ANU SOCIALLY RESPONSIBLE INVESTMENT (SRI) REPORT 2021

EXECUTIVE SUMMARY

In 2021, the Long Term Investment Pool (LTIP) achieved a 42.25% lower carbon intensity than its composite benchmark, despite the carbon intensity of the benchmark declining by 10.21% during the year. Although no Environmental, Social and Governance (ESG) targets have been set, LTIP had 14.94% ($206million) invested in companies considered leaders in gender equality. This is in line with the SRI Policy's aim to positively promote investment in securities that support socially beneficial outcomes.

BACKGROUND

The Australian National University adopted a Socially Responsible Investment (SRI) Policy in July 2013. This policy contained clear ESG benchmarks, becoming at the time one of only a handful of Universities worldwide who use responsible investment to advance its objectives on social and sustainability issues.

In October 2015, ANU Council approved the appointment of an external portfolio manager for its Domestic Equities portfolio. This step was undertaken to improve the management of its investments. ANU makes no decision itself about individual stock selection. However, the external manager is required to meet the following conditions:

- Exclude companies that derive more than 20% of revenues from coal, gambling, tobacco or pornography;
- hold a portfolio with 25% less carbon intensity than the S&P/ASX 200; and
- ensure that the portfolio demonstrates a 10% improvement in the overall ESG rating relative to the benchmark.

In 2017, ANU took the added step of appointing three external managers for the University's Overseas Equity investments. ANU appointed Antipodes Partners, Magellan Asset Management Ltd and the Royal Bank of Canada Global Asset Management from a field of 58 managers.

Under the arrangements, ANU makes no decisions on individual stock selection. The University, however, requires the external managers to ensure the investments meet its SRI Policy.

Investments by the external managers must:

- Outperform the MSCI All Country World Index (ex-Australia) over a three-year time horizon;
- follow ESG-based sector exclusions, with no investment in companies which derive more than 20% of revenues from coal, gambling, tobacco or pornography;
- demonstrate the proactive incorporation of ESG concepts that are broadly in line with UN Sustainable Development Goals; and
- exhibit significantly lower carbon intensity than the benchmark.

In 2018, ANU funded two external Alternative Investment managers to manage European Direct Loans and appointed a Fixed Income manager. The implementation of the SRI policy extended to both asset classes with the exclusions of companies who derive more than 20% of revenues from coal, gambling, tobacco or pornography.

In 2019, the University decided to aggregate the carbon intensity of the entire LTIP as well as report on the carbon intensity of individual asset classes relative to the benchmark. Additionally, the University calculated the market value of LTIP assets exposed to climate change risk and the market value of investments in companies that are leaders in corporate gender equality.

In 2020, the University funded an external cash manager. The implementation of the SRI policy extended to the cash asset class alongside the calculation and reporting of its carbon intensity. Furthermore, the Investment Office in collaboration with the SRI Working Group, developed an ESG Integration Methodology which will be used in all future potential enhancements in the implementation of the SRI Policy.

In 2021, the University assessed both the Domestic and Overseas Equity portfolios alignment of greenhouse gas emissions with the Paris Agreement Goals. Furthermore, the Investment Office increased the monitoring frequency of carbon intensity reporting from quarterly to monthly.

The investment parameters have been imposed on all external managers in order to efficiently decrease the University's investment exposure to CO_2 intensive industries without increasing the University's exposure to volatility in the capital markets. If this balance was not managed, it might adversely impact the University's financial stability, including its ability to meet obligations to pay superannuation liabilities.

The change to the way the University manages its investments reflects a significant enhancement to the application of the SRI policy and puts the ANU in a leading position compared to its domestic peers. The implementation of annual ESG reviews of managers ensures the external asset managers adhere to the University's SRI policy and support the monthly mandate compliance checks conducted by the custodian and the University. The University aims to improve ESG reporting on an ongoing basis to provide greater transparency on ESG performance and the integration of ESG factors into the asset managers' investment process.

At 31 December 2021, the University's LTIP amounted to $1.38 billion.

DISCUSSION

LTIP Aggregate Carbon Intensity

Name	% of LTIP	% of Benchmark	LTIP Intensity (tCO_2e/ $m Revenue)	Benchmark Intensity (tCO_2e/ $m Revenue)	Intensity Difference (tCO_2e/ $m Revenue)	LTIP Intensity Contribution (tCO_2e/ $m Revenue)	Benchmark Intensity Contribution (tCO_2e/ $m Revenue)	Target: Portfolio Variance from Benchmark	Actual: Portfolio Variance from Benchmark
Domestic Equity	22.67%	27.00%	146.10	210.10	-64.00	33.12	56.73	-25.00%	-30.46%
Overseas Equity	28.81%	22.00%	24.63	109.26	-84.63	7.10	24.04	n/a***	-77.46%
Infrastructure*	12.06%	12.87%	704.82	1,059.90	-355.08	85.02	136.36	n/a***	-33.50%
Cash	29.00%	20.50%****	15.55	36.80	-21.25	4.51	7.54	n/a***	-57.75%
Property, Other**	7.46%	17.63%	0.00	0.00	0.00	0.00	0.00	n/a***	0.00
Aggregated Total	100.00%	100.00%				129.75	224.67	n/a***	-42.25%

*Infrastructure carbon data as at 30 June 2021, market value as at 31 Dec 2021. S&P Global Infrastructure Index used as benchmark for carbon intensity.
**Other investments with no reported carbon data.
***Not applicable.
****Includes Fixed Income which has the same benchmark as cash.

The total aggregated carbon intensity of the University's LTIP was 129.75 tonnes of CO_2 emitted per million dollars (tCO_2e/$m) revenue, lower than the LTIP's Composite Benchmark's carbon intensity of 224.67 tCO_2e/$m revenue by 42.25%. The reduction in carbon intensity was accomplished through investments in companies that were significantly less carbon-intense relative to other companies in the LTIP's Composite Benchmark.

The carbon intensity of the total aggregate composite benchmark decreased by 10.21% from December 2020 levels. This decline was attributable to the decline in the carbon intensity of the Cash benchmark and Infrastructure benchmark by 68.76% and 8.38% respectively in 2021.

LTIP Aggregate ESG Tilts and Gender Equality

The Bloomberg Gender Equality Index (BGE Index) encompasses companies that are committed to gender equality. Companies are measured against Bloomberg's Gender Reporting Framework Metrics on Female Leadership, Pay Equality, Inclusive Culture, Sexual Harassment Policies, and Pro-Women Brand. A total of 14.94% of the University's LTIP ($206million) was invested in companies that support gender equality through policy development, representation, and transparency.

LTIP Aggregate Exposure to Climate Change Risk

LTIP's exposure to climate change risk is calculated using the Task Force on Climate-related Financial Disclosures (TCFD) methodology. The methodology measures risk as exposure to sectors that are most susceptible to climate change. These sectors include Material and Building, Energy and Utilities, Agriculture Food and Forestry, Transportation, and Financials.

A total of $662million (48.01% of the LTIP as at 31 December 2021) of assets held in the University's LTIP are exposed to climate change risk. 60% of the exposure ($397million) was attributable to assets in the non-financial sectors and 40% ($264million) was attributable to assets in the financial sector.

Equity Portfolio Climate Scenario Alignment

The Paris Agreement Goal is to limit global warming to a target of no more than a 1.5 degree Celsius increase through the attainment of the Sustainable Development Scenario (SDS) by 2050. The current LTIP Domestic Equity portfolio's greenhouse gas emissions is associated with a potential temperature increase of 2.8°C by 2050, comparing to the benchmark's corresponding figure of 4°C. The Domestic Equity portfolio continues to evolve in the measurement of climate concerns within the investments held and anticipates achieving the 1.5 degree Celsius target.

Portfolio and Benchmark Comparison to SDS Budget (Red = Overshoot)

	2021	2030	2040	2050
Portfolio	-4.55%	+24.25%	+115.47%	+194.7%
Benchmark	+38.09%	+78.11%	+202.05%	+330.77%

2025 The portfolio exceeds its SDS budget in 2025.

2.8°C The portfolio is associated with a potential temperature increase of 2.8°C by 2050.

The LTIP Overseas Equity portfolio's greenhouse gas emission is associated with a potential temperature increase of 1.5°C by 2050, comparing to the benchmark's corresponding figure of 2.6°C. The Overseas Equity portfolio will continue to be assessed for measurable climate concerns on a continuous basis.

Portfolio and Benchmark Comparison to SDS Budget (Red = Overshoot)

	2021	2030	2040	2050
Portfolio	-80.61%	-71.94%	-43.57%	-10.27%
Benchmark	-13.62%	+14.75%	+99.16%	+171.88%

2050 The strategy in its current state is aligned with a SDS scenario for the full analyzed period (until 2050).

1.5°C The portfolio is associated with a potential temperature increase of 1.5°C by 2050.

Domestic Equities

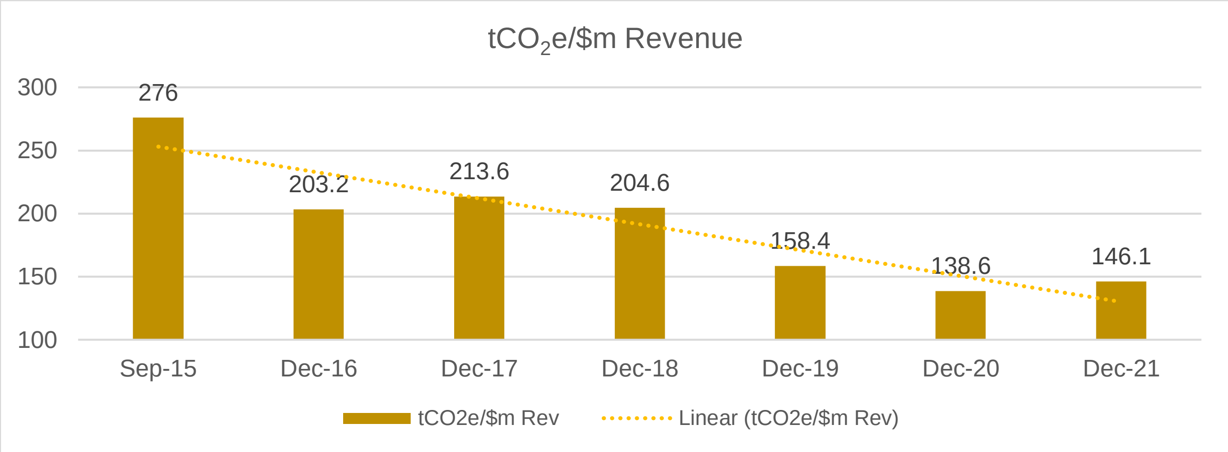
Name	Market Value ($m)	tCO_2e/ $m Revenue	Portfolio Variance from Benchmark
Plato ANU Enhanced Index Fund	312.58	146.10	-30.46%
Benchmark - S&P/ ASX200 Accumulation Index GOFC		210.10	

At 31 December 2021, Domestic Equity amounted to 22.67% of the LTIP. The ANU Enhanced Index portfolio returned 18.14%, underperforming the S&P/ASX200 Accumulation Index return of 18.75% (including dividends and franking credits) by 0.61%. Since inception at 15 October 2015, the portfolio has returned 12.58% p.a. including dividends and franking credits. The benchmark including dividends and franking credits for the same period returned 12.48% p.a.

The carbon intensity of the Domestic Equity portfolio was 146.10 tCO_2e/$m of revenue at 31 December 2021, which was 30.46% lower than the S&P/ASX200 Index. Since ANU implemented a new investment structure for Domestic Equities, the carbon intensity has decreased from 276 tCO_2e/$m revenue (in September 2015) to 146.10 tCO_2e/$m revenue (in December 2021). This was an absolute reduction of 47.07%.

The carbon intensity of the Domestic Equity benchmark increased by 5.84% from December 2020 levels. The Domestic Equity portfolio's carbon intensity remained at least 25% lower than the benchmark in accordance to the University's SRI policy.

Domestic Equity Portfolio CO_2 Emissions from September 2015 to December 2021



The Domestic Equity portfolio was tilted towards positively ranked ESG names and away from negatively ranked companies during calendar year 2021. This resulted in a total portfolio ESG exposure towards positively ranked ESG names to be 10.5% higher than the benchmark, at 31 December 2021.

Through proxy voting, the University voted against management on 22 occasions on the topic of Executive Officers' Compensation. Of the total 986 votable proposals during 2021, the University voted against management on 93 occasions.

A total of 18.42% of the Domestic Equity portfolio ($57million) was invested in companies committed to supporting gender equality through policy development, representation, and transparency. These companies are included in the BGE Index.

Overseas Equities

At 31 December 2021, the Overseas Equity portfolio amounted to 28.81% of the LTIP. The Overseas Equity portfolio returned 18.84% (post-hedge) for 2021, underperforming the MSCI ACWI ex Australia return of 25.99% by 7.15%.

Name	Market Value ($m)	Portfolio Composition	tCO_2e/ $m Revenue	Portfolio Variance from Benchmark
RBC Overseas Equities Fund	151.76	38.35%	29.00	
Magellan Overseas Equities Fund	145.52	36.78%	20.65	
Metropolis Capital	98.27	24.84%	23.80	
Antipodes Overseas Equities Fund*	0.13	0.03%	0.00	
ANU Overseas Equities Portfolio	395.67	100.00%	24.63	-77.46%
Benchmark - MSCI ACWI ex Australia			109.26	

* The $0.13m holding in Antipodes Overseas Equities is the residual of the portfolio liquidation.

The carbon intensity of the Overseas Equity portfolio was 24.63 tCO_2e/\$m revenue at 31 December 2021. This was 77.46% lower than the MSCI ASWI ex Australia Index.

The Magellan Overseas Equities Fund was the least carbon-intense portfolio in the asset class with a carbon intensity of 20.65 tCO_2e/\$m revenue. This was lower than the benchmark's carbon intensity of 109.26 tCO_2e/\$m revenue by 81.10%.

Magellan Overseas Equities demonstrated a positive tilt of 19.62% ahead of the benchmark on ESG exposure. The fund scored ahead in terms of social factors (+18.39%), governance factors (+13.25%) and environmental factors (+17.07%).

RBC Overseas Equities demonstrated a positive tilt of 7.60% ahead of the benchmark on ESG exposure. The fund scored ahead in terms of social factors (+6.72%), governance factors (+5.68%) and environmental factors (+4.53%).

Metropolis Capital demonstrated a positive tilt of 7.86% ahead of the benchmark on ESG exposure. The fund scored ahead in terms of governance factors (+7.39%), environmental factors (+17.10%), whilst underperforming on social factors (-3.42%).

Through proxy voting, the University supported proposals at the Annual General Meetings for companies to report on the management of food waste, human rights risk assessment, and gender/racial pay gap.

A total of 21.91% of the Overseas Equity portfolio ($86million) was invested in companies committed to supporting gender equality through policy development, representation, and transparency. These companies are included in the BGE Index.

Cash

At 31 December 2021, 99.94% of the Cash portfolio was managed by Kapstream. The Kapstream portfolio amounted to 29.98% of the LTIP. The portfolio returned -0.21%, underperforming Kapstream's 'in-house' benchmark (RBA Cash Rate Target + 2% p.a.) of 2.10% by 2.31%.

Name	Market Value ($m)	tCO_2e/ \$m Revenue	Portfolio Variance from Benchmark
Kapstream Managed Cash	399.54	15.55	-57.75%
Benchmark - Bloomberg AusBond Composite 0+ Year Index		36.80	

The carbon intensity of the Kapstream Managed Cash portfolio was 15.55 tCO_2e/\$m revenue at 31 December 2021, which was 57.75% lower than the benchmark. The carbon intensity of the cash portfolio was compared to the carbon intensity of the Bloomberg AusBond 0+ Year index.

A total of 16.08% of the Kapstream Managed Cash portfolio ($63million) was invested in cash-like securities issued by companies committed to supporting gender equality through policy development, representation, and transparency. These companies are included in the BGE Index.

Infrastructure Investments

At 30 June 2021, the Infrastructure portfolio amounted to 12.06% of the LTIP. The Infrastructure portfolio returned 5.20% for the financial year ending 30 June 2021, underperforming the benchmark index (CPI Plus 5.5%) of 9.37% by 4.17%.

For the financial year ended 30 June 2021, the Infrastructure portfolio's CO_2 intensity was 704.82 tCO_2e/\$m revenue. This was 33.50% less carbon intense than the S&P Global Infrastructure Index intensity of 1,059.90 tCO_2e/\$m revenue during the same period.

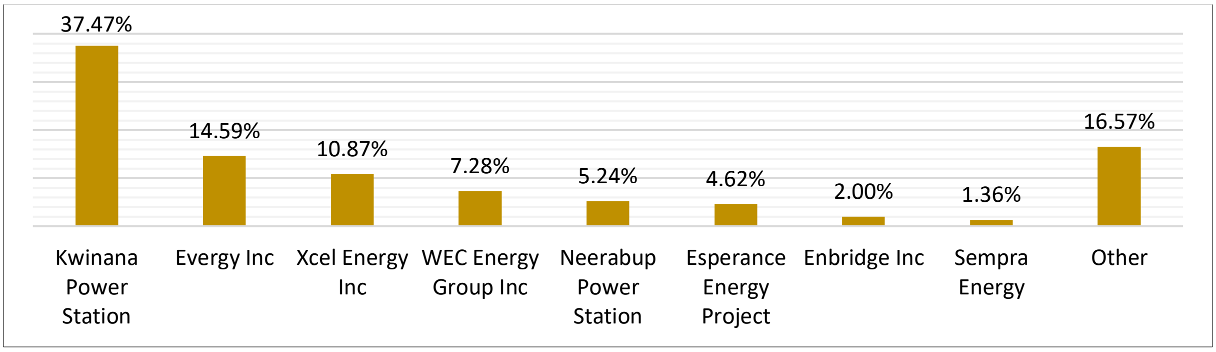
Name	Market Value ($m)	Portfolio Composition	tCO_2e/ \$m Revenue	tCO_2e/ \$m Invested	tCO_2e Financed	% Change tCO_2e/\$m Invested (Since June 2020)
Magellan Infrastructure Fund	83.41	53.11%	579.99	171.99	14,345.74	67.55%
ICG Energy Infrastructure Fund	40.14	25.56%	1,388.13	433.24	14,734.05	0.91%
IFM Australian Infrastructure Fund	33.50	21.33%	196.90	20.90	610.09	-11.06%
ANU Infrastructure Portfolio	157.05	100.00%	704.82	206.53	29,689.88	23.38%
Benchmark - S&P Global Infrastructure			1,059.90	248.20		

Magellan Infrastructure Fund increased its carbon intensity by 67.55% from 30 June 2020 to 30 June 2021. The carbon emissions of the portfolio were largely attributable to investments in Evergy Inc (Utilities – United States), Xcel Energy (Utilities – United States), and WEC Energy Group (Utilities – United States) which account for 67.76% of the portfolio's carbon emissions. Evergy inc was a new addition to the fund in the financial year ended 30 June 2021. The security accounts for 30.20% of the fund's emissions.

ICG Energy Infrastructure Fund remains the most carbon intense portfolio in the LTIP's infrastructure asset class. The portfolio's carbon intensity increased by 0.91% from 30 June 2020 to 30 June 2021. As illustrated in the graph below, Kwinana Power Station, an asset in the ICG portfolio, was the most carbon intense asset held in the Infrastructure portfolio and accounts for 37.47% of the emissions for the Infrastructure portfolio. The carbon emissions of the Kwinana Power Station increased by 21.61% from 30 June 2020 to 30 June 2021.

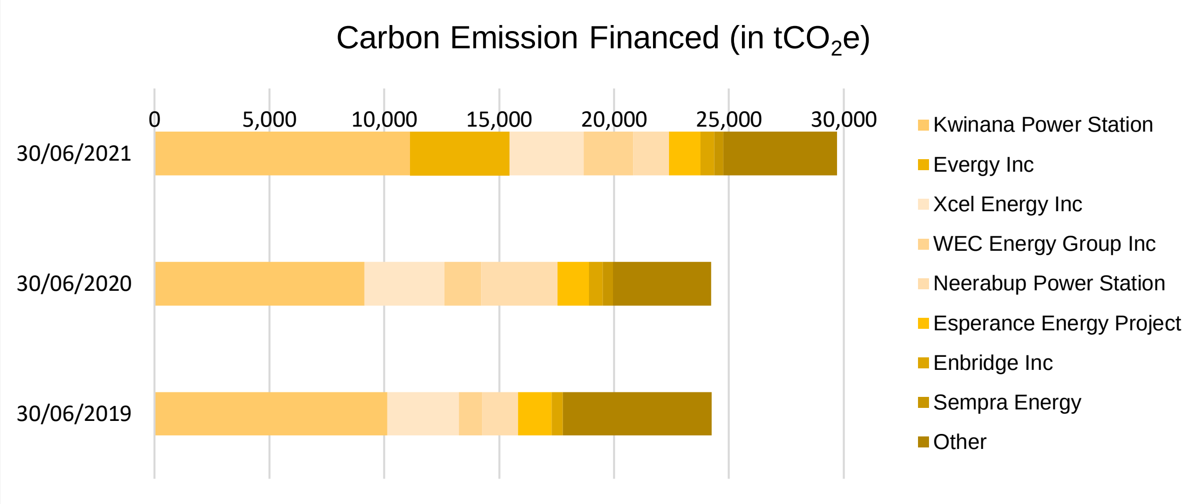
IFM Infrastructure Fund decreased its carbon intensity by 11.06% from 30 June 2020 to 30 June 2021. This portfolio was the least carbon-intense in the University's Infrastructure portfolio, contributing only 2.05% to the total carbon emissions of the Infrastructure portfolio.

tCO_2e Emissions of Assets as a Percentage of Total Infrastructure Portfolio Emissions



Carbon emissions data used are for the financial year ended 30 June 2021.

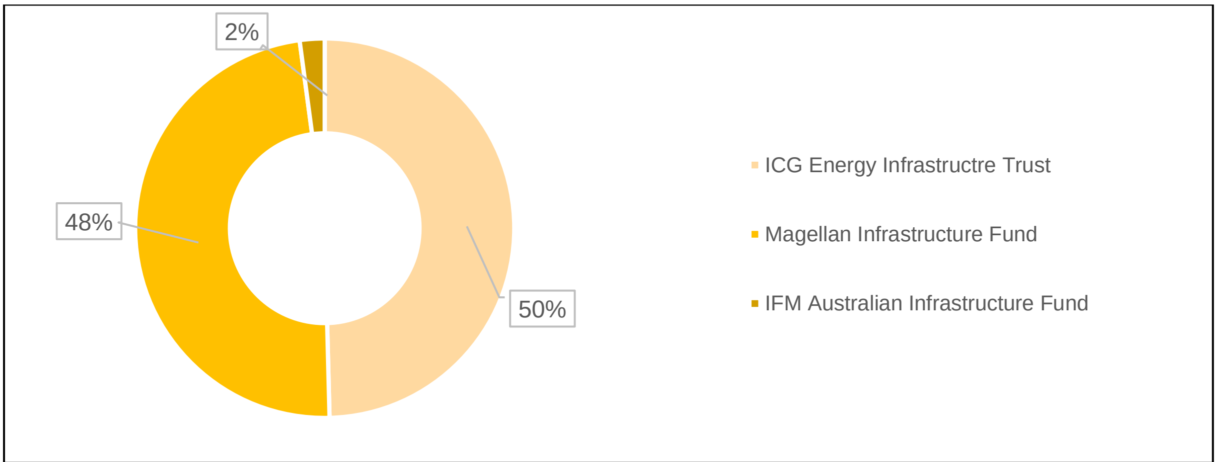
Comparison of Carbon Intensive Assets



Carbon emissions data used are for the financial year ended 30 June 2021.

The University's total year-on-year carbon emissions of the Infrastructure portfolio have increased by 22.53% from 30 June 2020 to 30 June 2021 but remained significantly less carbon intense than the benchmark. This was primarily due to a 63.07% increase in carbon emissions of the Magellan Infrastructure Fund. The Infrastructure portfolio was 33.50% less carbon intense than the S&P Global Infrastructure Index intensity of 1,059.90 tCO_2e/$m revenue during the same period.

Breakdown of Emissions by Infrastructure Portfolio Composition (30 June 2021)



Carbon emissions data used are for the financial year ended 30 June 2021.

At 30 June 2021, renewable energy sector assets comprised 37.15% of the energy sector assets. Exposure to renewable energy assets was attributable to investments in the ICG Energy Infrastructure Fund, which was comprised of 41.38% in renewable energy assets.

European Loans

At 31 December 2021, Arcmont Senior Loan Fund (Arcmont) and Bridgepoint Direct Lending II (Bridgepoint) amounted to 5.88% of the University's LTIP. Arcmont and Bridgepoint returned 8.49% and 7.66% respectively for the year, underperforming the benchmark (CPI Plus 5.5%) return of 8.56% by 0.07% and 0.90%.

The European Loan portfolios deployed the negative screens associated with the SRI Policy. Furthermore, the portfolios demonstrated positive ESG tilts through their investments in

Higher Education and Childcare, Biotechnology, Disease Detection Research and Water Waste Management.

CONCLUSION

At 31 December 2021, 99.59% of the LTIP was compliant with the University SRI Policy. The remaining 0.41% were investments made prior to the adoption of the SRI Policy which are currently in runoff. For future investment mandates, the SRI Policy will continue to be considered and implemented whenever possible. For existing asset managers, reporting on SRI is becoming more formal and robust.

The University seeks to balance a strong commitment to socially responsible investment with a fiduciary responsibility to meet its obligations in respect of both superannuation liabilities and endowments. We are committed to improving the implementation of our SRI policy, and measuring the impact of the implementation. We strive to remain a leader nationally and internationally in working pro-actively as an active asset-owner, creating a greenhouse gas neutral future as well as promoting strong social and governance practices.