global average temperate this century to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C
Paris-aligned	A company or an investment is 'Paris-aligned' or progressing towards alignment with Paris Agreement goals if its strategy, governance and disclosures are consistent or moving toward being consistent with the Paris Agreement's long-term mitigation goal of limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C.
Responsible investment	Responsible investment is an approach to investing that incorporates the consideration of environmental, social and governance (ESG) risks and opportunities into investment decision making, and active ownership, to promote the best financial interests of HESTA members.
Thermal coal	Is coal that is used for electricity generation and heating. When HESTA references thermal coal in this report, the definition includes lignite, bituminous, anthracite and steam coal. The definition excludes metallurgical coal and coal mined for internal power generation (e.g. in the case of vertically integrated power producers). There is information about our thermal coal restrictions on page 48.

managing climate-related risk

Climate change can result in transition, physical and liability risks that can have system-wide impacts on financial stability, can adversely affect the global economy and cannot be mitigated solely by diversification or divestment. We believe that managing the systemic risk of climate change is part of our duty to act in our members' best financial interests.

We recognise the climate-related risks that are likely to impact HESTA, and therefore our ability to deliver strong, long-term returns to our members, can be categorised into the following three areas:

Transition risk	Physical risk	Liability risk
Risks associated with the response of governments, markets and society to climate change. This includes: • policy and regulatory responses; for example, carbon pricing, emissions restrictions, tariffs and trade and prudential regulation • technological developments for example, in the area of renewable energy technologies and • shifts in market stakeholder preferences, including those of debt financiers, equity investors and insurers, and the community.	Exposure to the physical impacts of climate change – on both the natural and built environment. These can include both: • gradual onset impacts such as increased average temperatures, changes in precipitation patterns and sea-level rise, and • acute catastrophic risks including the increased frequency and intensity of severe weather events like drought, heat waves, bushfires, extreme precipitation, and inland flooding events.	Occurs across categories as diverse as duties and disclosure, planning and administrative approvals, human rights and breaches in contract and duty. This includes the risks from companies not adequately managing the impacts of climate change potentially resulting in value destruction and a breach of directors' duties.

As part of managing climate-related risk across the three risk categories, we conduct analysis that enables us to take short-term (now to 2030) and longer-term (out to 2050 and beyond) views on the material impact of climate change to HESTA's investment portfolio. We have identified the short- and long-term key risks as:

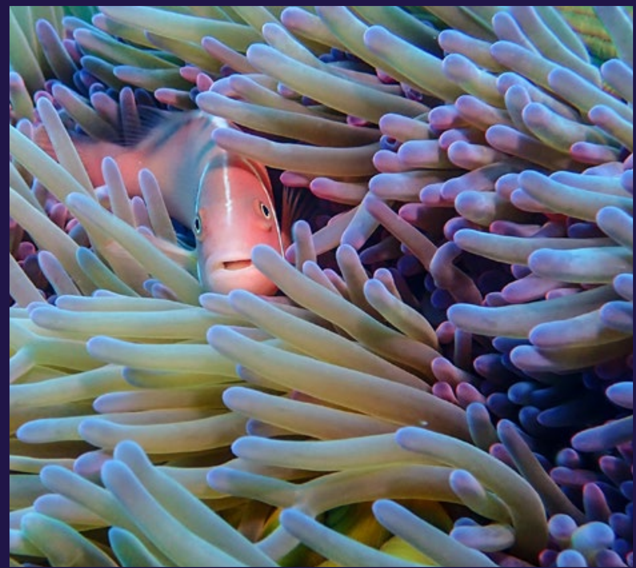
Short-term (2022-2030)	Long-term (2050 and beyond)
An abrupt and/or disorderly transition to a 1.5°C pathway, could lead to market repricing that has negative impacts on portfolio values and has disruptive effects to the economy and employment. Short-term risks are predominantly transition risks, though physical risks are already being experienced at current levels of warming. Transition risks include those associated with disruption or once structural adjustment.	The long-term risk is where significant warming leads to an increase in the frequency and/or intensity of climate change impacts and to economic and social damage, such as un-insurability and business disruption. Un-mitigated climate change would result in long-term risks that are predominantly physical and that can be expected to have a larger negative impact on returns than transition risks. Physical risks would persist and contribute to increased transition risk until mitigated by decarbonisation.

HESTA's CCTP considers these risks and has been designed to mitigate the impact the risks will have on HESTA's investment portfolio and market stability in the best financial interests of our members (and will likely, in turn, impact on the society and environment our members live, work and retire in).

Case study

The intersection with other systemic risks

Investors are increasingly viewing the loss of natural capital as a systemic risk for investment portfolios. Biodiversity loss has been identified as the third-most severe global risk after climate action and extreme weather, according to research produced by the World Economic Forum (WEF)[22]. The WEF also found over half of the world's GDP – an incredible $44 trillion USD – is moderately or highly dependent on nature[23].



Nature degradation presents a financial risk for businesses, shareholders and the global economy, and can have negative impact on communities. Protection of nature is also critical for mitigating climate change.

The State of the Environment report[24], released in 2022, painted a bleak picture of the rapid decline of Australia's biodiversity, highlighting the need for action. So, it's encouraging to see the Australian Government's response to the independent review of the Environment Protection and Biodiversity Conservation Act, including commitments to establish an independent Environment Protection Authority and establish new national standards to better engage First Nations peoples in decision making. The government has also announced a goal of no new extinctions over the next decade as part of its threatened species action plan.

How to protect and enhance natural capital and the implications for our investment portfolio is something we're thinking about at HESTA. HESTA endorses the ambitions of the UN SDGs and in 2022 added SDG 14 & 15 – Life below Water and Life on Land, respectively – to our priority SDGs. We've also joined the Task Force on Nature-related Financial Disclosures as a forum member. This is a forum devoted to developing a risk management and disclosure framework for organisations to act on evolving nature-related risks.

The sixth IPCC assessment report (see opposite page for more detail) makes clear that this decade is critical for action on climate change. We believe this elevates transition risk for companies in our portfolio, with the potential for physical and liability risks if not appropriately managed. Consequently, transition risk has been the focus of our recent actions.

We acknowledge the impact the physical risks of climate change present to the investments we manage on behalf of HESTA members. You can find a detailed analysis of the physical risks of climate change in the 2021 Climate Change Report: 'our path to net zero'.

Based on the information detailed in the IPCC report, we have commissioned external consultants to assist us to update our assessment of key physical risks in the portfolio and look forward to sharing our insights in our next CCTP progress report.

22. https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf
23. https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf
24. https://soe.dcceew.gov.au

> Managing climate-related risk (continued)

Intergovernmental Panel on Climate Change (IPCC)

In 2021, the IPCC released its sixth report[25], focusing on the impacts, adaptation and vulnerabilities from climate change, and sends a stark warning about the potential future if the world fails to take rapid climate action.

The report is clear that based on the implementation of current nationally determined contributions (NDCs)[26] – that is, the climate commitments of all countries around the world – it is likely that global warming will exceed 1.5°C within in the next two decades. Efforts to limit warming to below 2°C will require rapid acceleration of mitigation efforts.

> **"We need all hands-on deck for faster, bolder climate action. A window of opportunity remains open, but only a narrow shaft of light remains... We are getting dangerously close to the point of no return"[27]** – United Nations Secretary-General, Antonio Guterres

The report continues to state that drastic cuts in emissions and electrification across industries and sectors will be crucial to limiting global warming, as well as greening our cities and making the necessary changes in our own personal behaviours.

Since IPCC's 2021 report, the number of programs and regulations to mitigate climate change has steadily increased, leading to avoided emissions and more capital being allocated to low carbon technologies and infrastructure[28]. Yet, progress on the alignment of financial flows to the goals of the Paris Agreement remains slow and tracked climate financial flows are unevenly distributed across regions and sectors. Climate adaptation requires a coordinated, global, multi-stakeholder approach with governments and policy makers central to accelerating equitable climate action for all. You can read more on how we are advocating to the Australian government to shape outcomes that support the transition in the best financial interests of our members on page 46.

Climate change is a dynamic area of risk and opportunity that HESTA is committed to keeping abreast of as we seek to manage risk and capitalise on opportunities. The IPCC is widely recognised as a leading authority on climate change, and its reports provide a comprehensive and authoritative assessment of the latest scientific understanding of the causes, impacts, and solutions to climate change. By considering the Sixth Assessment Report by the IPCC, HESTA aims to ensure that our actions and decisions are informed by developments in the science of climate change.

25. https://www.ipcc.ch/report/ar6/syr/resources/spm-headline-statements
26. https://unfccc.int/ndc-information/nationally-determined-contributions-ndcs
27. https://www.un.org/sg/en/content/sg/speeches/2022-11-07/secretary-generals-remarks-high-level-opening-of-cop27
28. https://www.azocleantech.com/article.aspx?ArticleID=1584

Image by Andrea Lenke

integration

Approach: Integration of climate change into investment decision-making and capital allocation through portfolio-wide targets to reduce carbon emissions and invest in climate solutions.

Reflecting both the science and financial regulation, HESTA incorporates climate change into its investment process in pursuing the best financial interests of our members. This includes incorporation of climate change as part of investment strategy process, investment risk framework, stress testing, selection and review of investment managers, company engagement, investment in climate solutions and reporting.

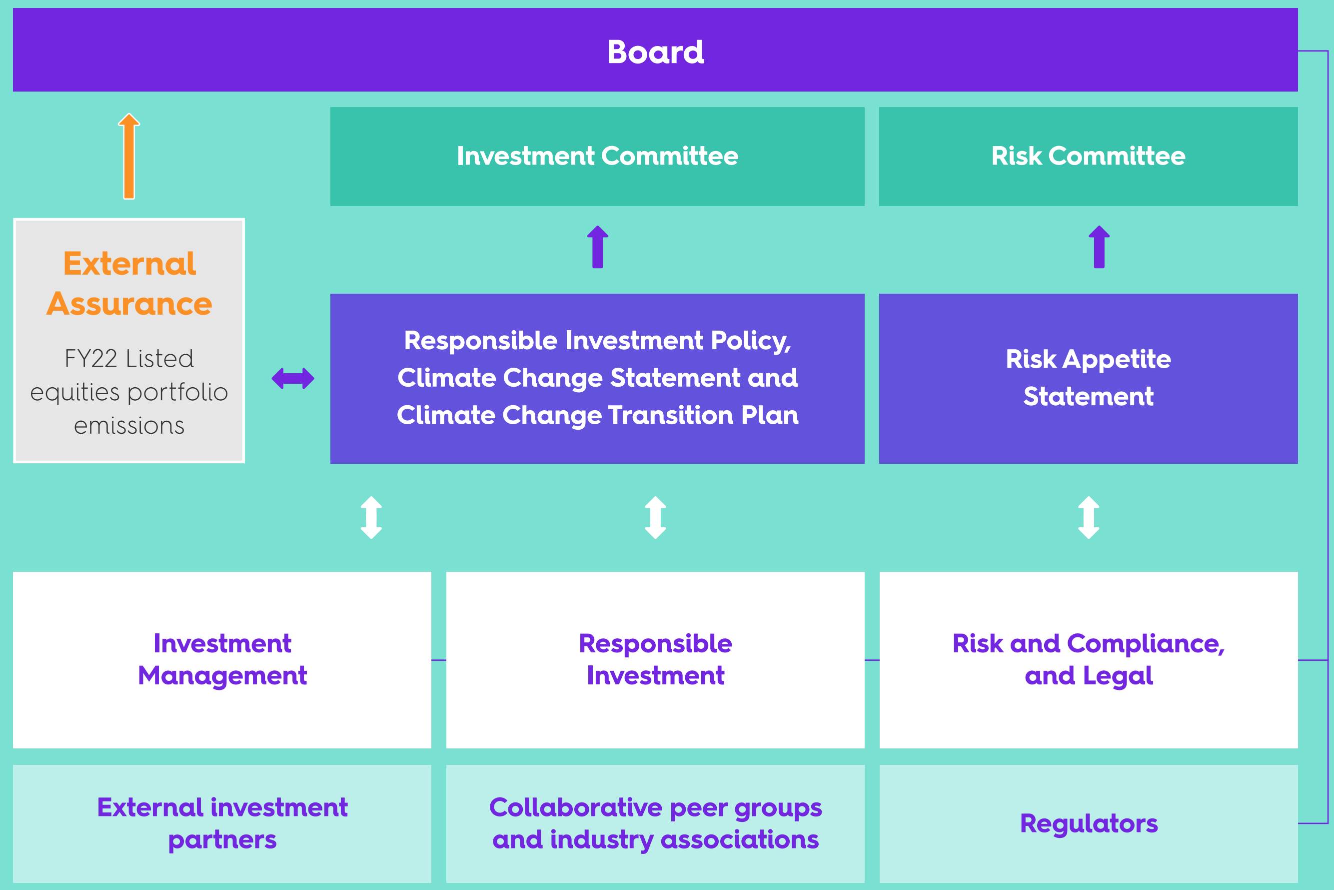
Governance

The principles and commitments that direct our approach to climate change are outlined in our Responsible Investment Policy (RI Policy), with the RI Policy being a component of the Fund's Investment Governance Framework.

HESTA has implemented the following controls and processes to manage the impact of climate-related financial risks:

- Climate-related risks are overseen by the Investment Committee (a sub-committee of the Board) which receives regular reporting on climate risk management.
- Management of climate-related risks is delegated to relevant executives, and roles and responsibilities have been defined for investment management and risk management teams.
- Climate-related risks are addressed in the Fund's Risk Appetite Statement.
- Public disclosure of the Climate Change Transition Plan in accordance with the recommendations of the TCFD.

Climate Change within the HESTA Governance Framework



Accountability and responsibilities

HESTA takes a fund-wide integrated approach to managing climate-related financial risks, with climate-related risks captured in HESTA's Risk Appetite Statement and our approach outlined in the RI Policy.

- The HESTA Board is responsible for the Fund's management of investments in a manner consistent with the best financial interests of members. The Board is responsible for approval of HESTA's Risk Appetite Statement and has delegated approval and oversight of the RI Policy to the Investment Committee.
- The Chief Executive Officer (CEO) has overall accountability to the Board and is responsible for ensuring that the RI Policy and its implementation is consistent with the overall strategy of the Fund and that there is alignment with external positioning.
- The Chief Investment Officer (CIO) is accountable for the implementation of the RI Policy.
- The Chief Risk and Compliance Officer is responsible for the Risk Appetite and Settings, as informed by the Fund's strategic and business plans.
- The General Manager, Responsible Investment (RI), is responsible for leading the implementation of the RI Policy working with the broader Investment Management team and supported by the Investment Execution, Legal and Risk & Compliance teams.

All of HESTA's Investment Management team are assigned key performance indicators related to responsible investment. Indicators include responsible investment integration, for which climate change is a priority, proactive management of investment risks and opportunities and contributing to the progression of the climate change transition plan and investments in assets that progress towards HESTA's climate solutions target.

Ongoing capability building across the Fund

Training on climate-related risk is regularly provided to HESTA's Board and comes from a range of subject matter experts across multiple channels on the thematic.

Over the FY2022, the Trustee Board received both written updates and in person training from responsible investment managers on climate related topics. In addition, a number of Board directors attended specific climate change education sessions held by various external industry groups including the Association of Superannuation Funds of Australia (ASFA), the Australian Institute of Superannuation Trustees (AIST), the Australian Council of Superannuation Investors (ACSI) and the Australian Institute of Company Directors (AICD).

In FY2022, the Responsible Investment team delivered fund-wide lunch and learn sessions to keep teams across HESTA informed about how the Fund is managing climate-related risk and driving down portfolio emissions. We also began development of a Climate Change Risk e-Learning module to be incorporated into the existing suite of compulsory training completed by employees on an annual basis. This will be launched for completion in the second half of FY2023.

APRA Guidelines – Climate Change Financial Risks

In early 2021, the Australian Prudential Regulator (APRA) released guidelines 'CPG229 Climate Change Financial Risks' for use by APRA regulated entities for the 'management of financial risks and opportunities arising from climate change'. In late 2021, the guidelines were adopted and in 2022, APRA entities (including super funds) were asked to participate in a self-assessment[29] survey seeking information on how organisations have aligned with the guidelines.

In feedback to the survey, APRA reported that the responses suggested that regulated entities are generally aligning well to APRA's guidance, especially in the areas of governance and disclosure. Climate risk, however, remains an emerging discipline compared to other traditional risk areas, with only a small portion of survey respondents indicating that they have fully embedded climate risk across their risk management framework.

HESTA's survey results indicated a high level of progress in our approach to climate risk management compared to entities across the superannuation sector as well as more broadly across financial services. As part of our approach to managing climate-related risk, we are continually working to improve our practices in what is a highly dynamic area and look forward to sharing further updates on our evolving approach in future reports.

Paris Aligned Asset Owners (PAAO)

Paris Aligned Asset Owner Commitment

In October 2021, HESTA was the first Australian super fund to become a signatory to the Paris Aligned Asset Owners (PAAO) group, a collaborative investor-led global forum that supports asset owners who have committed to achieving the goal of net zero greenhouse gas emissions by 2050 or sooner. PAAO signatories draw on the Net Zero Investment Framework (NZIF) to deliver these commitments.

The NZIF is recognised as one of the world's leading frameworks for net zero target setting and by becoming a signatory to the PAAO, HESTA formally commits to transitioning the investment portfolio to net zero by 2050 or sooner, with the aim of achieving emissions reductions in the real economy.

HESTA's climate ambitions align with the NZIF's focus on adaptation, resilience and other important themes that need consideration as we progress towards a lower carbon world.

We look forward to collaborating with the global asset owner network to support the development of guidelines and methodologies that guide best practice to collectively progress towards net zero.

In November 2022 the investor networks that deliver the PAAO group released its first Progress Report since signatories committed to the initiative, which includes the commitments signatories have made, methodology embedded in the framework and case studies across signatories, including HESTA[30].

29. https://www.apra.gov.au/information-paper-climate-risk-self-assessment-survey

30. https://www.parisalignedinvestment.org/media/2022/11/PAAO-Progress-Report-November2022_Final.pdf (pages 46 and 59)

climate targets

To manage climate-related risk and continue to work towards alignment with the Paris Agreement, HESTA has set climate targets. These are summarised below together with our plan to achieve each target, how we will measure our progress and assumptions made.

In 2020, HESTA declared its ambition to reach net zero carbon emissions across our investment portfolio by 2050. We also set an interim target to achieve a 33% reduction in normalised emissions[31] below the 2020 baseline, by 2030. Normal emissions refer to the scope 1 and 2 carbon-equivalent emissions intensity of our portfolio per $AUD million invested.

After achieving our initial interim target, in September 2022, HESTA strengthened its interim emissions reduction target to 50% reduction in normalised emissions below the 2020 baseline, by 2030.

We measure progress toward our 2030 and 2050 carbon reduction targets through monthly measurement of emissions for listed equities and annual measurement for all other asset classes. Our progress, which will not necessarily follow a linear reduction trajectory, is reported through this Climate Change Report. We expect to meet our 2030 interim emission reduction target primarily through active ownership which encourages companies to set and achieve carbon reduction targets that move towards alignment with a 1.5°C transition pathway.

Where we consider that there are significant residual climate-related risks and or companies' actions are clearly misaligned with a 1.5°C transition pathway, we may use our escalation framework. You can read more about our escalation framework on page 41.

31. We have chosen normalised carbon emission as it represents HESTA's share (based on Enterprise Value) of real-world emissions. Scope 1 and 2 emissions – carbon emissions are assessed based on the scope 1 (direct combustion) and scope 2 (electricity use) emissions of our investments. This is on the basis that reducing scope 1 & 2 will have flow on effects across the economy, thereby reducing scope 3 (value chain) emissions. We are still prioritising scope 3 in engagement with companies, but in terms of target setting, we note that data coverage for scope 3 emissions remains poor.

In 2022, HESTA also set a target to have 10% of the portfolio invested in climate solutions opportunities by 2030.

We measure progress toward our 2030 climate solutions target through annual measurement of investments aligned to the United Nations Sustainable Development Goals (UN SDGs) 7, 11.1 and 13, such as renewable energy and sustainable property or companies pursuing climate solutions, according to the Sustainable Development Investments Asset Owner Platform (SDI AOP) Taxonomy. Our progress is reported through our Climate Change Report.

We expect to achieve our target through deployment to renewable energy grid, firming and related infrastructure, as well as through anticipated greening of international equity markets and benchmark indices and therefore do not expect increases in climate solutions to be gradual and linear. You can read more about investment opportunities on page 25.

Target assumptions

The following assumptions have been relied upon in setting and tracking progress in relation to the above targets:

- That HESTA remains a diversified investor with exposures to emissions-intensive companies;
- Emissions-intensive companies will successfully deliver their current climate targets;
- That our engagement, in collaboration with other investors, will be successful in encouraging emissions-intensive companies to set and deliver more ambitious targets;
- That the global economy will achieve net zero emissions by 2050;
- That international equities indices will transition in composition to include a greater proportion of companies who derive revenue from climate solutions; and
- That accurate data is supplied by our investment managers and external data providers.

scenario analysis

Strategic Asset Allocation (SAA)

The Strategic Asset Allocation (SAA) for each of HESTA's investment options is reviewed annually. We consider a broad range of risks as part of the annual review of our investment strategy and long-term strategic asset allocation process. This includes incorporating climate change into our long-term capital market assumptions (expected returns) and stress testing the impact of historic and forward-looking scenarios (including climate and other systemic risks) to help balance risk and meet return objectives.

During the process we incorporate long-term capital market assumptions that includes climate change considerations. These are applied across the different asset classes to establish a strategic allocation that balances the risk trade-off between risk and returns. The ultimate purpose of this process is to ensure we best meet our members long-term retirement outcomes.

Once we have determined the best allocation mix to meet objectives, we apply climate change scenarios relating to increasing temperatures (across 2°C, 3°C and 4°C) to stress-test the portfolio.

The data that drives this analysis comes from REMIND, a model developed by the Potsdam Institute for Climate Impact Research[32] linking a macro-economic growth model with a bottom-up, engineering-based energy system model. It covers 12 world regions, differentiates various energy carriers and technologies and represents the drivers of economic growth and international trade.

This analysis helps us to assess the potential impacts of climate change on returns over 5- and 10-year horizons and allow us to develop strategies that consider these risks. Analysis was conducted by Mercer for HESTA as early as 2019 and we are currently undertaking further scenario analysis which includes a 1.5°C scenario, as part of the annual strategic review that will be considered by the Investment Committee in FY2023.

Analysis of climate impacts using the Network for Greening the Financial System (NGFS)

In FY2022, HESTA's Investment Management team also undertook analysis of the potential macroeconomic impacts under various climate change scenarios based on scenarios published by the Network for Greening the Financial System (NGFS). The NGFS climate scenarios aim to provide central banks and financial supervisors with a common starting point for analysing climate-related risks under different future pathways. Its aim is to strengthen the global response required to meet the goals of the Paris Agreement.

The analysis utilised NGFS' climate scenarios by assessing probabilities and evaluating the impact of climate-related risk on GDP and inflation for the Australian and US economies. The research across a range of scenarios concluded that orderly scenarios that keeps global warming to 1.5°C and below 2°C and sees the immediate introduction of climate policy would contribute to an increase in employment in Australia but could also lead to higher energy prices and inflation, reiterating the important role of policy in ensuring a timely and equitable transition.

This is just one example of the insight this analysis provides and enables us to position the investment portfolio to navigate the climate transition and manage the impact to member returns.

32. https://www.pik-potsdam.de/en/institute/departments/transformation-pathways/models/remind

investment managers

Selection, appointment and monitoring of managers

HESTA invests globally across a range of asset classes, both directly through internal investment teams and indirectly through external investment managers. All members of the Investment Management team are responsible for integrating responsible investment (including climate change) into investment processes. At the asset class level, this includes the integration of climate targets into asset class mandates. At the strategy level, for our internally managed strategies, our responsible investment team works closely with internal investment management to ensure climate change is integrated into their direct strategies. While for external managers, we seek to partner with external investment managers that are aligned with our beliefs and corporate values.

Our investment manager and asset selection processes, which are part of investment due diligence, include assessment of responsible investment factors (including climate change). In the case of investment managers, it includes an assessment of their approach to climate change risk management, their incorporation into investment decision-making and their approach to active ownership (engagement with portfolio companies). In the case of co-investments and direct investment, assessment also includes assessment of asset level climate considerations.

Once appointed, we regularly monitor the performance of our external investment managers on how they manage responsible investment factors under their mandates, including the risks associated with climate change. This monitoring includes manager portfolio emissions measurement and reviews of how responsible investment factors including climate change have influenced decisions relating to the selection, retention or realisations of investment and active ownership. Insights from our monitoring program are incorporated into annual asset class reviews.

Assessment of managers in FY2022

As part of our regular performance monitoring of our external investment managers, in FY2022, we conducted a deep dive into the outcomes achieved by the application of their climate change policies and processes. We determined where the material emissions in the portfolio were coming from and identified managers to focus on across listed equities (both Australian and international), global debt, infrastructure and private equity asset classes. The monitoring targeted the largest emitting assets in each manager's portfolio and those that are potential laggards in their carbon risk management strategies, as identified using data and analysis from Climate Action 100+ (CA100+) and the Transition Pathway Initiative (TPI). The assessment was based on the following methodology:

Carbon Footprint

- Collate asset class data and calculate footprint across all asset classes
- Identify portfolios with the largest contribution to carbon footprint

Data Mapping

- Map the largest 5 contributors in each portfolio to CA100+ and Transition Pathway Initiative data (listed)

Survey Construction

- Show each manager their footprint across the manager line-up
- Construct targeted questions to understand the management of risks and opportunities related to climate change

We provided each manager with a bespoke analysis of their portfolios and sought their feedback which was then assessed against three areas of:

Risk Management	How managers are underwriting climate-related risks
Opportunity	How managers are investing in climate opportunities
Engagement	How managers are engaging with their material carbon emitters to reduce real-world emissions

The key findings resulting from the engagement were:

1. Managers with a sustainability focus to their investment approach demonstrated better climate risk management techniques.

2. Net Zero Asset Managers initiative signatories demonstrated better engagement outcomes with portfolio companies than other managers.

We have used the results of the analysis to develop ongoing priorities for engagement with our external managers and further enhance our investment due diligence process. HESTA will continue to work with its investment managers to uplift practices across the three areas of risk management, opportunity and engagement and encourage managers to set and progress climate commitments that are consistent with the Paris Agreement goals.

Manager
Case Study

One of HESTA's pathways to the emerging markets is through Martin Currie, a global investment manager deploying a high conviction, active management strategy in equities across both developed and emerging markets.

MARTIN CURRIE

As part of the manager deep dive as highlighted on the previous page, we asked Martin Currie to provide information about how their engagement approach helps to achieve real-world emissions reduction. The emerging markets asset class has at times been considered a laggard in managing responsible investment risks in investment portfolios, however, Martin Currie's approach and their supporting research[33], suggests there are companies in developing economies demonstrating leadership in their climate risk management strategies.

The process

Climate change forms part of Martin Currie's assessment of portfolio companies' material risks and opportunities and is embedded into its investment process. They analyse the extent to which companies understand, manage and mitigate risks presented by climate change and how they embrace potential opportunities.

Martin Currie produces a carbon footprint each month for all portfolios, which analyses the carbon emissions and intensity of emissions relative to the benchmark.

Where they identify a particular material issue, this will inform their engagement activity with portfolio companies. When engaging on a material issue, they set out clear objectives for what they are looking to achieve and then monitor progress towards this.

To make the best use of their research time, Martin Currie have created hierarchies of the most material issues by industry. This way, they can gauge whether management teams of portfolio companies are focusing on the right areas. This approach is backed up by research showing a clear link between a firm's integration of material sustainability issues, and enhanced shareholder value.

The outcome

Martin Currie is the lead investor for the Climate Action 100+ engagement with Ultratech, a cement producer in India. UltraTech has responded positively to engagement, committing to a carbon reduction plan which aims to see them carbon neutral by 2050.

Martin Currie believes that Ultratech's improved responsible investment performance and demonstration of leadership in the sector will potentially make the company more attractive to investors and drive positive outcomes for all stakeholders. UltraTech is a member of the Cement Sustainability Initiatives (CSI) of the World Business Council and has taken steps to source energy from cleaner and more renewable sources. Martin Currie believes UltraTech shows leadership qualities compared with global industry peers and demonstrates a commitment to addressing negative externalities in a constructive way.

This is particularly pertinent given the cement sector is an emissions intensive sector. India is one of the leading countries in terms of producing some of the lowest CO_2/tonne cement, so Martin Currie believes this is an example where global counterparts have an opportunity to learn from the emerging markets.

[33] https://www.martincurrie.com/_data/assets/pdf_file/0020/13835/StewardshipMattersEdition3.pdf

investment opportunities

The transition to a low-carbon world is underway and rapidly accelerating. Investment in climate solutions (as distinct from low-carbon investing) is a critical enabler of the transition and offers potential outperformance opportunities. *That is why we are aiming to invest 10% of HESTA's portfolio by 2030 in climate solutions.*

Climate solutions may include renewable energy assets, battery and storage technology, sustainable property or solutions supporting a circular or low carbon economy whereas low carbon investing focuses on minimising investment in carbon producing companies.

We are using data sourced from the Sustainable Development Investments Asset Owners Platform (SDI AOP) to measure how HESTA's investments are contributing to the ambitions of the United Nations Sustainable Development Goals (SDGs), according to the Sustainable Development Investments (SDI) taxonomy[34].

The SDI AOP provides a robust and consistent framework to identify climate solution investments, aligned with relevant SDG targets we believe we can contribute to. These are:

7 AFFORDABLE AND CLEAN ENERGY

7.1 Ensure access to affordable, reliable and modern energy services

7.2 Increase the share of renewable energy

7.3 Double the global rate of improvement in energy efficiency

11 SUSTAINABLE CITIES AND COMMUNITIES

11.1 Ensure access for all to adequate, safe and affordable housing and basic services (e.g. Sustainable Property GRESB 4-5 stars real estate)

13 CLIMATE ACTION

13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters

[34] https://www.sdi-aop.org/sdi-classification/

HESTA already has more than 5%[35] of the portfolio invested in climate solutions including the following:

Sustainable property rated 5* by GRESB

- ISPT Core Fund
- Investa Commercial Property Fund (ICPF)
- ISPT Retail Australia Property Trust
- Eureka Property Fund 5
- AEW Core Property Trust (U.S.) Inc.
- Heitman America Real Estate Trust, L.P.

Renewable energy

- X-Eillo
- Snowtown 2 Wind Farm
- Ross River Solar Farm
- Nitrogen Renewables
- Virescent Infrastructure
- SolSystems
- Rio Energy Wind Farm
- Vestas Wind Systems A/S – manufactures wind turbines
- China Longyuan Power Group Corp Ltd – wind power producer
- Sunrun Inc – solar energy and battery storage

Other climate solutions

- Tesla Inc – solar and energy solutions, electric vehicles
- Contemporary Amperex Technology Co Ltd – Lithium-ion battery development
- NIO Inc – Produces electric vehicles
- Aggreko – Battery energy solutions
- ChargePoint – Electric vehicle charging stations

Data as at 30 June 2022

35. As at 30 June 2022. Identification of opportunities is based on the SDI AOP Taxonomy and includes investments with alignment to UN Sustainable Development Goals (SDGs); SDG 7: affordable and clean energy, SDG 11: sustainable cities and communities and SDG 13: climate action.

Our approach seeks to identify opportunities that provide strong risk-adjusted returns[36] and SDG alignment. Increased portfolio exposure could come from new capital allocations to dedicated strategies, new investments within existing mandates and the greening of listed investment indices over time. We have already begun allocating capital to assets that contribute towards our 2030 target with the following recent examples of where we have made changes in the portfolio:

Mandate	Asset class	Contribution to HESTA climate ambitions
Intera	Infrastructure	Intera is a renewable energy platform, comprising 5 assets (4 wind farms, 1 solar farm). This increases HESTA's exposure to renewable energy assets, while contributing to stable, long-term returns. The investment in Intera adds to HESTA's existing investments in the Ross River Solar Farm and Snowtown Wind Farm.
ReNu Energy – Countrywide Hydrogen	Infrastructure	HESTA has signed a non-binding term sheet with ReNu Energy for the investment of up to $100m supporting ReNu's proposed green hydrogen projects. HESTA's proposed investment is intended to support domestic green hydrogen projects from concept to production to be used in gas networks and industrial applications.

Source: Snowtown Wind Farm, Getty images

US Inflation Reduction Act – How the US is shaping opportunities to climate solutions

The Biden Administration has continued to make progress in implementing its climate-related election commitments[37]. One of the actions President Biden undertook after coming into power was to re-join the Paris Agreement and set a national goal of reducing emissions by 50-52% by 2030 (from 2005 levels), with the goal of achieving net zero by 2050.

In August 2022, the US administration passed the national Inflation Reduction Act. The Act commits to scaling renewable energy infrastructure and increasing deployment of clean energy solutions across the country, which aims to create new jobs while driving down energy prices for households.

While the Act focuses on policy change in the US domestic market, it is also likely to bring benefits to large and diversified asset owners like HESTA. Firstly, the Act is expected to reduce US carbon emissions by around 40% by 2030 below 2005 levels, supporting our efforts to reduce real world global emissions and thereby managing climate-related risk to our portfolio. Secondly, the uplift in renewable and clean energy solutions in the US will provide new investment opportunities for global investors through an increase in renewable assets and investible climate solutions across US indices, supporting HESTA's progress towards achieving its 10% climate solutions target by 2030.

36. Strong risk-adjusted returns are investment returns which in our assessment, provide adequate compensation (the return) for the risks associated with the investment.

37. https://www.whitehouse.gov/climate/

measuring portfolio objectives

Portfolio measurement

In measuring our portfolio emissions, we have focused on the asset classes that make up the largest proportion of our assets under management and for which data and appropriate methodologies exist. HESTA's normalised portfolio emissions measurement (and therefore tracking of progress against its 2030 target) covers scope 1 and 2 emissions of investments that sit within asset classes that, as at June 2022, comprised approximately 78% of funds under management (FUM). This included Australian and international equities, infrastructure, property, private equity, and the global credit and alternative credit components of global debt.

HESTA's attributed Scope 1 and 2 emissions (based on Enterprise value) for listed equities are calculated as per the Partnership for Carbon Accounting Financials (PCAF) methodology[38]. Data is based on portfolio holdings as at 30 June 2022, and is sourced from MSCI BarraOne software which reports company reported emission numbers and MSCI modelled emissions where needed. Where there is a lag in company reporting, this may be reflected in the underlying emissions and enterprise value data used in calculations for individual companies. Any further gaps in company scope 1 and 2 data are proxied using GICS sector averages taken from MSCI BarraOne. Listed equity funds' market value may include allocations of cash.

Within other asset classes, due to data limitations, approximately 11% of infrastructure FUM and 3% of alternative credit FUM is subject to estimation; and reporting covered 94% of private equity FUM. Emissions associated with cash, alternatives, derivatives and global debt (excluding global credit and alternative credit) are not included due to lack of suitable emissions methodology for these asset classes. Some asset classes such as equities maintain a small cash allocation which is also excluded from the emissions measurement.

HESTA will seek to extend the coverage of its portfolio emissions measurement as new emissions measurement methodologies are developed, and to lower levels of estimation within its reporting as data availability and methodologies continue to improve.

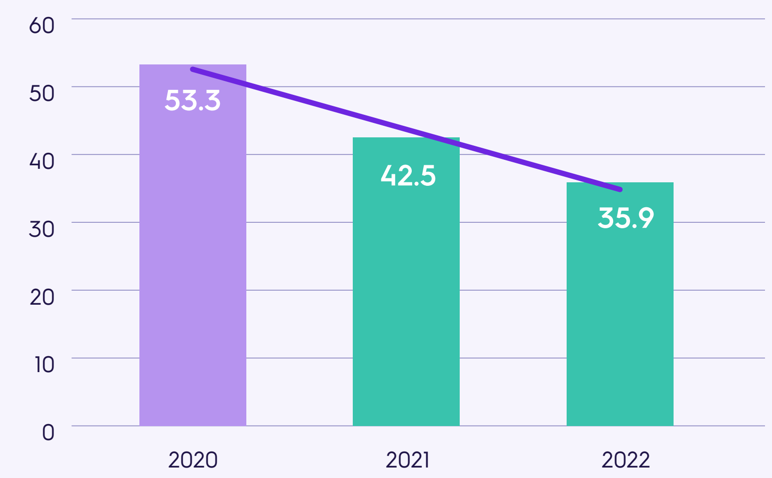
[38] Page 52 – https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf)

Portfolio carbon footprint

Achieving a 33% decline in normalised footprint (tCO_2e per AU$M invested) of measured portfolio emissions from FY20 to FY22

HESTA's FY22 normalised portfolio emissions declined by almost 16% from FY21 to 35.9 tCO_2e per $AUD million invested and by 33% from the FY20 baseline.

Normalised Carbon Footprint (tCO_2e/$m)



This decline has led to HESTA meeting its previous 2030 target of 33% normalised emissions reduction early

Australian equities and international equities are the largest contributors to HESTA's portfolio's normalised carbon emissions, at 43.3 tCO_2e per $AUD million invested.[39] Pleasingly, normalised emissions for both asset classes[40] is below that of the benchmark[41]. The largest decline in emissions intensity between FY21 and FY22 came from Australian equities. This decline was primarily due to a change in the manager line up with reduced active exposure to carbon intense holdings.

Reductions also came from portfolio changes by the global debt manager. In contrast, infrastructure emissions increased due to the acquisition of a carbon intense asset, which is to be transitioned.

We acknowledge ongoing decreases in our portfolio carbon intensity may not be linear year on year over the period heading into 2030. In some periods, there may be significant step-changes in our emissions reduction. In others, emissions exposures may even increase against their relevant benchmarks (where, as is the case for Australian and international equities, we are able to measure emissions against benchmarks). In all circumstances, however, we remain focused on stewardship of our portfolio towards the end-goal of decarbonisation in the best financial interests of members.

[39] Subject to independent assurance by EY, refer to the limited assurance statement on page 49.

[40] The current footprint covers 78% of FUM, with cash, sovereign debt, alternatives and derivatives not yet included.

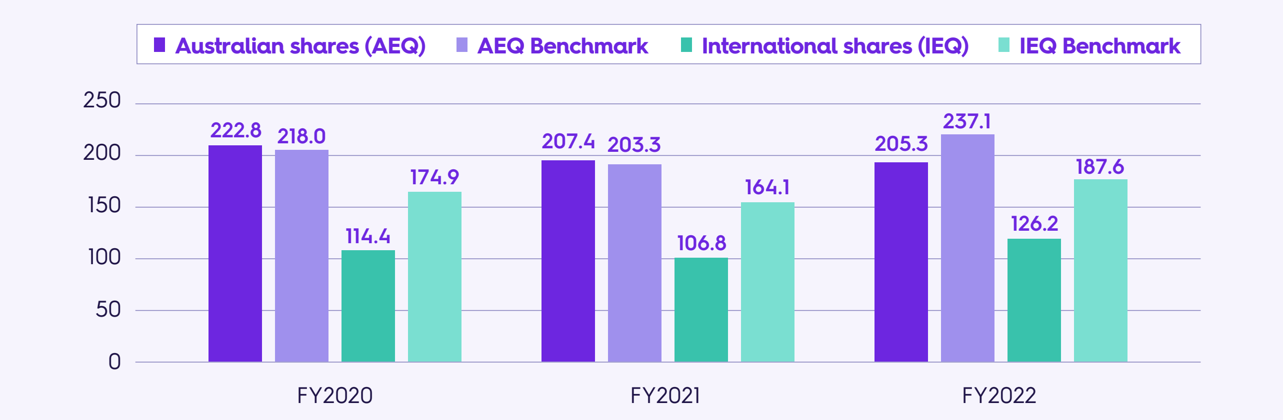
[41] The Australian equities benchmark is the S&P/ASX300 and the International equities benchmark is calculated by blending 77.5% allocation to the MSCI World Ex Australia Index and 22.5% allocation to the MSCI Emerging Markets index.

Weighted Average Carbon Intensity (WACI) at 30 June 2022

The following table shows the HESTA Australian and international equity portfolios exposure to carbon intensive companies compared to their benchmarks.

WACI – Scope 1 and 2 intensity in tCO_2e/USDm

Weighted Average Carbon Intensity (WACI) as at 30 June 2022



*The Australian equities benchmark is the S&P/ASX300 and the International equities benchmark is calculated by blending 77.5% allocation to the MSCI World Ex Australia Index and 22.5% allocation to the MSCI Emerging Markets index.

The benchmark's WACI increased from FY2021 to FY2022 across both Australian and international equities, as the weight of carbon intensive sectors increased in both asset class benchmarks as a result of the significant increase in share price of many oil and gas companies over the year.

HESTA's Australian equities portfolio WACI finished FY2022 below the benchmark, given our reduced exposure to carbon intensive companies and our returns for the period were above the peer group median[42]. The international equities portfolio WACI increased slightly in FY2022, attributable to a slightly higher allocation to carbon intensive sectors globally but remained substantially below that of the benchmark.

Fossil fuel exposure

We analyse HESTA's total portfolio exposure to companies deriving revenue from the mining, energy generation, refining, extraction, and pipeline transportation of fossil fuels (please see page 31 for more information).

Exposure by FF type		FY22 %
Thermal coal mining[43]		0.04%
Fossil fuel-based[44] energy generation		0.28%
Oil and gas:	– refining	0.61%
	– extraction	1.41%
	– pipelines	1.99%
Total fossil fuel exposure		**4.33%**

Consistent with our approach to active ownership (you can read more on page 33), we retain a small exposure to fossil fuel holdings. While the ongoing conflict in Ukraine saw large supply chain disruptions, leading to higher oil and gas prices that increased the market valuations of energy companies, our exposure to fossil fuels on a look-through basis remains under 5% materiality of the portfolio and reduced by 0.10% since our last report.

42. SuperRatings Fund Crediting Rate Survey - SR50 Australian Shares Index for June 2022.
43. Our data provider identifies companies deriving revenue from the mining of thermal coal and includes lignite, bituminous, anthracite and steam coal and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading. HESTA excludes investment from companies deriving 15% of more revenue from the mining of thermal coal, as defined on page 32, and the small thermal coal mining exposure comes from investment in companies not captured by the revenue threshold.
44. Fossil fuel refers to thermal coal, liquid fuel and natural gas-based power generation.

Enhanced portfolio exclusions

Our consideration of climate-related investment risk is not static, with our approach regularly reviewed and enhanced to reflect developments in areas such as science, transition progress and evolving stakeholder expectations. In 2014, HESTA announced restrictions on investment in unlisted and newly listed (from listing onwards) companies deriving 15% or more revenue from new or expanded thermal coal[45] developments across the portfolio. This exclusion was strengthened in 2020 to apply to all listed companies regardless of listing date. In FY2022, we again conducted analysis on the potential for stranded asset risk across the oil and gas sector with the following factors considered:

- Exposure to transition risk resulting from policy or technology change
- High emissions intensity relative to other assets
- High production costs relative to other assets
- Social licence to operate
- Responsiveness to engagement.

The analysis concluded that unconventional oil and gas, which includes tar sands, shale oil and gas and coal seam gas, represented the highest stranded asset risk not already covered by the existing exclusions as these resources were the most expensive and emissions intensive.

HESTA's small portfolio exposure to 'pure play' unconventional oil and gas producers meant an exclusion could be implemented with manageable impact to portfolio risk and returns. As a result of this analysis, we have strengthened our fossil fuel exclusions by implementing an exclusion of investment in companies deriving 75% or more revenue from the extraction, production and refining of unconventional oil and gas, and 75% or more of its reserves from unconventional oil and gas.

Sustainable Growth

In 2017, we introduced investment restrictions to the Sustainable Growth investment option for companies that derive revenue from the exploration and production of fossil fuels[46].

During FY2022, we enhanced the Sustainable Growth investment option's fossil fuel exclusions by implementing an exclusion for companies that have any (reported) total volume of proved and/or probable reserves of fossil fuel[47], and companies deriving 50% or more revenue from indirect services to the fossil fuel sector. For example, the provision of specific materials, contracted services and transportation.

The HESTA Sustainable Growth investment option has been certified by the Responsible Investment Association Australasia (RIAA) according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See **www.responsiblereturns.com.au** for details[48].

CERTIFIED BY RIAA

The RIAA Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations.

45. Thermal coal includes lignite, bituminous, anthracite and steam coal and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading. You can find more information in the HESTA Investment Choices book.
46. Fossil fuel restrictions include thermal coal, conventional and unconventional oil and gas. More information about Sustainable Growth's exclusions can be found on our website.
47. Exclusion relates to thermal coal, metallurgical coal and oil and gas. The data provider does not differentiate between conventional and unconventional oil and gas reserves.
48. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Following is a table of all exclusions related to fossil fuel companies as at 30 September 2022:

Portfolio-wide exclusion	Further exclusions to Sustainable Growth
Any listed company that derives 15% or more revenue from the mining of thermal coal. Thermal coal includes lignite, bituminous, anthracite and steam coal and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.	Any company that derives any revenue from the mining or exploration of thermal coal or the extraction, production, refining of conventional and unconventional oil and gas, or; has any total volume proved and probable reserves of thermal coal and metallurgical coal; or has any total volume of proved reserves of oil and gas[49];
Any unlisted company that derives 15% or more revenue from mining or transportation of thermal coal	Any company that derives 15% or more revenue from the generation of electricity from fossil fuels or transportation, distribution or retailing of conventional and unconventional oil and gas; or*
Any company that derives 75% or more revenue from the extraction, production and refining of unconventional oil and gas, and 75% or more of its reserves from unconventional oil and gas. Unconventional oil and gas includes tar sands, shale oil and gas and coal seam gas.	Any company derives 15% or more revenue from equipment and services for the exploration and production of conventional and unconventional oil and gas; or*
	Any company that derives 50% or more revenue from indirect services to the fossil fuel sector. For example, the provision of specific materials, contracted services and transportation*.

*Transitioning companies – companies that are indirectly involved in the fossil fuel sector may be permitted for investment where they can demonstrate a clear climate change transition path aligned to the Paris Agreement (through 10% or more revenue derived from renewable energy generation and either a Science-Based Target or Transition Pathway Initiative score of 2°C and below). The option currently holds a very limited number of companies within the private equity asset class that generate >50% of their revenue from the provision of services to the oil and gas sector. While some of these assets have been exited to-date, due to the illiquid nature of the assets, further time is required to exit the remaining assets and is anticipated to occur by July 2025.

You can read more about HESTA's portfolio exclusions and restrictions in the Investment Choices book on our website.

[49] The external data provider does not differentiate between conventional and unconventional oil and gas reserves.

active ownership

Approach: Engagement with portfolio companies to influence a shift in their strategy, governance and disclosure towards alignment with the goals of the Paris Agreement.

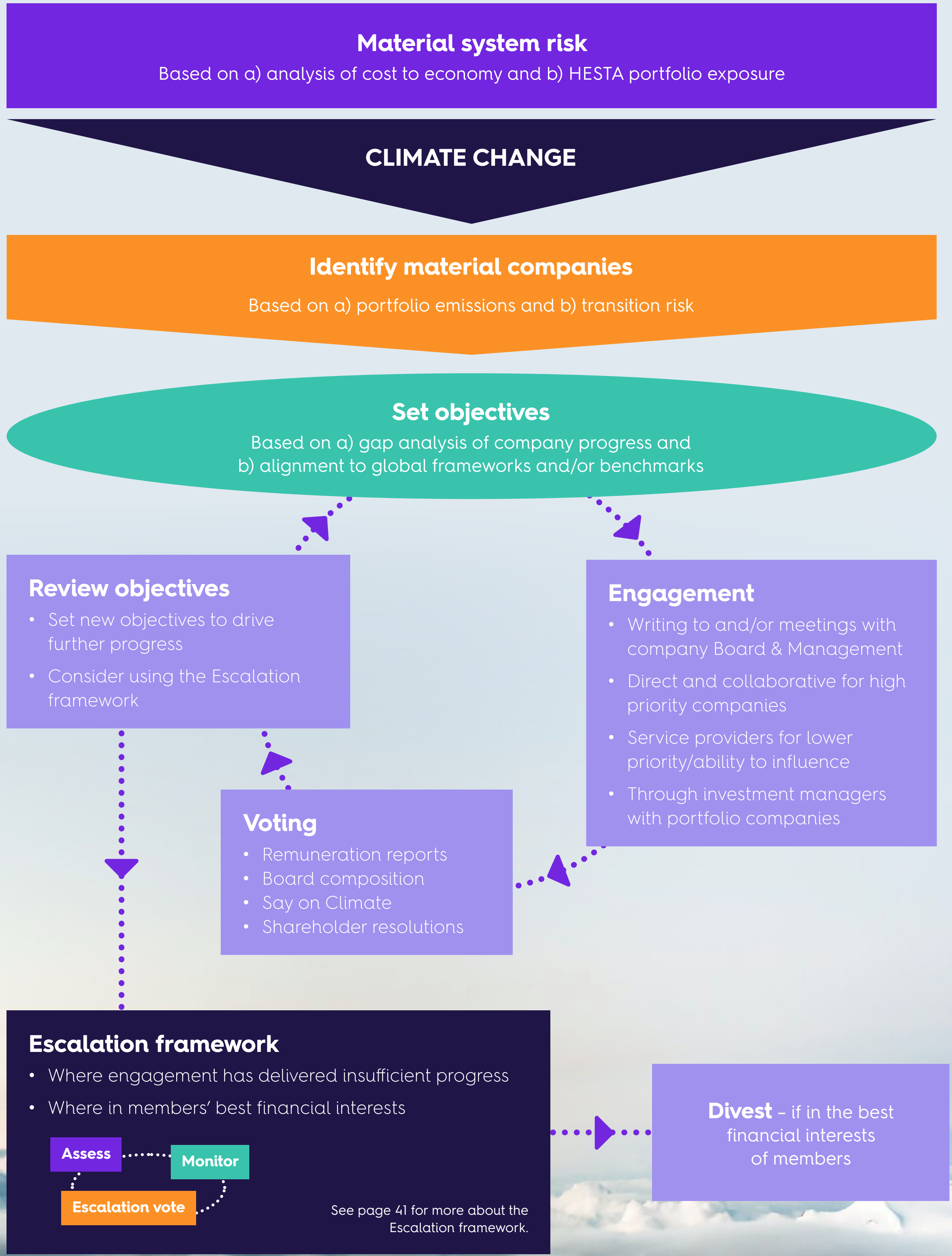
This section summarises our active ownership approach, and examples of its application in the climate change context. For further information on our broader approach to responsible investment and active ownership, please refer to our Responsible Investment Policy here.

HESTA's active ownership (or 'stewardship') approach is an important part of our approach to the management of dynamic and evolving climate-related risks. By engaging directly with our investment managers, priority portfolio companies, regulators and policy makers, and collectively with other asset owners through initiatives such as Climate Action 100+ (CA100+) and the Australian Council of Superannuation Investors (ACSI), we seek to influence and constructively engage with the management of material climate-related risks that can impact long-term returns at both the company and market level.

Through the active ownership tools available to asset owners – which include engagement, voting and advocacy – we seek to influence improved performance at the company level, which we also believe has the potential to influence change at the system level. We do this as part of our responsibility to pursue the best financial interests of our members. The diagram on page 34 provides a simplified illustration of the different activities undertaken by HESTA within its active ownership approach.

Our approach to active ownership is not inflexible and does not remain static. In an area as dynamic as climate change, we believe that it is important to retain our discretion to allow us to select the appropriate combination of levers at any given time, in the best financial interests of our members. Accordingly, our approach does not progress in a linear fashion through bright-line triggers, timelines and thresholds. Rather, we prioritise retaining flexibility in responding to the unique circumstances of each engagement, and in the broader context in which each investment is held.

Active ownership process



Engagement and collaboration

Engagement involves interaction with portfolio companies and investment managers to better understand their business models and seek to influence their performance and practices in line with our 'Active Ownership Priorities', as described in the HESTA RI Policy. The primary aim of engagement is to drive enhanced long-term returns aligned with members' best financial interests.

Our engagement activities can include direct dialogue (for example, company meetings, letters to company management/boards), representation on unlisted company boards, site visits, and dialogue with external investment managers to encourage progress in their responsible investment practices and company interactions. As part of regular monitoring, we gather information from our investment managers on their climate change engagement with portfolio companies.

Engagement with portfolio companies is undertaken directly by HESTA, through collaborative initiatives (such as CA100+), and indirectly through specialist service providers and our external investment managers. HESTA believes in the power of collective action for tackling systemic issues as collaborating often enables us to amplify our voice and drive action while using our resources efficiently. By combining these different approaches to engagement, we are able to achieve both breadth in terms of the number of companies covered by our engagement program as well as depth by focussing our direct engagement on those issues or holdings that are most material. A list of the collaborative initiatives in which HESTA is involved can be found on our website.

We have engaged with Australian companies on climate change since 2011 through ACSI and Regnan, and appointed Hermes EOS in 2010 to undertake climate focussed engagement on our behalf with international portfolio companies. We have also been actively involved with global investor initiatives to manage the risks of climate change. In 2017 we were an early investor signatory to CA100+ and in the 5 years since its establishment, we have been a significant contributor through lead and supporting investor roles for several companies.

Our engagement service providers are ACSI and Federated Hermes EOS. We provide regular input into and monitoring of annual engagement plans and receive regular reports on upcoming engagements, recent engagements undertaken and any improvements to company activities that have occurred as a result of engagement activities. In the case of ACSI, members of our team are represented on both the ACSI Board and Member Council. We may participate in service provider led engagements and have an open dialogue with our investment managers about our collective engagement activities.

Identifying priority companies

Priority companies for engagement are identified based on their contribution to portfolio emissions, and an assessment of transition risk. For priority companies, company assessments include metrics from both the Net Zero Company Benchmark by CA100+ and the IIGCC's Net Zero Standard for Oil and Gas companies. Our engagement with companies identified as priority is then tracked within our internal Transition Dashboard for companies that systematically:

- tracks each company's contribution to HESTA's total portfolio emissions;
- records our assessment of their medium- and long-term emissions reduction targets (coverage and alignment), decarbonisation strategy, capital allocation alignment and climate governance; and
- sets out our engagement objectives in relation to each company's operations, strategy and governance, and records engagement progress through the key milestones of concerns raised, concerns acknowledged, plans established and completion.

HESTA's process of engagement with investee companies is genuine, robust, and understands that strategic transformation is not necessarily achieved in a singular exchange or short-term approach and our decisions are made with this in mind.

Prioritising engagement with Australian listed companies

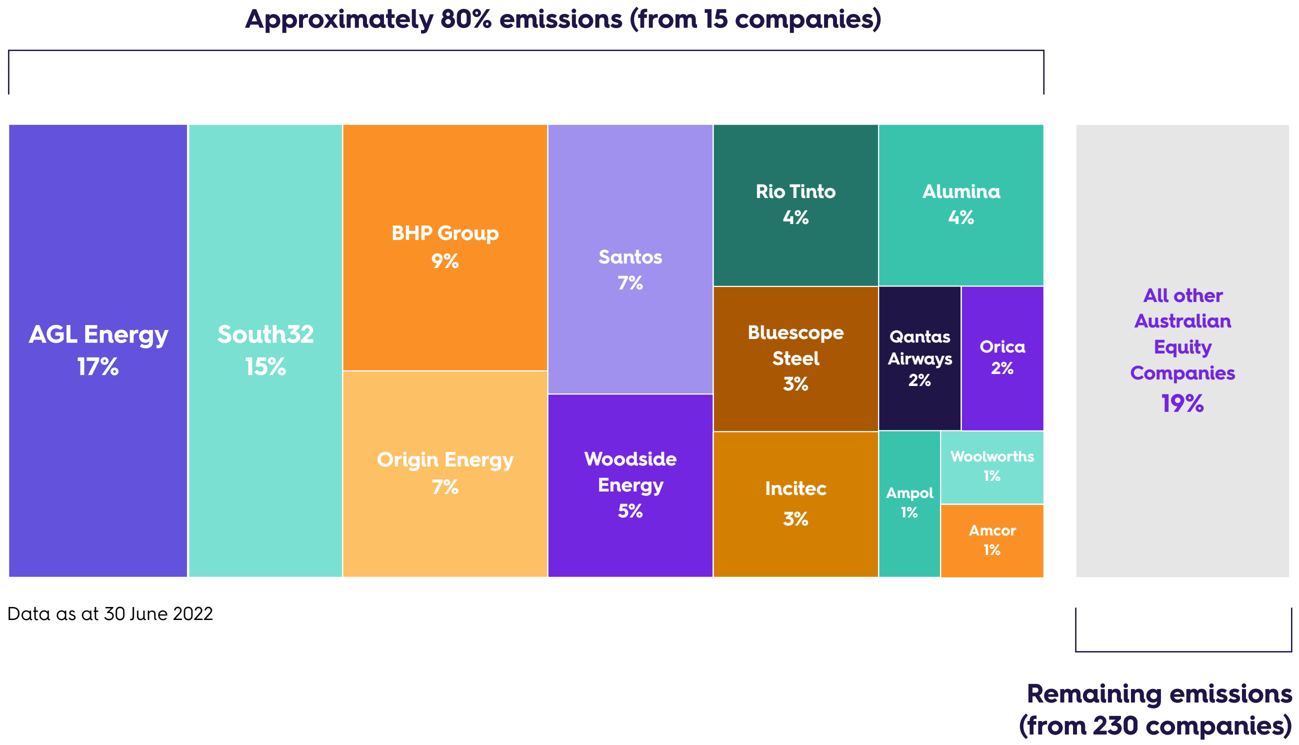
Australian shares are responsible for 46% of HESTA's total portfolio scope 1 and 2 carbon footprint. You can review the carbon footprint and other metrics on page 28. Approximately 80% of this exposure is concentrated in 15 companies (including those listed below), and as the largest contributors to portfolio emissions, are therefore priority companies and the focus of HESTA's active ownership. Priority companies are also the focus of direct, collaborative and service provider engagement. An increasing proportion of Australian listed companies have committed to net zero emissions by 2050 (58% of the ASX200) and all 15 priority companies below have set interim targets (2030-35).

The achievement of interim targets by these companies would result in emissions reduction of HESTA's Australian shares portfolio of 250,000 tonnes by 2030.

Company	Interim Target Set	TCFD Disclosure
AGL Energy	✔	✔
South32	✔	✔
BHP Group	✔	✔
Origin Energy	✔	✔
Santos	✔	✔
Woodside Energy	✔	✔
Rio Tinto	✔	✔
Alumina	✔	✔
Bluescope Steel	✔	✔
Incitec Pivot	✔	✔
Qantas Airways	✔	Partial
Orica	✔	✔
Ampol	✔	✔
Woolworths	✔	Partial
Amcor	✔	✔

Source: CA100+ Net Zero Company Benchmark where company is assessed.

% of FY22 HESTA attributed emissions for Australian equities



Data as at 30 June 2022

More broadly, HESTA will continue to assess and evaluate the on-going role of these investments/companies in the portfolio as the dynamic and complex issues associated with climate change continue to evolve, including in the context of our own Responsible Investment Policy, and our portfolio decarbonisation ambitions.

Case study

Case study on collaborative engagement – Climate Action 100+

Climate Action 100+ (CA100+) is the world's largest global investor initiative for engagement with high emitting companies. Representing 700 global investors managing USD68trn in assets under management, CA100+ engages with 166 high emitting companies globally that are critical to the global economy achieving net-zero emissions.

HESTA has been a member of the initiative since its foundation in 2017 and represents CA100+ as lead investor for South32 Limited and commenced as lead investor for AGL in 2022. You can read more about our engagement with South32 Limited in our 2021 Climate Change report.

In partnership with the Transition Pathway Initiative (TPI), CA100+ has released a third iteration of the Net Zero Company Benchmark assessments[50], which assesses companies against a set of key criteria related to alignment with the goals of the Paris Agreement. The latest assessments capture company data up to 13 May 2022, which means recent divestment and closure commitments made by Australian emitters AGL and Origin Energy are omitted from the results.

The results show that in the FY2022, companies have continued to progress their climate ambitions, particularly compared with the results of the first Benchmark assessments, released in March 2021. While Chart 1 below shows an uplift in the net zero ambitions of focus companies, charts 5 and 6 demonstrate they have yet to disclose their decarbonisation strategies and capital allocation plans aligned towards Paris Agreement goals.

[50] https://www.climateaction100.org/net-zero-company-benchmark/

Voting

Exercising our voting rights in listed and unlisted markets is a key element of our active ownership approach and an important link in the chain of accountability between a company and its shareholders. Voting decisions are made by HESTA based on what we believe are in the best financial interests of our members. We also consider our 'Active Ownership Priorities' and engage with portfolio companies, investment managers, proxy advisors, engagement service providers and other relevant stakeholders in forming our vote.

As a shareholder, we aim to exercise our voting rights for all shares in listed companies and do so at thousands of company Annual General Meetings each year. The issues covered by voting include director elections and executive remuneration, as well as a smaller number of climate change action plans as part of the 'Say on Climate' initiative or climate-related shareholder resolutions.

When determining how we will cast our vote, we think about how companies are implementing their commitments, through strategy, planning, capital expenditure decisions and remuneration frameworks, and whether these actions are appropriately managing climate-related risks.

Shareholder resolutions

In reaching a voting decision on climate-related resolutions we may consider a range of issues, including:

- the company's commitment to delivering absolute real-world emissions reductions
- the alignment of the company's carbon targets with company strategy,
- the company's approach to scope 3 emissions, and
- the company's responsiveness to engagement.

While the topics listed above are important issues to consider when reaching a voting decision, it is equally important to exercise discretion and consider other factors that may impact the decision-making process. These factors may include investment risk related indicators such as cost, country risk, sector risk, single company risk and macro-economic factors such as inflation. As such, a case-by-case assessment is necessary to determine which issues are most relevant for the specific company in question. In this way, we can exercise discretion and consider the unique circumstances of the company when reaching a voting decision. This approach ensures that the voting decision is well-informed and tailored to the specific situation at hand.

When approaching shareholder resolutions, we prioritise the best financial interests of our members and consider the principles above and our own climate-related risk management practices. We may consider what we believe the intent of the resolution to be as well as the specific ask of the resolution.

Case study

Voting
Say on climate

'Say on Climate' is a global initiative where companies submit their climate action or transition plans to an advisory vote by investors at their Annual General Meetings.

Say on Climate provides a set of principles and essential components that companies should use in developing climate action plans, while the Say on Climate advisory vote is an opportunity for investors to do a deep dive on a company's climate strategy and provide feedback on the credibility and ambition of a company's climate action plan. We may vote against climate plans when companies fail to demonstrate sufficient progress to move towards alignment with a 1.5°C pathway.

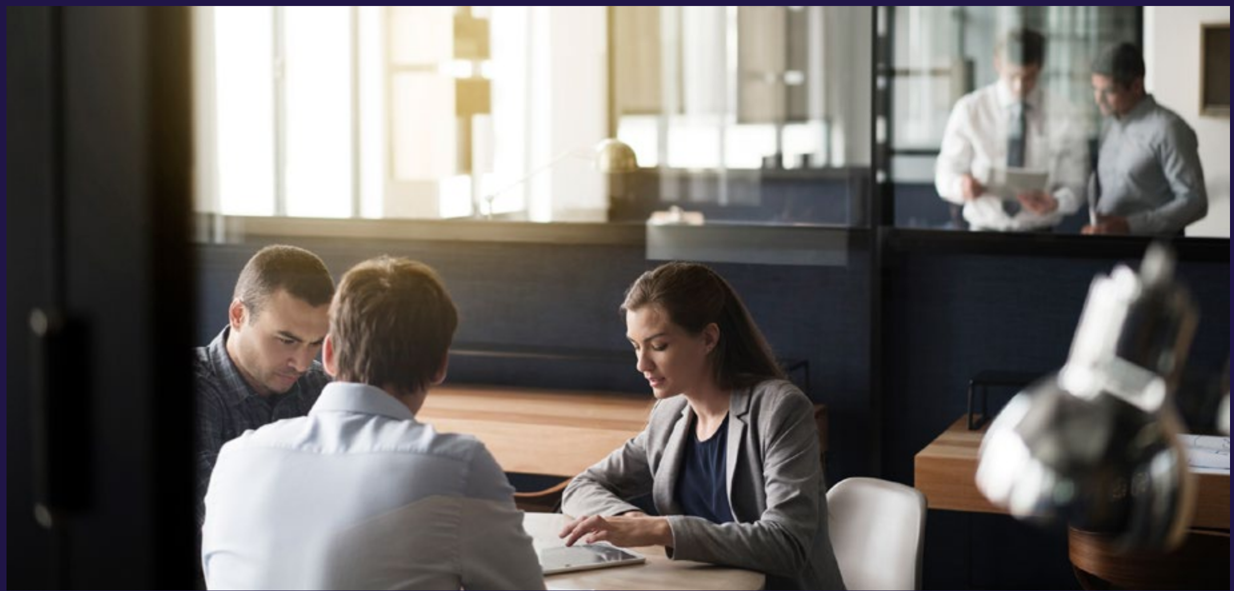
Please visit our website at https://www.hesta.com.au/about-us/super-with-impact/investing-responsibly#sharevotingatcompanyagms_voting for more detail about our recent voting decisions.

Case study – Say on Climate – Australian shares

Over the past 12 months, several ASX listed companies held Annual General Meetings where their climate plans were put forward as part of the Say on Climate initiative.

Following engagement with BHP, Rio Tinto, Santos and Woodside, HESTA exercised its Say on Climate vote 'in support of/or against' each companies climate plans. While it was pleasing to see BHP and Rio Tinto present plans that seek to move towards alignment with Paris Agreement goals, we voted *against* Santos' and Woodside's plans as we assessed that each lacked the necessary ambition to advance the energy transition and felt their ongoing association with peak industry bodies was misaligned with the Paris Agreement goals. In voting against Santos' and Woodside's plans, we used our influence as active owners to send a strong message that we believe these transition strategies required greater ambition.

The climate plans of BHP and Rio each received support from around 84% of shareholders, while at Santos around 37% of shareholders, including HESTA, voted against its climate plans. At Woodside, alongside HESTA, close to half of shareholders (49%) voted against Woodside's climate plan.



Escalation Framework

As the need to mitigate climate-related risk grows more urgent, we are increasingly focused on any gaps between portfolio company commitments and actions to transition their businesses toward alignment with the goals of the Paris Agreement.

Where gaps are identified and are assessed as being of material risk to the portfolio, our escalation framework sets out some of the key levers available for the escalation of portfolio companies and their approaches to the management of these risks. Escalation involves the specific use of active ownership levers when we consider that engagement alone has failed to achieve the required change in direction of company behaviour. Where there are significant residual climate-related risks and/or company actions are not moving towards alignment with a 1.5°C pathway, we may use our escalation framework.

As described in the below image, escalation can include either one or a combination of escalation tools under our framework. We may undertake steps such as the use of a 'watchlist', votes against 'Say on Climate' or equivalent resolutions, Director elections, support or filing of shareholder resolutions and/or consideration of divestment where (a) we consider there is inadequate evidence of progress to address climate-related risks, (b) where we have formed the view that further engagement is unlikely to achieve alignment with our objectives, and (c) where we determine this to be in members' best financial interests.

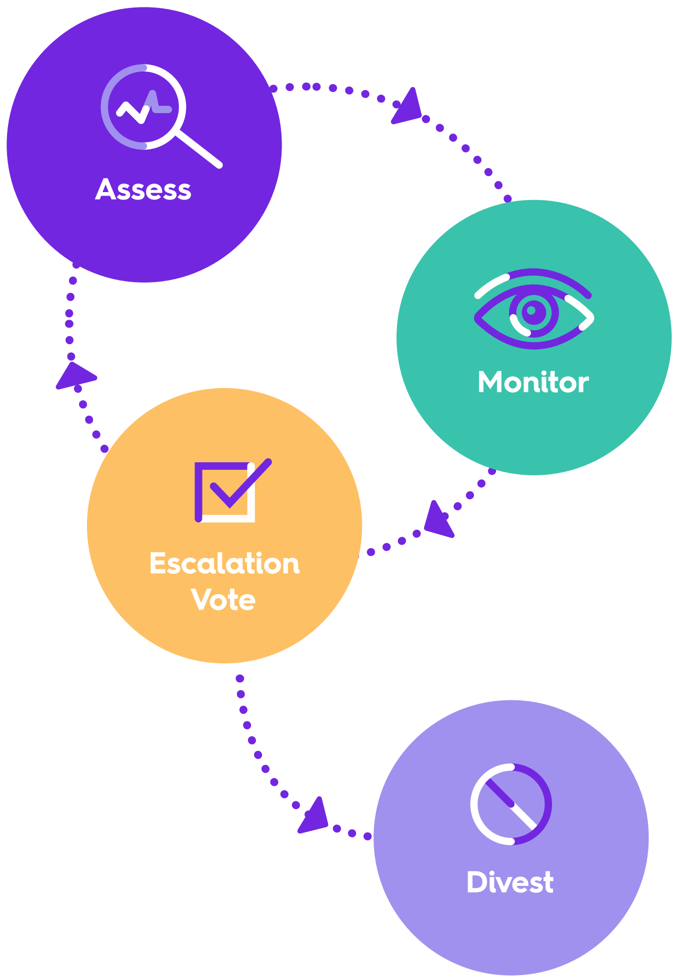
Assess:
Annual pre-AGM assessment to identify companies that require escalation. Assessment seeks to identify companies whose operations or activities significantly contribute to environmental, social or governance issues that present overall portfolio risk or are clearly mis-aligned to HESTA's responsible investment objectives.

Ensure escalation is consistent with members' financial interests.

Escalation vote:
Exercise our vote consistent with an overall assessment of the company and its progress towards any change objectives.

Support and or file shareholder resolutions that are consistent with the change objectives.

Vote against directors, including where directors are deemed to be unresponsive to engagement and /or lacking relevant skills or experience related to an issue.



Monitor
Place company on a 'watchlist' for heightened monitoring and engagement and communicate that position to the company.

Ongoing re-assessment of a company's status based on company responsiveness to engagement and new information that informs a decision to engage further, vote or move to divestment.

Being on a watchlist may include:
- Communicating change objectives to the company
- Flagging our willingness to divest
- Setting a deadline by which we expect an adequate company response to our change objectives
- Publicly communicating our decision that a company is on our watchlist.

Divest
We will consider divestment where we have formed the view that further engagement is unlikely to achieve alignment with our objectives and ensure any divestment decision is in members' best financial interests.

Progress through the escalation framework is responsive to engagement/new information and may not be sequential

Our approach to monitoring and watchlist companies

As part of implementing the escalation framework, in FY22 HESTA undertook an assessment of the climate change transition progress of portfolio companies that we consider are key contributors to portfolio emissions. That assessment identified that the Australian energy companies AGL, Origin, Santos and Woodside faced significant decarbonisation challenges, requiring a major shift in their strategies to offer low carbon energy products. Given their materiality in HESTA's portfolio emissions (both direct and indirect), these companies were subsequently moved to a watchlist position within our escalation framework. As at the time of publication of this report, Woodside and Santos remain on our watchlist. This reflects our heightened concern about the disparities between those companies' strategies and a 1.5°C transition pathway.

> **"We want these companies to demonstrate they're moving to align their strategies to a 1.5°C pathway. They have a role in mitigating climate-related risk, and reducing Australia's emissions, which will help mitigate risks to our members' investments."**
>
> Kim Farrant, General Manager, HESTA Responsible Investment

Watchlist company – AGL

In HESTA's 2022 Annual Report[51], we provided a case study about how we approached AGL's proposed demerger, which would have created a separate business for its coal-fired power stations. We became increasingly concerned about the gap between AGL's strategic targets, and the actions required to transition their business towards alignment with a 1.5°C pathway.

On that basis, we moved AGL to a 'watchlist' position on the Escalation Framework. As part of this escalation, we wrote to AGL seeking information on how their climate strategies align with a 1.5°C pathway, including closure dates for coal-fired power stations by 2035, and how future capital expenditure will support a timely, equitable and orderly transition to a low carbon economy. We also asked AGL to demonstrate how a board refresh and new CEO would support a strategy aligned to a 1.5°C pathway.

Following the withdrawal of demerger, the departure of the company Chair and Managing Director and a 4-month Review of Strategic Direction, AGL released their inaugural Climate Transition Action Plan (CTAP) and announced the targeted early closure of Loy Yang A Power Station (brought forward from 2045 to 2035[52]). The targeted closure of Loy Yang A in Victoria, as well as the 2033 closure of the Bayswater Power Station in NSW, is expected to reduce AGL's annual scope 1 and 2 emissions by 52%[53]. AGL has also refreshed its board by appointing additional Directors experienced in energy policy, clean energy, and workforce transformation.

We welcome AGL's revised strategic direction and believe AGL has articulated a strategy more closely aligned towards the Paris Agreement goals. Consequently, HESTA voted in favour of AGL's CTAP at its 2022 Annual General Meeting, noting there remains further scope in the future to bring forward closure dates to 2030. We also view favourably the revised Board and Management team's understanding of the energy market and focus on execution of strategy. For these reasons, we have removed AGL from a watchlist position.

We consider that there is real opportunity for AGL to position themselves as a leader of a just transition by working closely with their workers and communities as they bring forward closure dates of assets and allocate greater capital to renewables and other innovative climate solutions. As one of the larger contributors to HESTA's portfolio emissions, we will continue to monitor AGL and look forward to ongoing engagement both directly and through our lead engager role at Climate Action 100+.

51. https://www.hesta.com.au/content/dam/hesta/Documents/HESTA-Annual-Report-2021-2022.pdf (page 27)
52. https://www.agl.com.au/content/dam/digital/agl/documents/about-agl/how-we-source-energy/loy-yang-power-station/220930-ly-transition.pdf
53. https://www.agl.com.au/content/dam/digital/agl/documents/about-agl/sustainability/ctap.pdf

> Active ownership (continued)

Watchlist company – Origin Energy

Origin Energy published its first Climate Transition Action Plan (CTAP) in 2022 which included carbon emissions reduction targets and commitments to invest in renewable energy and storage.

However, we were concerned that Origin's stated targets omitted potential future emissions from the development of new gas fields and did not articulate how these fields could be aligned to the Paris Agreement goals. Our concerns focused on the misalignment of their CTAP with a 1.5°C pathway, and we subsequently escalated Origin to a watchlist position on HESTA's Escalation Framework.

We wrote to Origin with similar thematic asks to those we made of AGL that related to their climate strategy and future capital expenditure, but with Origin, we also wanted to understand how they will demonstrate that Final Investment Decision (FID) on major projects is consistent with a carbon budget aligned with a 1.5°C pathway.

We met with Origin to discuss how its CTAP addressed our asks and while we supported their ambition to lead the energy transition through customer solutions, the company was unable to articulate how new gas field developments, including high profile projects within the Beetaloo Basin, would align Origin towards the Paris Agreement goals.

Shortly after, Origin announced its commitment to cease all oil and gas exploration, including divestment of interests in the Beetaloo Basin, as well as the accelerated closure of Eraring, their sole coal-fired power station by as early as 2025. This pivot in strategic direction indicates that capital expenditure will move away from fossil fuel developments and allocated towards their clean energy and customer solutions ambitions.

Although we see opportunity for ongoing improvement on just transition and policy advocacy, Origin's revised CTAP and divestment from upstream oil and gas addressed our immediate concerns, and in response we removed Origin from the watchlist. The change in strategic direction represents a shift towards alignment with a 1.5°C pathway and informed our decision to vote in favour of the Origin CTAP as part of the 'Say on Climate' advisory vote in October 2022.

Woodside and Santos – why they remain on the watchlist

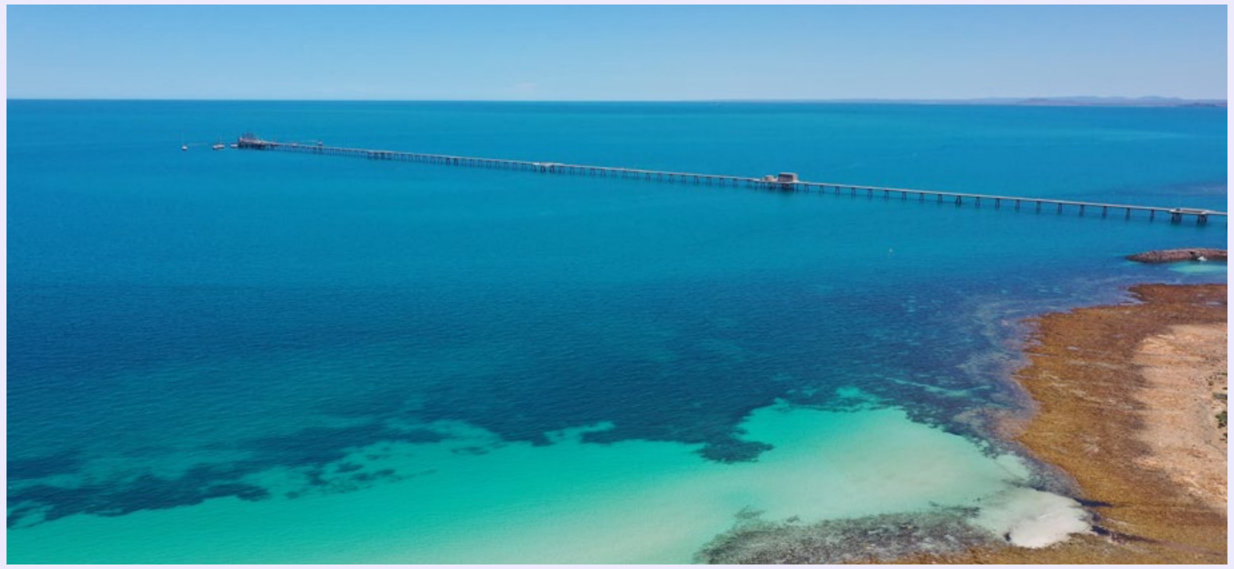
As some of Australia's largest fossil fuel energy producers, Santos and Woodside have a key role in mitigating climate-related risk and reducing emissions in Australia.

A significant amount of investment is required in renewable energy generation over many years to displace oil and gas, and in the interim, traditional energy sources will continue to be relied on globally. We believe green hydrogen can play a potential role in providing tangible emissions reduction, alongside other renewable energy sources such as wind and solar power. However, it will likely take some time to commercialise and deploy hydrogen for energy generation at the scale required to transition.

At the time of publication of this report, we maintain a view that there are prospects for oil and gas companies to transition. These companies have the potential to be energy companies rather than oil and gas companies. Much of the technical capabilities and infrastructure required for new energy sources exists within current oil and gas companies. That's one of the reasons why oil and gas companies are among those allocating capital into new energy sources, but we need to see capital allocation to new energy sources increase significantly.

By remaining a shareholder in companies that we view have the potential to transition to clean energy producers, HESTA can use active ownership to advocate for such companies to accelerate the transition to a low-carbon economy by allocating greater capital to new energy technologies like green hydrogen. Woodside, for example, is actively on working several hydrogen projects and is seeking to get to Final Investment Decision on the first of these projects in 2023, a US-based green hydrogen project.

HESTA has been engaging with Woodside and Santos through both direct and collaborative programs for a number of years on how they plan to transition their businesses to fit in a low carbon future. Consistent with the nature of evolving expectations on climate change and our broader approach to risk management, our approach to investment in companies such as Woodside and Santos is not static. Our engagement has been targeted at elevating Woodside and Santos' ambitions in the context of climate risk management norms prevailing at the relevant time and has contributed to broader shareholder efforts to influence both companies' elevation of decarbonisation ambitions in recent years.



An example of this was our engagement with Santos and Woodside by seeking scenario analysis and disclosures aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) which were subsequently provided by both companies. In 2021, we were also involved in engagement that secured the commitment from both companies to submit their climate plans to an advisory vote under the Say on Climate initiative. You can read more about Say on Climate on page 40.

We view a Say on Climate vote as an opportunity to pursue climate transition and use the vote to assess how companies are moving toward alignment with the Paris Agreement goals. In 2022, we assessed the climate plans of Woodside and Santos *against* evolving decarbonisation expectations and at their AGMs voted against the plans, as we considered their transition strategies required greater ambition.

As with AGL and Origin, in 2022 we escalated Woodside and Santos to a watchlist position on the escalation framework (see page 41) and wrote to each company outlining our heightened concern about the disparity between the companies' strategic targets and capital expenditure plans, and a 1.5°C transition pathway.

More recently, at the Santos and Woodside AGMs held in April 2023, HESTA voted in support of shareholder resolutions seeking increased public disclosure of Santos and Woodside's production plans and future commitment to fund decarbonisation and shift to clean energy projects. Reflecting our belief that it is crucial that oil and gas companies have Board skills including experience applicable to strategies involving development of clean energy projects and technologies like carbon capture and storage, we also voted against the re/election of a number of sustainability committee members. We did this where both the individual and subcommittee already has predominately oil and gas experience represented on the Board, and where we considered it is in members' best financial interests. Our climate-related engagement with Woodside and Santos continues with a particular focus on capital expenditure and board skills and as a result, they remain on our watchlist.

Supporting a just transition

Mitigating climate risk will require changes that will impact workers and communities.

> **"A just transition works to ensure that the transition to net-zero emissions and climate resilience is orderly, inclusive and just, creates decent work opportunities and leaves no one behind. This depends on a fair process built on social dialogue, stakeholder engagement and a universal respect for fundamental labour rights and other human rights."**
>
> – United Nations Global Compact, Introduction to Just Transition: a business brief[54]

Without a focus on people and communities, Australia's ability to transition and thereby our ability to minimise financial risk to the investment portfolio and deliver returns to members, may be hindered. Research[55] has identified that the Hunter Valley, Bowen-Surat, Pilbara and Gippsland basins employ nearly 45% of Australia's total coal mining, oil and gas extraction and exploration workforce. Low-carbon jobs may not necessarily be based in affected communities and many current energy-sector jobs are well-paid, and low-carbon jobs may not be like-for-like substitutes.

A multi-stakeholder approach that has buy-in from workers, communities, unions and other stakeholders is necessary to facilitate a just and equitable transition and thereby enable investors to mitigate climate-related financial risks. To support a just and equitable transition, HESTA will continue to advocate in direct engagement with companies for affected communities using relevant frameworks and guidelines, which includes the International Labour Organisation's Just Transition Guidelines and ACTU Just Transition Guide.

54. https://www.globalcompact.de/fileadmin/user_upload/20221209_Just_Transition_LK.pdf
55. https://igcc.org.au/wp-content/uploads/2021/07/IGCC-Investors-role-in-an-Equitable-Transition-to-net-zero-emissions_FINAL-15072021-copy.pdf

advocacy

Approach: Advocating for economy-wide targets of net zero by 2050 and support for transition across the economy.

Australia's new government and what it means for climate change policy

In July 2022, the newly elected government committed Australia to a more ambitious 2030 target, in support of the existing commitment to net zero emissions by 2050[56]. The new target seeks to reduce carbon emissions by 43% by 2030 (below 2005 levels).

Through its public advocacy, HESTA works to help shape outcomes that support the efficient management of climate-related risk in the economy, and to allow investors to efficiently allocate capital in support of Australia's targets. Our advocacy to date has focussed on calls to set ambitious emissions reductions targets, and with targets now in place, we are advocating for policy settings to support achievement of these targets, and to ensure a just and orderly transition.

In order to minimise the systemic risks of climate change, we believe the best financial interests of our members are served through a timely, equitable and orderly transition to a low carbon economy. A transition managed in this way reduces the likelihood of economic volatility, reduces the risk of stranded assets, and provides opportunity for accelerating investment in the new energy economy.

We believe that there remains scope to introduce stronger policy settings to better support investment in the energy transition. A clear plan to update the energy network to cater for a changing energy supply model will provide greater certainty to the Australian energy market and ensure a lower cost of capital remains in Australia for further investments.

System level advocacy through the Australian Sustainable Finance Initiative (ASFI)

Australian Sustainable Finance Institute

HESTA is a founding member of Australian Sustainable Finance Institute (ASFI) and joined the ASFI Board in 2021. ASFI's mission is to realign the Australian financial services system so that more money flows to activities that will create a sustainable, resilient and inclusive Australia.

Through ASFI, HESTA has supported and provided key input to the scoping and design features of an Australian Sustainable Finance Taxonomy (similar to those developed in Europe and other jurisdictions). The taxonomy will enable Australian financial institutions to consistently identify and assess sustainable assets and activities. Australia's taxonomy, which is currently under development, will likely prioritise climate change mitigation alongside other environmental and social objectives.

It will also likely include a transition category of assets, alongside identification of green assets, to ensure a mechanism to support allocation of capital to sectoral decarbonisation pathways given the high carbon emissions intensity of the Australian economy. These changes will support HESTA's ambition to invest 10% of the portfolio in climate solutions by 2030.

[56] https://www.dcceew.gov.au/about/news/australia-submits-new-emissions-target-to-unfccc

Industry level advocacy through the Investor Group on Climate Change (IGCC)

Investor Group on Climate Change

HESTA is a founding member of the Investor Group on Climate Change (IGCC) and is represented on the IGCC Board.

Advocating for mandatory climate risk reporting

To enable investors like HESTA to appropriately manage climate-related risks, the IGCC has led advocacy for the introduction of mandatory climate disclosure in Australia. The IGCC published a plan[57] that outlines why Task Force for Climate-related Financial Disclosures (TCFD) aligned reporting is crucial for investors to effectively manage climate-related financial risks across their portfolios. The plan also discusses how reporting is a central tool for regulators to inform policy, supervision and financial stability, by improving visibility of the system-wide implications of decarbonisation and climate change itself.

This is HESTA's second climate report using the recommendations of the TCFD. Encouraging companies to adopt the TCFD's recommendations into their own disclosures has been an engagement priority for HESTA for several years. We commend the government for their commitment to introduce standardised, internationally aligned reporting requirements for businesses. You can read HESTA's consultation submission in support of the disclosures here.

Case study

Case study 'advocacy' – Technology roadmap submission contributing to outcomes

In 2020, HESTA submitted a response to the Federal Government's Technology Investment Roadmap discussion paper[58] in which we advocated for accelerated development and commercialisation of new and emerging low emissions technologies. Reflecting upon our previous experiences that leveraged co-funding models and partnerships, we recommended the government enable innovative investment partnerships and structures that encourage investment in clean technology to assist the transition to a low carbon economy.

It was therefore pleasing to see in 2022 support for new investments models[59] through the introduction of the Technology Commercialisation Fund[60]. The proposed fund will invest in early stage and growth businesses developing technologies that have the potential to accelerate Australia's transition to net zero emissions by 2030.

[57] https://igcc.org.au/wp-content/uploads/2021/06/ConfusiontoClarity_APlanforMandatoryTCFDalignedDisclosureinAus.pdf
[58] https://consult.industry.gov.au/australias-technology-investment-roadmap-discussion-paper
[59] file:///C:/Users/aje/Downloads/HESTA-Submission-Technology-Roadmap-June-2020.pdf
[60] https://www.cefc.com.au/media/statement/cefc-statement-on-proposed-low-emissions-technology-commercialisation-fund/

HESTA's Trustee operational emissions

HESTA's Trustee is an organisation that aims to use corporate social responsibility to align our culture with our aspiration for positive change. In pursuit of this, we have transitioned the way we operate to reduce our impact on the environment.

In the period ending June 2022, HESTA's Trustee preserved our status as a certified Carbon Neutral organisation under the Climate Active Standard for emissions produced from our business operations. Our operational emissions have fallen 36% from a 2018-2019 baseline, which is attributable to COVID-19 lockdowns, new hybrid ways of working and aviation shutdowns throughout 2020 and 2021.

HESTA's Trustee has also procured carbon offsets to offset business operation emissions (for example, electricity for HESTA's Trustee offices and corporate air travel), including savannah burning projects that support Aboriginal employment in the Northern Territory's Arnhem Land and windfarms in India. All purchased offsets were either Australian Carbon Credit Units (ACCUs) or Certified Emission Reduction (CER) certificates.

While positive that our operational emissions have decreased relative to the baseline, we do anticipate that HESTA's Trustee operational emissions may increase in the coming year. This is a result of a larger workforce, the increased attendance by staff in our national office following prolonged lockdowns, and the removal of travel restrictions, enabling employees to meet key partners face-to-face.

HESTA's Trustee continues to collaborate with our operational partners about their evolving carbon neutral journeys. As a major source of operational emissions, we are engaging with landlords to insert clauses in leases that require them to reduce their operational footprint, which in turn reduces HESTA's Trustee operational footprint. One example of this is in NSW, where we have requested that buildings run at certain NABERS levels, that works are completed to an Australian environmental standard, and buildings procure carbon neutral or renewable energy that support net zero strategies.

HESTA's Trustee will continue to procure carbon offsets to maintain our certified Carbon Neutral status under the Climate Active Standard. You can read more about the Carbon Neutral certification related to HESTA's Trustee operations at https://www.climateactive.org.au/buy-climate-active/certified-members/hesta

limited assurance statement for listed equities emissions data

Building a better working world

Independent Limited Assurance Statement to the Management and Directors of HESTA

Our Conclusion

Based on our limited assurance procedures, hereafter referred to as a 'review', undertaken in accordance with Australian Auditing Standards, nothing came to our attention that caused us to believe that that the financed emissions disclosures ("the "Subject Matter" included in the HESTA Climate Report ("the Report") are not prepared and presented fairly, in all material aspects, in accordance with the Criteria, as defined below.

What our review covered

Ernst & Young ('EY') was engaged by H.E.S.T. Australia Ltd. (ACN 006 818 695) as trustee for HESTA ('HESTA') to perform a review over its financed emissions disclosures contained in its Climate Report for the year ended 30 June 2022.

Subject Matter

Specifically, the Subject Matter for the review included:

- HESTA's financed emissions intensity (tCO2e/$1,000,000) for the listed equities portfolio comprising of:
  - Australian Shares
  - International Shares

Other than as described in the preceding paragraphs, which set out the scope of our engagement, we did not perform assurance procedures on any other information included in the Report, and accordingly, we do not express a conclusion on this information.

Criteria applied by HESTA

In preparing the Subject Matter, Management determined the reporting criteria as:

- The Greenhouse Gas Protocol
- The Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard
- HESTA's self-declared criteria as set out in the Report.

Key responsibilities

EY's responsibility and independence

EY's responsibility is to express a conclusion on the Subject Matter, based on our review. We are also responsible for maintaining our independence and confirm that we have met the requirements of the *APES 110 Code of Ethics for Professional Accountants*, and that we have the required competencies and experience to conduct this assurance engagement.

HESTA's responsibility

The management of HESTA is responsible for selecting the Criteria, and for presenting the Subject Matter in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Subject Matter, such that it is free from material misstatement, whether due to fraud or error.

Our approach to conducting the review

EY conducted this review in accordance with the Australian Auditing and Assurance Standards Board's *Australian Standard on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ('ASAE 3000'), and *Assurance Engagements on Greenhouse Gas Statements* ('ASAE 3410'), as well as the terms of reference for this engagement as agreed with HESTA.

Summary of review procedures performed

A review consists of making enquiries, primarily of persons responsible for preparing the Subject Matter and associated disclosures and applying analytical and other review procedures.

Our procedures included, but were not limited to, the following:

- Interviewing HESTA staff to gain an understanding of HESTA's reporting definitions and processes, including reporting boundaries, data sourcing, and internal data integrity checking processes
- Interviewing third-party providers (where relevant) to gain an understanding of the processes for extracting underlying exposure data for the portfolios from HESTA's systems
- Performing analytical procedures in relation to material quantitative information and where relevant, reviewing source documentation
- Checking the accuracy of calculations performed
- Reviewing the presentation of the Subject Matter within the Report
- Obtaining representation from management on key assertions pertaining to the above.

We also performed such other procedures as we considered necessary in the circumstances.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

Limited Assurance

Procedures performed in a limited assurance engagement vary in nature and timing, and are less in extent, than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Further, our procedures did not include testing controls or performing procedures relating to checking the aggregation or calculation of data within IT systems.

Use of our Assurance Statement

We disclaim any assumption of responsibility for any reliance on this assurance report to any persons other than management and the Directors of HESTA, or for any purpose other than that for which it was prepared.

Our review included web-based information that was available via web links as of the date of this statement. We provide no assurance over changes to the content of this web-based information after the date of this assurance statement.

Ernst + Young

Ernst & Young

Elizabeth Rose

Elizabeth Rose
Partner
Brisbane, Australia
6 June 2023

TCFD recommended disclosures index

The table below summarises HESTA's climate reporting against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This is our second year of reporting, and we recognise our disclosures will continue to evolve over time to reflect developments in areas such as science and stakeholder expectations.

Requirement	Progress update
Governance	
a) Describe the board's oversight of climate-related risks and opportunities	Integration – Governance – pages 16-18
b) Describe management's role in assessing and managing climate-related risks and opportunities	
Strategy	
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Climate targets – pages 13-14 and 19-20
b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning	Why climate change matters – page 5 Climate Change Transition Plan – page 6 Climate Change Risk – page 13
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Scenario analysis – page 21
Risk Management	
a) Describe the organisation's processes for identifying and assessing climate-related risks	Managing climate-related risk – pages 13-14 Integration – pages 16-32 Active ownership – pages 33-45
b) Describe the organisation's processes for managing climate-related risks	Managing climate-related risk - pages 13-14 Integration – pages 33-45 Active ownership – pages 33-45
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Managing climate-related risk – pages 13-14 Integration – pages 16–32
Metrics, targets and scenario analysis	
a) Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Measuring portfolio objectives – pages 25 and 28
b) Disclose Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions and related risks	Measuring portfolio objectives – pages 29-30
c) Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets	Climate targets – pages 19-20 Investment opportunities – pages 25-27 Measuring portfolio objectives – pages 29-30

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