ANU SOCIALLY RESPONSIBLE INVESTMENT (SRI) REPORT 2022

EXECUTIVE SUMMARY

In 2022, the Long Term Investment Pool (LTIP) achieved a 44.97% lower carbon intensity than its composite benchmark. Although no Environmental, Social and Governance (ESG) targets have been set, LTIP had 14.14% ($181.50 million) 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[1].

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 reporting 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

[1] The carbon intensity target for Overseas Equity was revised in 2022.

Integration Methodology which will be used in all future potential enhancements in the implementation of the SRI Policy.

In 2021, ANU liquidated the Antipodes Partners portfolio and invested the proceeds into Metropolis Capital. For the first time, the University assessed both the Domestic and Overseas Equity portfolios alignment of greenhouse gas emissions with the Paris Agreement Goals.

In 2022, by Council resolution following the February Finance Committee meeting, the University implemented a target of 75% less carbon intensity in the Overseas Equities portfolio relative to the MSCI ACWI ex. Australia benchmark in support of the University's net zero emission goal. In addition, the University increased its commitment to climate change reporting by reporting on the greenhouse gas intensity of the Equity portfolios twice yearly.

The investment parameters have been imposed on all external managers in order to efficiently decrease the University's investment exposure to CO2 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 quarterly 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 2022, the University's Long Term Investment Pool (LTIP) amounted to $1.28 billion.

DISCUSSION

Long Term Investment Pool (LTIP)

Name	% of LTIP	% of Benchmark	LTIP Intensity (tCO2e/ $m Revenue)	Benchmark Intensity (tCO2e/ $m Revenue)	Intensity Difference (tCO2e/ $m Revenue)	LTIP Intensity Contribution (tCO2e/ $m Revenue)	Benchmark Intensity Contribution (tCO2e/ $m Revenue)	Target Portfolio Variance from Benchmark	Actual Portfolio Variance from Benchmark
Domestic Equity	27.37%	27.00%	154.00	240.80	-86.80	42.14	65.02	-25.00%	-36.05%
Overseas Equity	23.44%	22.00%	19.05	108.87	-89.82	4.47	23.95	-75.00%	-82.50%
Infrastructure*	13.38%	12.79%	601.25	1066.82	-465.57	80.45	136.45		-43.64%
Fixed Interest	3.76%	14.00%	0.00	32.87	-32.87	0.00	4.60		-100.00%
Cash	23.64%	7.00%	3.39	32.87	-29.48	0.80	2.30		-89.70%
Other**	8.42%	17.21%							
Aggregate LTIP	**100.00%**	**100.00%**	**127.85**	**232.32**	**-104.46**				**-44.97%**

*Carbon intensity as at 30 June 2022 as it is the latest available data. Market value as at 31 December 2022.
**Other LTIP investments including Property and Alternative Investments with no reported carbon data. The percentage of these assets in the LTIP has increased by 0.96% (from 7.46%) since 31 December 2021.

The total aggregated carbon intensity of the University's LTIP was 127.85 tonnes of CO2 emitted per million dollars revenue (tCO2e/$m revenue), which was lower than the LTIP's Composite Benchmark's carbon intensity of 232.32 tCO2e/$m revenue by 44.97%. The reduction in carbon intensity was accomplished through investments in companies that were significantly less carbon-intense relative to companies in the LTIP's Composite Benchmark.

The carbon intensity of the LTIP Composite Benchmark increased by 3.40% from 31 December 2021 to 31 December 2022. The increase was largely attributable to the increases in carbon intensity of the Domestic Equity and Infrastructure benchmarks. The LTIP carbon intensity decreased by 1.46% over the one year period. The resulting variance from benchmark improved from 42.25% lower at 31 December 2021 to 44.97% lower at 31 December 2022.

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. At 31 December 2022, a total of 14.14% of the University's LTIP ($181.50 million) was invested in companies that support gender equality through policy development, representation, and transparency. This is a decrease of 0.81% from 31 December 2021[2].

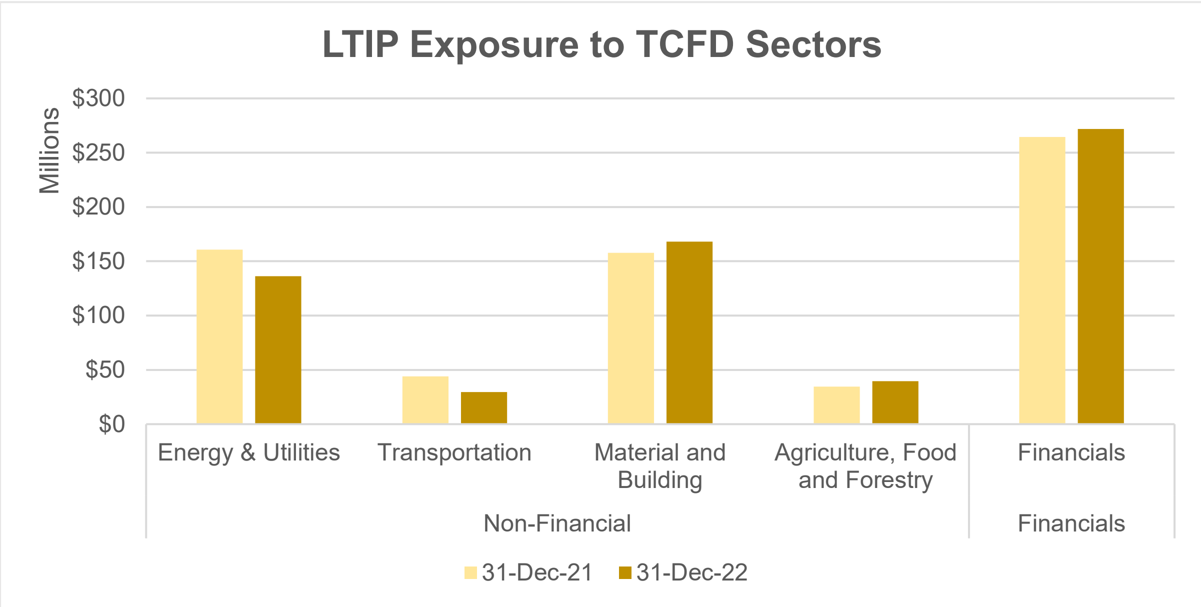
The main driver of the decrease was the changes in the RBC Overseas Equity portfolio since 31 December 2021, with underperforming companies that were in the BGEI sold for outperforming companies that were not in the BGEI. The percentage the RBC Overseas Equity portfolio included in the BGE Index decreased by 12.02% between 31 December 2021 and 31 December 2022.

[2] Magellan Listed Infrastructure was included in the 31 December 2022 calculation. It was not included in the 31 December 2021 calculation as it was unavailable at the time.

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.

At 31 December 2022, a total of $645.32 million (50.26%) of assets held in the University's LTIP were exposed to climate change risk. The Non-Financial sectors (Material and Building, Energy and Utilities, Agriculture Food and Forestry, and Transportation) contributed 57.78% ($373.42 million) of the total exposure. The Financials sector contributed 42.13% ($271.89 million) of the total exposure.



Equity Portfolio Climate Scenario Alignment

The Paris Agreement goal is to attain the Sustainable Development Scenarion (SDS), to limit global warming with a target of no more than a 1.5 degree Celsius increase. The scenario alignment analysis compares current and future portfolio greenhouse gas emissions with the carbon budgets for the SDS.

The LTIP Domestic Equity strategy in its current state is misaligned with the SDS for 2050. The portfolio is associated with a potential temperature increase of 2.7°C by 2050, whereas the ASX200 has a potential temperature increase of 3.0°C

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

	2022	2030	2040	2050
Portfolio	-1.82%	+16.34%	+98.26%	+266.67%
Benchmark	+79.07%	+97.38%	+226.09%	+475.24%

2024 The portfolio exceeds its SDS budget in 2024.

2.7°C The portfolio is associated with a potential temperature increase of 2.7°C by 2050.

LTIP's Overseas Equity strategy in its current state is misaligned with the SDS for 2050. The LTIP Overseas Equity portfolio is associated with a potential temperature increase of 2.0°C by 2050, whereas the benchmark is associated with a potential temperature increase of 2.8°C.

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

	2022	2030	2040	2050
Portfolio	-52.13%	-34.19%	+17.06%	+133.19%
Benchmark	-4.82%	+23.52%	+121.53%	+349.87%

2038 The portfolio exceeds its SDS budget in 2038.

2°C The portfolio is associated with a potential temperature increase of 2°C by 2050.

Domestic Equity

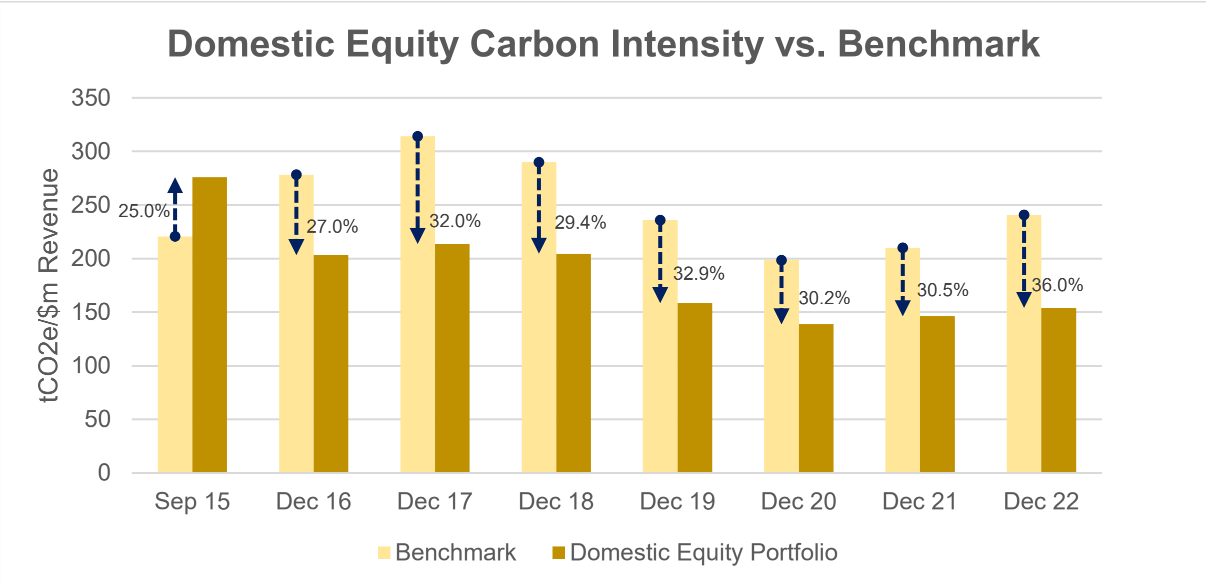
At 31 December 2022, Domestic Equity amounted to 27.37% of the University's LTIP. The Domestic Equity portfolio returned 1.70% for 2022, outperforming the S&P/ASX200 Accumulation Index benchmark return of 0.51% by 1.19%.

Name	Market Value ($m)	Portfolio Composition	tCO2e/ $m Revenue	Portfolio Variance from Benchmark
Plato ANU Enhanced Index Fund	351.36	100.00%	154.00	-36.05%
Benchmark - S&P/ASX 200			240.80	

The carbon intensity of the Domestic Equity portfolio was 154.00 tCO2e/$m of revenue at 31 December 2022, which was 36.05% lower than the benchmark S&P/ASX200 Index. The carbon intensity of the Domestic Equity portfolio increased by 5.41% since 31 December 2021. During the same period, the carbon intensity of the benchmark increased by 14.61%. The carbon intensity variance from the benchmark improved from 30.46% lower at 31 December 2021 to 36.05% lower at 31 December 2022.

Since ANU implemented a new investment structure for Domestic Equity, the carbon intensity of the portfolio decreased from 276.00 tCO2e/$m revenue (September 2015) to 154.00 tCO2e/$m revenue (31 December 2022). This was an absolute reduction of 44.20%.

Domestic Equity Portfolio CO2 Intensity from September 2015 to December 2022



The Domestic Equity portfolio was tilted towards positively ranked ESG names and away from negatively ranked names in 2022. This resulted in a total portfolio ESG exposure towards positively ranked ESG names to be 10.8% higher than the benchmark, at 31 December 2022. The portfolio was weighted positively towards less emissions intensive companies within emissions intensive industries, such as energy, materials, and utilities, compared with the benchmark portfolio.

A total of 18.98% of the Domestic Equity portfolio ($66.48 million) was invested in companies committed to supporting gender equality through policy development, representation, and transparency. This was measured by the inclusion of the University's Domestic Equity assets in the BGE Index.

Through proxy voting, the University voted on a total of 921 proposals for companies in the Domestic Equity portfolio in 2022. The University voted against management on 101 proposals (10.97%). Of the 164 proposals on the topic of Executive Officers' Compensation, the University voted against management on 13 occasions (7.93%).

At 31 December 2022, the Plato ANU Enhanced Index Fund contained two companies, BHP and South32, that did not comply with the SRI Policy's negative screen identifying companies that derived more than 20% of their revenues from coal. Coal revenue for BHP and South32 for financial year 2022, were 24.62% for BHP and 23.79% for South32. The surge in coal prices in FY2022 was responsible as both BHP and South32 decreased their total coal production from FY2021 levels. BHP decreased total coal production by 8.33% from FY2021 levels, but experienced a coal revenue increase of 201.69% in the same period. South32 decreased its total coal production by 12.04% from FY2021 levels, but experienced a coal revenue increase of 208.44% in the same period. At the September 2022 meeting the Finance Committee approved the SRI Policy's transition plan enabling the continued investment BHP shares for up to three years. BHP, due to its 11% ASX200 index weighting, makes the replication of the index impossible if excluded. In addition, BHP is commited to exiting thermal coal. The University notified Plato of IMA non-compliance in February 2023. Plato promptly sold the South32 position.

Overseas Equities

At 31 December 2022, the Overseas Equity portfolio amounted to 23.44% of the University's LTIP. The Overseas Equity portfolio returned -17.46% (pre-hedge) for 2022, underperforming the MSCI ACWI ex Australia return of -12.73% by 4.73%.

Name	Market Value ($m)	Portfolio Composition	tCO2e/ $m Revenue	Portfolio Variance from Benchmark
Magellan Overseas Equities Fund	93.89	31.20%	15.12	-86.11%
RBC Overseas Equities Fund	122.95	40.86%	22.00	-79.79%
Metropolis Capital	82.95	27.57%	19.40	-82.18%
Antipodes Overseas Equities Fund	0.12	0.04%	0.00	-100.00%
Foreign Exchange	1.01	0.34%	0.00	-100.00%
ANU Overseas Equities Portfolio	**300.92**	**100.00%**	**19.05**	**-82.50%**
Benchmark - MSCI ACWI ex Australia			**108.87**	

* The $0.12m holding in Antipodes Overseas Equities is the residual of the portfolio liquidation.

The carbon intensity of the Overseas Equity portfolio was 19.05 tCO2e/$m revenue at 31 December 2022, which was 82.50% lower than the benchmark carbon intensity of the MSCI ASWI ex Australia Index. The carbon intensity of the Overseas Equity portfolio decreased by 22.63% since 31 December 2021, whereas the carbon intensity of the benchmark has decreased by only 0.36%. Carbon intensity variance from the benchmark has improved from 77.46% lower at 31 December 2021 to 82.50% lower at 31 December 2022.

The Magellan Overseas Equities Fund demonstrated a positive tilt of 0.31% ahead of the benchmark on overall ESG disclosure. The fund was ahead in terms of social disclosure (+0.07%) and governance disclosure (+1.1%), but behind in terms of environmental disclosure (-0.24%). A total of 29.83% ($28.01 million) of the Magellan Overseas Equities Fund was invested in companies found in the BGE index. This is an increase of 3.26% since 31 December 2021.

RBC Overseas Equities demonstrated a negative tilt of 3.41% against the benchmark on overall ESG disclosure. The fund was behind in terms of environmental disclosure (-5.91%), social disclosure (-3.61%) and governance disclosure (-0.7%). A total of 10.24% ($12.12 million) of RBC Overseas

Equities was invested in companies listed in the BGE Index. The percentage of the RBC Overseas Equity portfolio included in the BGE Index has decreased by 12.02% since 31 December 2021.

Metropolis Capital demonstrated a negative tilt of 4.54% against the benchmark on overall ESG disclosure. The fund was behind in terms of environmental disclosure (-6.99%), social disclosure (-6.24%) and governance disclosure (-0.41%). A total of 16.16% ($13.39 million) of Metropolis Capital was invested in companies listed in the BGE Index. The percentage of the Metropolis Capital portfolio included in the BGE Index has increased by 1.67% since 31 December 2021.

Through proxy voting, the University voted on a total of 1355 proposals for companies in the Overseas Equity portfolio during 2022. The University supported proposals at Annual General Meetings for companies to conduct civil and human rights assessments, report on the gender/racial pay gap, and disclose lobbying payments. The University voted against management on 169 proposals (12.47%). Of the 116 proposals on the topic of Executive Officers' Compensation, the University voted against management on 9 occasions (7.76%).

At 31 December 2022, a total of 18.13% of the Overseas Equity portfolio ($53.53 million) was invested in companies committed to supporting gender equality through policy development, representation, and transparency. This was measured by the inclusion of the University's Overseas Equity assets in the BGE Index.

Fixed Interest

Name	Market Value ($m)	tCO2e/ $m Revenue	Portfolio Variance from Benchmark
Blackrock iShares Treasury ETF	48.29	0.00	-100.00%
Benchmark - Bloomberg AusBond Composite 0+ Year Index		32.87	

At 31 December 2022, the Fixed Interest portfolio amounted to 3.76% of the University's LTIP. The Blackrock iShares Treasury ETF was funded in December 2022. The carbon intensity of the Blackrock iShares Treasury ETF was 0 tCO2e/$m revenue at 31 December 2022, compared to the benchmark's carbon intensity of 32.87 tCO2e/$m revenue.

Cash

At 31 December 2022, the Cash portfolio amounted to 23.64% of the University's LTIP. The Cash portfolio returned -0.30% for 2022, underperforming the Bloomberg AusBond Bank Bill Index benchmark return of 1.25% by 1.55%.

Name	Market Value ($m)	Portfolio Composition	tCO2e/ $m Revenue	Portfolio Variance from Benchmark
Kapstream Managed Cash	156.79	51.67%	6.55	-80.06%
Managed Cash	146.68	48.33%	0.00	-100.00%
ANU Cash Portfolio	**303.47**	**100.00%**	**3.39**	**-89.70%**
Benchmark - Bloomberg AusBond Composite 0+ Year Index			**32.87**	

The carbon intensity of the Cash portfolio was 3.39 tCO2e/$m revenue at 31 December 2022, which was 89.70% lower than the Bloomberg AusBond Composite 0+ Year Index benchmark. The carbon intensity of the Cash portfolio has decreased by 78.23% since 31 December 2021, whereas the carbon intensity of the benchmark has decreased by only 10.69% in the same period. The reduction in portfolio carbon intensity was largely attributable to the increased proportion of Managed Cash within the LTIP Cash portfolio. The Managed Cash portfolio is comprised of Term Deposit investments, which have a carbon intensity of 0 tCO2e/$m.

The carbon intensity of the Kapstream Managed Cash portfolio was 6.55 tCO2e/$m revenue at 31 December 2022, which was 80.06% lower than the benchmark. The carbon intensity of the Kapstream portfolio has decreased by 57.86% since 31 December 2021.

A total of 12.11% ($18.11 million) of the credit exposure in the Kapstream Managed Cash portfolio was invested in companies committed to supporting gender equality through policy development, representation, and transparency. This was measured by the inclusion of the University's Fixed Income assets in the BGE Index. The percentage of the Kapstream Managed Cash portfolio included in the BGE Index has decreased by 3.97% since 31 December 2021.

Infrastructure

At 31 December 2022, the Infrastructure portfolio amounted to 13.38% of the University's LTIP. The Infrastructure portfolio returned 2.42% for 2022, underperforming the benchmark index (CPI Plus 5.5%) of 13.71% by 11.29%.

Name	Market Value ($m)	Portfolio Composition	tCO2e/ $m Revenue	Portfolio Variance from Benchmark	tCO2e/ $m Invested	tCO2e Financed
Magellan Infrastructure Fund	92.33	53.75%	510.30	-52.17%	142.00	13,110.77
ICG Energy Infrastructure Fund	42.86	24.95%	1159.48	8.69%	374.16	13,229.97
IFM Australian Infrastructure Fund	36.60	21.30%	177.00	-83.41%	28.40	539.31
ANU Infrastructure Portfolio	**171.78**	**100.00%**	**601.25**	**-43.64%**	**175.72**	**26,880.05**
Benchmark - S&P Global Infrastructure Index			**1,066.82**		**202.00**	

Note: Carbon intensity as at 30 June 2022 as it is the latest available data. Market value as at 31 December 2022.

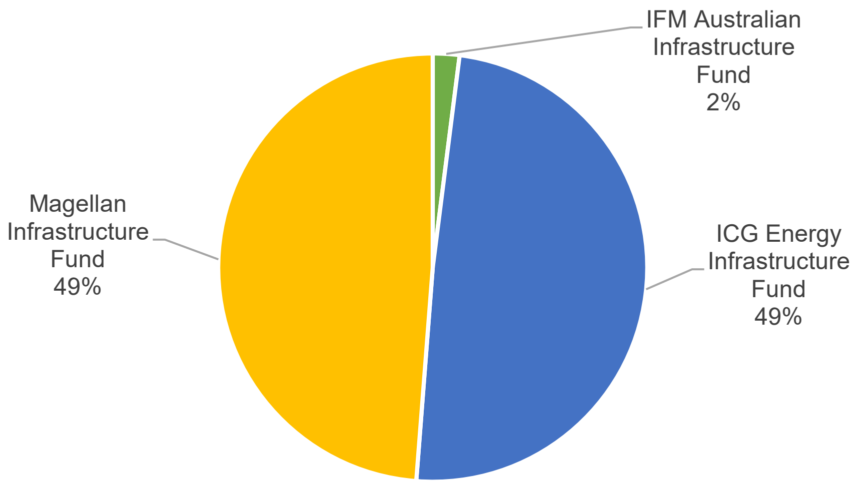
For the financial year ended 30 June 2022, the carbon intensity of the Infrastructure portfolio's was 601.25 tCO2e/$m revenue, which was was 43.64% less carbon intense than the benchmark S&P Global Infrastructure Index's intensity of 1,066.82 tCO2e/$m revenue. The carbon intensity of the Infrastructure portfolio has decreased by 14.69% since 30 June 2022, whereas the carbon intensity of the benchmark increased by only 0.65% in the same period. Carbon intensity variance from the benchmark has improved from 33.50% lower at 30 June 2021 to 43.64% lower at 30 June 2022.

The Magellan Infrastructure Fund's carbon intensity of 510.30 tCO2e/$m revenue was 52.17% lower than the benchmark's carbon intensity. The Fund decreased its carbon intensity by 12.02% from 30 June 2021 to 30 June 2022.

A total of 36.04% of the Magellan Infrastructure Fund ($33.27 million) was invested in companies committed to supporting gender equality through policy development, representation, and transparency. This was measured by the inclusion of the University's Domestic Equity assets in the BGE Index.

ICG Energy Infrastructure Fund remains the most carbon intense portfolio in the LTIP's Infrastructure asset class with a carbon intensity of 1,159.48 tCO2e/$m revenue. This was 8.69% higher than the benchmark carbon intensity of the S&P Global Infrastructure Index. ICG decreased its carbon intensity by 16.47% from 30 June 2021 to 30 June 2022. While the ICG portfolio held the same 12 assets as last year, 10 of the assets had decreased carbon emmissions. At 30 June 2022, Kwinana Power Station accounted for 75.25% of the ICG portfolio's total carbon emissions and 37.04% of the Infrastructure portfolio's total carbon emissions. The carbon emissions of the Kwinana Power Station decreased by 10.52% from 30 June 2021 to 30 June 2022.

Breakdown of Carbon Emissions by Infrastructure Portfolio Composition

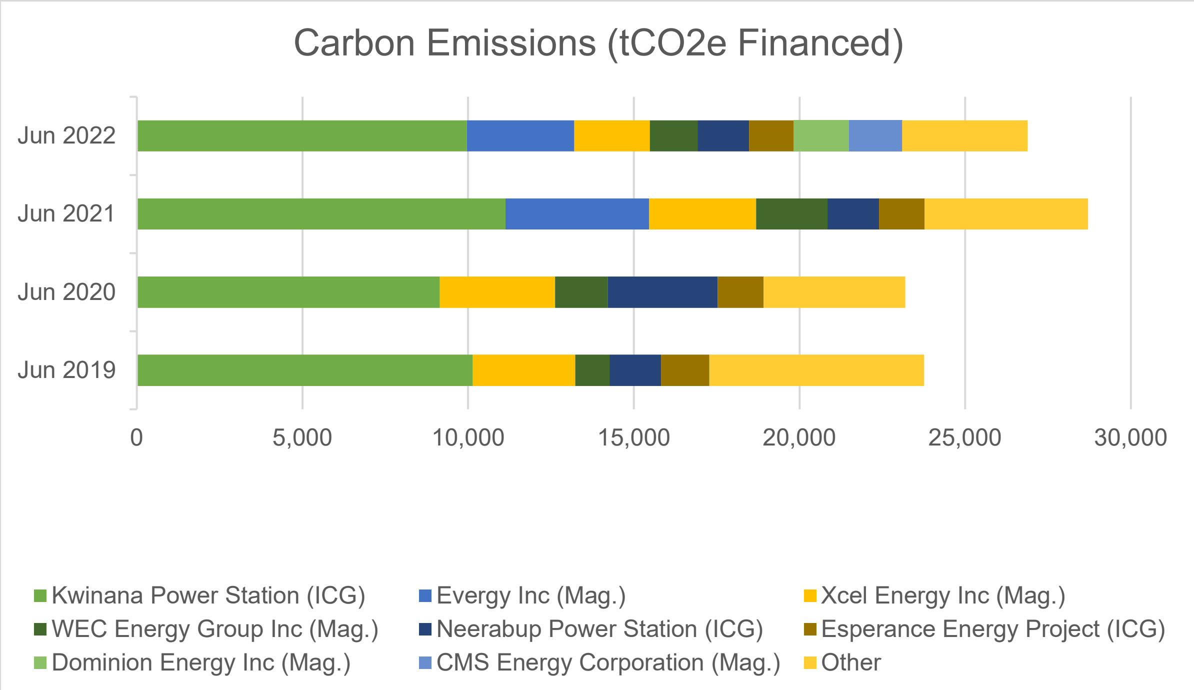


Note: Carbon emissions data for Infrastructure asset class is as at 30 June 2022.

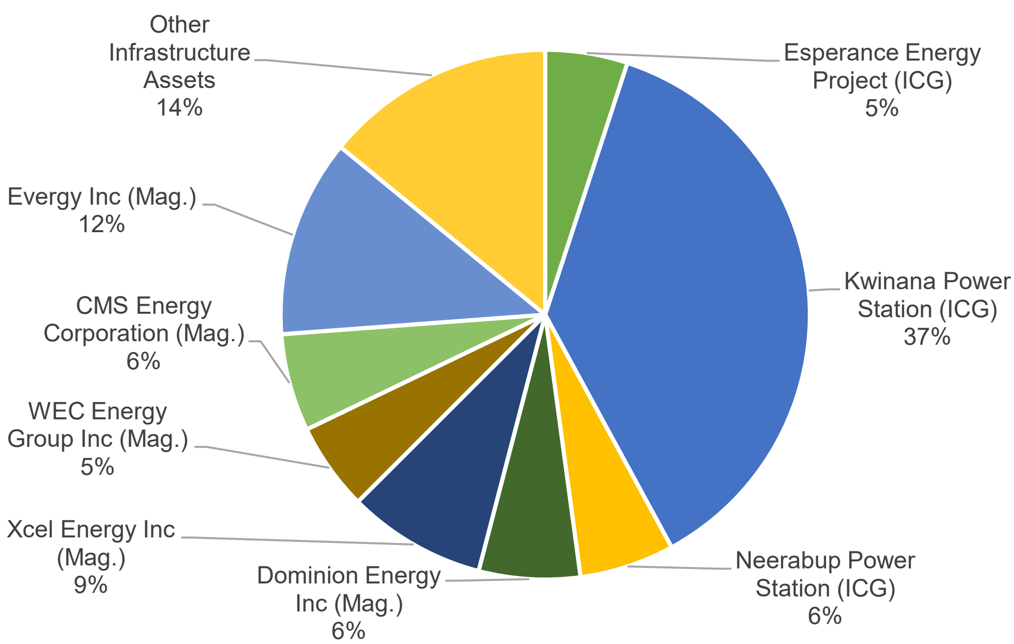
The IFM Infrastructure Fund's carbon intensity of 177.00 tCO2e/$m revenue was 83.41% lower than the benchmark's carbon intensity. The fund was the least carbon-intense in the University's Infrastructure portfolio, contributing only 2.01% to the total carbon emissions of the Infrastructure portfolio. The IFM Infrastructure Fund decreased its carbon intensity by 10.11% from 30 June 2021 to 30 June 2022. The fund decreased its carbon emissions by 11.60% (tCO2e Financed) since 30 June 2021. This decrease was the result of a variety of carbon emissions reductions across the portfolio and grid decarbonisation in IFM's electricity distribution holdings.

At 30 June 2022, renewable energy sector assets comprised 24.88% of the energy sector assets. Exposure to renewable energy assets was attributable to investments in the ICG Energy Infrastructure Fund, which was comprised of 36.58% renewable energy assets.

Historical Comparison of Carbon Intensive Infrastructure Assets



Asset Emissions as a Percentage of Total Infrastructure Portfolio Emissions



Note: Carbon emissions data for Infrastructure asset class is as at 30 June 2022. Mag. denotes Magellan.

European Loans

At 31 December 2022, the Arcmont Senior Loan Fund (Arcmont) and Bridgepoint Direct Lending II (Bridgepoint) amounted to 6.49% of the University's LTIP. Arcmont and Bridgepoint returned 2.45% and 4.52% respectively for the year, underperforming the benchmark (CPI Plus 5.5%) return of 13.71% by 11.26% and 9.19%.

The European Loan portfolios deployed the negative screens associated with the SRI Policy and chose to invest in very low-carbon emitting industries. The portfolios demonstrated positive ESG tilts through their investments in Education, Childcare, Biotechnology, Sustainable Agriculture, Disease Detection Research, Waste Water Management and Carbon Credit Advisory.

CONCLUSION

At 31 December 2022, 99.87% of LTIP investments were compliant with the University SRI Policy. The remaining 0.13% was comprised of an investment that derived more than 20% of revenues from coal and investments made prior to the adoption of the SRI Policy, which are currently in runoff. For future investment mandates, the SRI Policy targets will continue to be considered and implemented whenever possible. For existing asset managers, reporting on SRI is becoming more sophisticated 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 proactively as an active asset-owner, creating a greenhouse gas neutral future as well as promoting strong social and governance practices.