EXECUTIVE SUMMARY

In 2023, the Long Term Investment Pool (LTIP) achieved a 34.69% lower carbon intensity than its composite benchmark comprised of the underlying benchmarks of the individual asset classes. LTIP had 15.63% ($208.25 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. The policy adopted clear benchmarks in 2015, 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 based on a 20% revenue threshold on revenue directly derived from coal, gambling, pornography and tobacco;
- Establish a 25% carbon intensity reduction target against the domestic equity benchmark;
- 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. Under the arrangements, ANU makes no decisions on individual stock selection. The University, however, requires the external managers to ensure its investments are consistent with the SRI Policy.

Investments by the external managers must:

- Outperform the MSCI All Country World Index ex. Australia over a three-year time horizon;
- Exclude companies based on a 20% revenue threshold on revenue directly derived from coal, gambling, pornography and tobacco;
- 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 that 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 respective 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, ANU developed an ESG Integration Methodology which will be used in all future potential enhancements in the implementation of the SRI Policy.

In 2021, for the first time, the University assessed both the Domestic and Overseas Equity portfolios alignment of greenhouse gas emissions with the Paris Agreement Goals. This is addressed on page 3 of the report.

In 2022, 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 including the greenhouse gas intensity of the Equity portfolios in the SRI Policy report.

In February 2024, the University also decided to report biodiversity risk and energy transformation in the LTIP Domestic and Overseas Equity portfolios. This supports the aspirational aim of the SRI Policy to positively promote investment in securities, companies, trusts and other entities that support socially beneficial outcomes.

The investment parameters have implemented the SRI Policy's Coal exclusion on all external managers in order to efficiently decrease the University investment exposure to CO_2e intensive industries without increasing the University exposure to volatility in the capital markets. If this balance was not managed, it might adversely impact the University 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 aims to position ANU as a leader compared to its domestic and most global 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.

On 31 December 2023, the University's Long Term Investment Pool (LTIP) amounted to $1.33 billion.

DISCUSSION

Long Term Investment Pool (LTIP)

Name	% of LTIP	% of Benchmark	LTIP Intensity	Benchmark Intensity	Intensity Difference	LTIP Intensity Contribution	Benchmark Intensity Contribution	Target Variance from Benchmark	Actual Variance from Benchmark
Domestic Equity	29.28%	27.00%	112.4	162.8	-50.40	32.91	43.96	-25.00%	-30.96%
Overseas Equity	23.57%	22.00%	19.40	86.87	-67.48	4.57	19.11	-75.00%	-77.67%
Infrastructure*	13.06%	14.58%	551.25	682.07	-130.82	72.01	99.43		-19.18%
Catastrophe Bonds	3.58%	3.99%	4.52	6.06	-1.54	0.16	0.24		-25.42%
Fixed Interest	13.75%	14.00%	3.42	27.92	-24.51	0.47	3.91		-87.76%
Cash	6.27%	7.00%	0.00	27.92	-27.92	0.00	1.95		-100.00%
Other**	10.50%	11.43%							
Aggregate LTIP	**100.00%**	**100.00%**	**110.12**	**168.60**	**-58.48**				**-34.69%**

Note: Carbon intensity measured in units of tCO_2e/ $m Revenue.
*Carbon intensity on 30 June 2023 as it is the latest available data. Market value on 31 December 2023.
**Other LTIP investments including Alternative Investments with no reported carbon data. The percentage of these assets in the LTIP has increased by 2.08% (from 8.42%) since 31 December 2022.

The total aggregated carbon intensity of the University's LTIP was 110.12 tonnes of CO_2 equivalent (CO_2e) emitted per million dollars revenue (tCO_2e/$m revenue), which was lower than the LTIP's composite benchmark's carbon intensity of 168.60 tCO_2e/$m revenue by 34.69%. The reduction in carbon intensity was achieved through investments in companies that were significantly less carbon-intense relative to companies in the LTIP's composite benchmark.

The carbon intensity of all LTIP asset class benchmarks decreased during this period and by 13.87% in aggregate over the one-year period. The carbon intensity of the LTIP composite benchmark decreased by 11.29% from 31 December 2022 to 31 December 2023. The resulting variance from benchmark improved from 32.73% lower on 31 December 2022 to 34.69% lower on 31 December 2023.

LTIP Aggregate ESG Tilts and Gender Equality

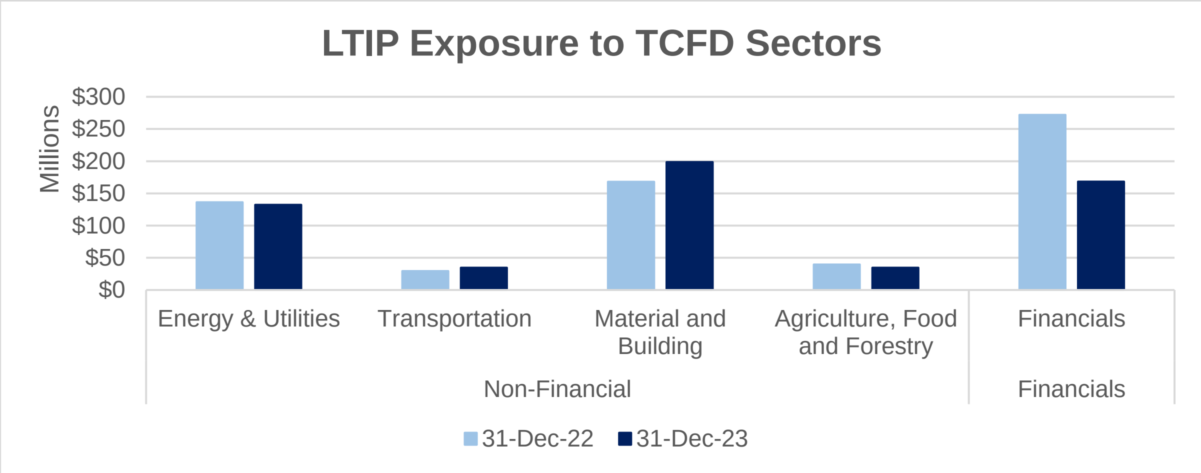
The percentage of the LTIP invested in companies that are leaders in corporate gender equality is measured by the inclusion of LTIP assets in the Bloomberg Gender Equality (BGE) Index. Companies are included in the BGE Index based on disclosure against the 5 pillars of Bloomberg's Gender Reporting Framework: Leadership & Talent Pipeline, Equal Pay & Gender Pay Parity, Inclusive Culture, Anti-sexual Harassment Policies and External Brand. Bloomberg uses only publicly available, company-disclosed data.

On 31 December 2023, a total of 15.63% of the University's LTIP ($208.25 million) was invested in companies that were included in the BGE Index. This is an increase of 1.49% from 31 December 2022 and was driven by the purchase of BGE Index companies into the Overseas Equity portfolio during the period.

LTIP Aggregate Exposure to Climate Change Risk

LTIP's exposure to climate change risk is calculated using the universally accepted methodology established by the now disbanded Task Force on Climate-Related Financial Disclosures (TCFD). 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.

On 31 December 2023, a total of $568.53 million (42.66%) 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 70.40% ($400.26 million) of the total exposure. The Financials sector contributed 29.60% ($168.26 million) of the total exposure.



Note: The Financial Stability Board (FSB) disbanded the Task Force on Climate-related Financial Disclosures (TCFD) in October 2023 as the TCFD recommendations were fully incorporated into the ISSB Standards. Companies may continue to use the TCFD recommendations.

Equity Portfolio Climate Scenario Alignment

LTIP's equity portfolios alignment with the Paris Agreement goal is assessed using the International Energy Agency's Sustainable Development Scenario (SDS), a measurement for global Greenhouse Gas (GHG) emissions consistent with Paris Agreement goal. The Paris Agreement goal is to limit global warming to 1.5ºC. Scope 1, 2 and 3 GHG emissions are included in the SDS's carbon budget and the assessment of the portfolios. Scope 3 GHG emissions are indirect emissions that occur in a company's value chain.

The LTIP Domestic Equity portfolio is currently misaligned with the Paris Agreement by 2050. The portfolios' total GHG emissions are calculated by Institutional Shareholder Services (ISS). On 31 December 2023, the portfolio is associated with a potential temperature increase of 2.5°C by 2050, which is 0.2°C lower than on 31 December 2022. By comparison, the ASX200 has a potential temperature increase of 3.0°C by 2050.

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

	2023	2030	2040	2050
Portfolio	-16.11%	-4.01%	+63.06%	+190.86%
Benchmark	+79.07%	+94.83%	+218.92%	+456.1%

2031 The portfolio exceeds its SDS budget in 2031.

2.5°C The portfolio is associated with a potential temperature increase of 2.5°C by 2050.

The LTIP Overseas Equity portfolio is currently misaligned with the Paris Agreement by 2050. The portfolios' total GHG emissions are calculated by Institutional Shareholder Services (ISS). On 31 December 2023, the portfolio is associated with a potential temperature increase of 1.9°C by 2050, which is 0.1°C lower than on 31 December 2022. By comparison, the MSCI ACWI ex Australia Index has a potential temperature increase of 2.8°C by 2050.

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

	2023	2030	2040	2050
Portfolio	-45%	-32.92%	+4.69%	+80.85%
Benchmark	-1.39%	+23.77%	+120.23%	+342.49%

2040 The portfolio exceeds its SDS budget in 2040.

1.9°C The portfolio is associated with a potential temperature increase of 1.9°C by 2050.

Biodiversity Impact

LTIP equity companies are assessed on biodiversity impact progress using Bloomberg's Biodiversity scores. Bloomberg scores are based on publicly available, company-disclosed data, and do not rely on estimates or an analyst's opinion. Based on a range of 1 to 10, a 10 indicates that a company has a biodiversity policy, has no sites in environmentally sensitive areas, has not disturbed any ecosystems in operating areas, has not been involved in any environmental incidents, and fully discloses all qualitative and quantitative data on these topics.

On 31 December 2023, LTIP Domestic Equity portfolio had a biodiversity impact score of 6.00, which was 1.68% higher than the S&P/ASX 200 benchmark's score of 5.90. LTIP Domestic Equity companies, on-average, outperformed companies in the benchmark at managing their impact on the biodiversity of the areas in which they operate.

On 31 December 2023, LTIP Overseas Equity portfolio had a biodiversity impact score of 3.04. This was 21.46% lower than the MSCI ACWI ex Australia benchmark's biodiversity impact score of 3.87. LTIP Overseas Equity companies, on-average, underperformed companies in the benchmark at managing their impact on the biodiversity of the areas in which they operate.

Energy Transformation

LTIP equity companies are assessed on energy transformation progress using Bloomberg's Energy Transformation scores. Bloomberg scores are based on publicly available, company-disclosed data, and do not rely on estimates or an analyst's opinion. Based on a range of 1 to 10, a score of 10 indicates that a company consumes a low amount of energy relative to its size, has a low scope 2 emissions intensity, uses a low percentage of grid electricity, consumes a high percentage of energy from renewable sources, and fully discloses all qualitative and quantitative data on these topics.

On 31 December 2023, LTIP Domestic Equity portfolio had an energy transformation score of 5.11. This was 1.65% higher than the S&P/ASX 200 benchmark's energy transformation score of 5.03. Compared to companies in the benchmark, LTIP Domestic Equity companies are, on-average, marginally more energy intensive but also more advanced in the shift to renewable energy and cleaner electricity storage and transportation technologies.

On 31 December 2023, LTIP Overseas Equity portfolio had an energy transformation score of 6.41, which was 10.19% higher than the MSCI ACWI ex Australia benchmark's score of 5.82. Compared to companies in the benchmark, LTIP Overseas Equity companies are, on-average, more advanced in the shift to renewable energy and cleaner electricity storage and transportation technologies.

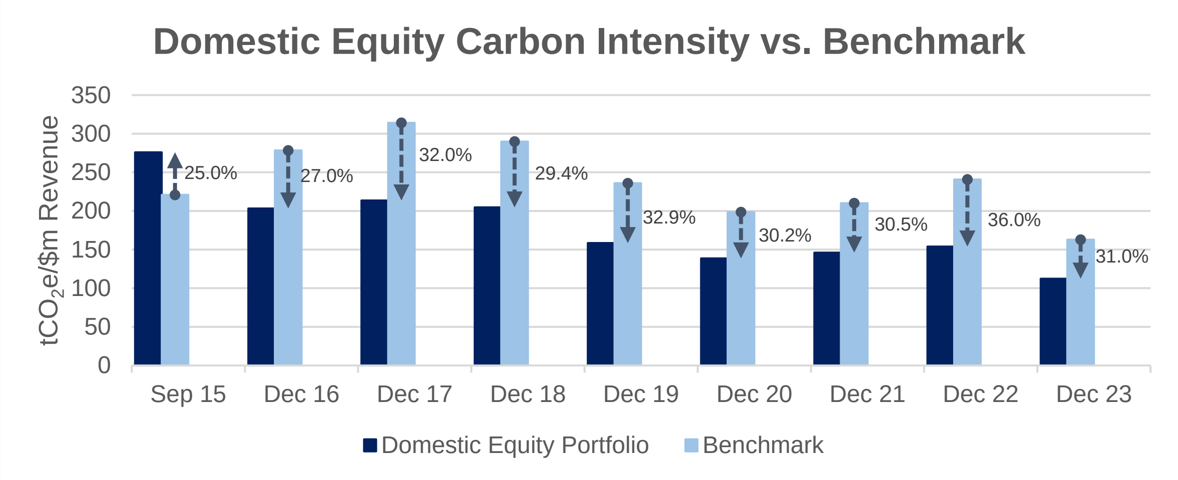
Domestic Equity

On 31 December 2023, Domestic Equity amounted to 29.28% of the University's LTIP. The Domestic Equity portfolio returned 14.03% for 2023, equalling the S&P/ASX200 Accumulation Index benchmark return of 14.03%.

The carbon intensity of the Domestic Equity portfolio was 112.40 tCO_2e/\$m of revenue on 31 December 2023, which was 30.96% lower than the benchmark S&P/ASX200 Index. The calculation captures Scope 1 and 2 greenhouse gas (GHG) emissions, normalised by total revenue in AUD. The carbon intensity of the Domestic Equity portfolio decreased by 27.01% since 31 December 2022. During the same period, the carbon intensity of the benchmark decreased by 32.39%. The portfolio's carbon intensity decreased by less than the benchmark due to the portfolio's underweights to the Materials, Energy and Consumer Discretionary sectors, which experienced carbon intensity decreases during 2023. The carbon intensity variance from the benchmark declined from 36.05% lower on 31 December 2022 to 30.95% lower on 31 December 2023.

Since ANU implemented a new investment structure for Domestic Equity, the carbon intensity of the portfolio decreased from 276.00 tCO_2e/\$m revenue (September 2015) to 112.40 tCO_2e/\$m revenue (31 December 2023). This was an absolute reduction of 59.28%.

Domestic Equity Portfolio CO_2e Intensity from September 2015 to December 2023



The Domestic Equity portfolio was tilted towards positively ranked ESG names and away from negatively ranked names in 2023. This resulted in a total portfolio ESG exposure towards positively ranked ESG names to be 11.00% higher than the benchmark, on 31 December 2023. 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 19.64% of the Domestic Equity portfolio ($76.42 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.

In September 2022, the Finance Committee approved the SRI Policy's transition arrangements for BHP, enabling the continued investment in BHP shares for up to three years. At the time, BHP's percentage of revenue generated from coal was 24.6%, exceeding the SRI Policy's 20% threshold.

BHP's percentage of revenue generated from coal decreased to 13.9% in the first half of FY2024. BHP is therefore again compliant to the SRI Policy's 20% revenue threshold. This figure was made public on 20 February 2024 through BHP's half-year 2024 financial results announcement. Compared to the corresponding half-year 2023 figures, BHP's metallurgical and thermal coal revenues decreased by 19.9% and 51.4%, respectively. The main drivers of the decreases were a 17% decrease in metallurgical coal production and a 65% decrease in the average realised price of thermal coal during this period.

Overseas Equities

On 31 December 2023, the Overseas Equity portfolio amounted to 23.57% of the University's LTIP. The Overseas Equity portfolio returned 18.39% (pre-hedge) for 2023, underperforming the MSCI ACWI ex Australia return of 21.60% by 3.21%.

The carbon intensity of the Overseas Equity portfolio was 19.40 tCO_2e/$m revenue on 31 December 2023, which was 77.67% lower than the benchmark carbon intensity of the MSCI ACWI ex Australia Index. The carbon intensity of the Overseas Equity portfolio increased by 1.84% since 31 December 2022, whereas the carbon intensity of the benchmark has decreased by 20.21%. Carbon intensity variance from the benchmark reduced from 82.50% lower on 31 December 2022 to 77.67% lower on 31 December 2023.

On 31 December 2023, a total of 29.20% of the Overseas Equity portfolio ($91.72 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

On 31 December 2023, the Fixed Interest portfolio amounted to 13.75% of the University's LTIP. The Fixed Interest portfolio returned 4.21% for 2023, underperforming the Bloomberg AusBond Composite 0+ Yr Index benchmark return of 5.06% by 0.85%.

The carbon intensity of the Fixed Interest portfolio was 3.42 tCO_2e/$m revenue on 31 December 2023, which was 87.76% lower than the Bloomberg AusBond Composite 0+ Year Index benchmark's carbon intensity. The Fixed Interest portfolio had a zero-carbon intensity on 31 December 2022. The carbon intensity of the benchmark has decreased by 15.06% since 31 December 2023.

A total of 3.12% ($5.71 million) portfolio was invested in companies committed to supporting gender equality through policy development, representation, and transparency. This was measured by the inclusion of assets in the BGE Index.

Cash

On 31 December 2023, the Cash portfolio amounted to 6.27% of the University's LTIP. The Cash portfolio returned 4.79% for 2023, outperforming the Bloomberg AusBond Bank Bill Index benchmark return of 3.89% by 0.90%.

The carbon intensity of the Cash portfolio was 0 tCO_2e/$m revenue on 31 December 2023, compared to the Bloomberg AusBond Composite 0+ Year Index benchmark's carbon intensity of 27.92. The Managed Cash portfolio is comprised of term deposit investments, which have a no carbon emissions.

Infrastructure

On 31 December 2023, the Infrastructure portfolio amounted to 13.06% of the University's LTIP. The Infrastructure portfolio returned 6.48% for 2023, underperforming the benchmark return (CPI Plus 5%) of 9.99% by 3.51%.

For the financial year ended 30 June 2023, the carbon intensity of the Infrastructure portfolio was 551.25 tCO_2e/$m revenue, which was 19.18% less carbon intense than the S&P Global Infrastructure Index benchmark's intensity of 682.07 tCO_2e/$m revenue. The Infrastructure portfolio achieved the SRI Policy target to be significantly less carbon intense than the benchmark. This was achieved despite certain individual investments exceeding the benchmark carbon intensity by 70.33%. The carbon intensity of the Infrastructure portfolio decreased by 8.32% since 30 June 2022, whereas the carbon intensity of the benchmark decreased by only 7.38% in the same period. Carbon intensity variance from the benchmark has improved from 18.36% lower on 30 June 2022 to 19.18% lower on 30 June 2023. The 2023 carbon intensity assessment used Infrastructure portfolio and benchmark data in AUD units. In previous years, Infrastructure portfolio carbon intensity was reported in AUD units, while the benchmark was reported in USD units. This methodology improvement is reflected in all historical figures presented to provide fair comparison.

European Loans

On 31 December 2023, European Loans amounted to 7.14% of the University's LTIP. These loans outperformed the benchmark (CPI Plus 5%) return of 9.99%.

The European Loans 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

On 31 December 2023, 96.77% of LTIP investments were met the targets and requirements of the SRI Policy. The remaining 3.23% was comprised of 0.08% of investments made prior to the adoption of the SRI Policy, which are currently in runoff, and a 3.15% infrastructure investment with carbon intensity higher than the benchmark. 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. The University is committed to improving the implementation of the SRI policy and measuring the impact of the implementation. It strives to be 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.