IFM Investors Climate Change Summary Report

As at 31 December 2021

ifm investors

Our climate change principles

The following principles underpin our approach to managing climate change:

1. Climate change is already causing adverse effects on economies and societies. If unchecked, it will likely contribute to extraordinary negative impacts on health and wellbeing, economic productivity, and could undermine the stability of nations.

2. Climate change presents significant risks and opportunities that can alter the risk return profile of the assets we are invested in and we have a fiduciary duty to protect the value of our investments over the short, medium and long term.

3. The Paris Agreement reflects a global agreement and pathway to a stable climate which will help to maintain economic prosperity. We support the Paris Agreement goal to keep the increase in global average temperature to well below 2 °C above pre-industrial levels; and to pursue efforts to limit the increase to 1.5 °C.

4. We must explicitly consider the impact of our investments on climate change and vice versa.

5. We will leverage our rights as an investor to engage and support the companies we invest in to transition towards a net zero economy and beyond.

Contents

This summary report is an extract of the IFM Investors 2021 Climate Change Report for our investors, which was prepared in consideration of the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Our support for the TCFD recommendations reflects our recognition that climate-risk disclosures are critical for the long-term resilience of financial markets.

Note from the Chief Executive

As a long-term investor, IFM is firmly focused on maximising returns for our investors. Achieving this means we are duty bound to look at and help tackle risks that could impact our investments over the next 30, 40 or 50 years. Undoubtedly, one of the most significant challenges facing economies and communities globally is climate change.

Having a plan to address climate change and contribute to an orderly energy transition is in the financial interests of our investors and their beneficiaries, which includes millions of people globally.

That's why IFM has committed to reducing greenhouse gas emissions across our asset classes, targeting net zero by 2050.

The work we are undertaking in pursuit of this commitment is outlined in this summary report.

Producing this report is part of our commitment to transparent reporting on our approach to managing climate change-related risks and opportunities across our business.

As a major global private market investor, we invest over A$199bn[1] across four asset classes, including in critical infrastructure – such as energy providers, ports, airports and roads – that communities rely on every day. We are keenly aware of the significant responsibility we have to transition our portfolio assets so they can meaningfully participate in a net zero economy. Doing so is also essential to our goal of delivering risk adjusted returns to investors and their members over the long-term.

This report summarises what we have already done and our next steps, including highlighting the significant 2030 interim target and commitments we have set for our infrastructure portfolio, which includes reducing emissions by more than one million metric tonnes of CO2e.

We recognise there is significant scope to strengthen our approach across all of our asset classes, and we look forward to continuing to work with our shareholders, investors and other like-minded organisations to address this global challenge together.

David Neal
Chief Executive

[1] As at 30 June 2022

About IFM Investors

IFM Investors was established more than 25 years ago to protect and grow the long-term retirement savings of working people. Our purpose drives our strategic approach to our investment and corporate practices.

Today we invest on behalf of more than 626 institutional investors worldwide, including pension, superannuation and sovereign wealth funds, universities, insurers, endowment funds and foundations.[2] The A$199 billion entrusted to us by these investors incorporates the retirement savings of more than 120 million working people globally.[3]

Operating from ten offices globally, we seek to maximise long-term returns for our investors and their beneficiaries, which include nurses, teachers, firefighters and construction workers, through investments that generate social and economic benefits for the wider community.

We look to achieve this by integrating responsible investment principles into the decision-making processes for Infrastructure[4] (equity), Debt, Listed Equities and Private Equity assets, and through the ongoing management of the investments we make across each of these asset classes.

As a signatory to the United Nations-supported Principles for Responsible Investment, we actively engage on responsible investment and stewardship issues with a sub-set of the companies in which we invest. IFM Investors was also one of the 30 founding signatories to the Net Zero Asset Management Initiative (NZAMI)[5] and one of Australia's first asset managers to sign up to it. We are excited to be working with a growing number of cosignatories to share our infrastructure expertise and help galvanise the asset management industry to commit to net zero emissions by 2050 or sooner.

We champion respect for the environment, commitment to an inclusive society, and good governance – a practice that we believe enhances a company's productive capacity and net performance over the long-term, while reducing investment risk.

OUR PURPOSE

To protect and grow the long term retirement savings of working people

OUR STRATEGIC PILLARS

We are owned by Australian profit-to member industry super funds. Our shareholders and investors are aligned and invest alongside each other.

We are a global private markets specialist with a strong multi-asset capability in Australia.

We are responsible stewards of the investments we manage, distinguished by our respect for the environment, working people and local communities.

[2] As at 30 June 2022
[3] FUM as at 30 June 2022
[4] The term Infrastructure used throughout this report generally refers to Infrastructure equity.
[5] NZAMI is discussed in more detail on p.19.

Our climate change journey 2021

2021

- Published inaugural TCFD framework-aligned Climate Change Report
- Firm-wide climate change strategy development
- Interim 2030 emissions reduction target set for infrastructure.

2020

- Commenced development of firm-wide climate change strategy
- Sustainability Forum with non-Australian infrastructure assets
- Support non-Australian infrastructure assets to set emissions reduction targets
- Physical climate risk assessment of debt portfolio
- Net Zero 2050 firm-wide commitment
- Climate Change Strategy Taskforce established.

2019

- Support Australian infrastructure assets to set emissions reduction targets
- Preliminary desktop-based climate change transition and physical risk assessment of Australian and Global ex-Australian infrastructure portfolios
- Third year of carbon footprint reporting for infrastructure assets
- Developed Climate Change Statement.

2018

- Sustainability Forum with Australian infrastructure assets
- Clean Energy Finance Corporation invests in the Australian infrastructure portfolio which fast-tracks efforts to reduce the carbon footprint of portfolio assets
- Second carbon footprint reporting for infrastructure assets
- Commenced offsetting corporate carbon emissions.

2017

- First carbon footprint report developed for infrastructure assets
- ESG due diligence checklists updated.

2016

- IFM Responsible Investment Charter – Principle 4 acknowledges IFM's responsibility to act on climate change
- IFM's ESG Roadmap (2017-19) including:
  - ESG Strategy and Policy
  - ESG integration into investment processes and asset management processes
  - Actions include developing position on climate change and climate change impact assessment.

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Climate risk is investment risk

Our climate is changing rapidly due to greenhouse gas emissions generated by economic activity. These changes, and the efforts to limit them, create a distinct set of risks that are subject to significant uncertainty over the medium-term, yet they yield broadly foreseeable long-term impacts depending on near term action to mitigate and manage them.

We expect that the impacts of climate change, including the financial impacts, will be non-linear in nature. Incremental changes in the climate will generate larger and larger adverse impacts that will become increasingly unpredictable and increasingly costly to mitigate.

The changing climate's effects on economic and financial outcomes occur through a range of channels. These include deteriorating public health, labour productivity and agricultural yields, failing public infrastructure, rising mortality rates, and weather-related property destruction, among other impacts.

Such adverse effects can result in direct financial risks, prompting a reassessment of asset values, changing the cost or availability of credit, or affecting the timing or reliability of cash flows. They can also create risks to economic activity, which can then result in or amplify financial risks. Economic and financial risks can also amplify one another; for example, weather-related property destruction can lead to bank losses that lead to less lending, then reduced investment, and so on.[6]

Importantly, while most financial risks can be managed on a company-by-company basis, and diversified at a portfolio level, the investment risks arising from climate change can be overwhelmingly systemic. For example, even if an investor divested all of its portfolio companies involved in upstream fossil fuel production, and thereby reduced the portfolio's transition risk, the remaining portfolio companies would still be exposed to the impacts of climate change if global greenhouse gas emissions do not decline.

Responsible investing means being responsible to the broader society and, in this context, it means being willing to continue to hold assets with significant emission profiles and investing to support a transition plan to get those emissions down. Divestment should be an absolute last resort and only after engagement has proven ineffective.

With this in mind, the ability of investors to mitigate the climate change risks associated with their portfolios will likely involve:

- taking all reasonable steps to encourage portfolio companies to decarbonise their operations and supply chains and, where required, develop transition plans to help ensure any material transition risks are adequately mitigated,
- increasing investment in clean economy infrastructure to accelerate economy-wide decarbonisation, and
- governments working individually and globally to set policies and create regulation to change behaviour and incentivise investment in certain areas to support the transition to a decarbonised economy.

We believe the most efficient way to mitigate climate change risk for long-term investors is an orderly, rapid decarbonisation to a net zero economy that achieves the international community's temperature goal of no more than 1.5°C of warming, relative to pre-industrial levels.

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[6] Board of Governors of the Federal Reserve System, Finance and Economics Discussion Series (FEDS) notes, Climate Change and Financial Stability, 19 March 2021.

Our climate change commitment: Net Zero by 2050

As a global asset manager, we recognise that our actions over the next decade and beyond will help to support the transition of the economies we invest in, support our own investment performance, and help to ensure that the essential services our portfolio companies provide can be continued in a net zero world.

In October 2020, IFM committed to reducing greenhouse gas emissions across our asset classes, targeting net zero by 2050, with a focus on scope 1 and 2 emissions. We believe this climate commitment supports our investors' best interests because climate risks will increasingly impact investor returns, and the effective management of those risks will be a critical element of how we create value for our investors in the future.

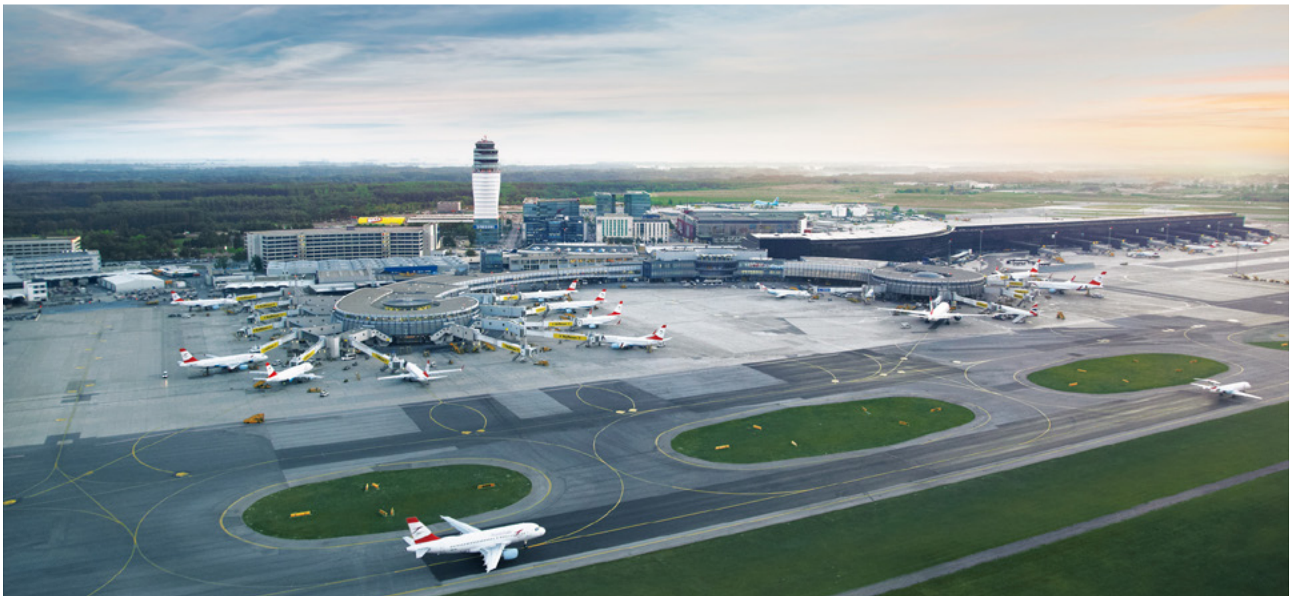
To give effect to this commitment, we established a multi-disciplinary taskforce, spearheaded by our investment team, which has been working on:

- Establishing emission reduction commitments
- Developing policies and net-zero transition implementation plans
- Enhancing investment decision-making and governance frameworks when considering climate change risks
- Identifying investment opportunities in decarbonisation and climate-resilient assets
- Tracking the evolution of technologies and better understanding likely transition pathways, especially in the energy mix.

Given the complexity of the task, we adopted the following multistage approach to developing our climate strategy, which is explained in more detail in the Strategy Section of this report:

- **Stage 1** - Defining the strategy and commitments for our Infrastructure portfolio.
- **Stage 2** - Preliminary strategy development for the Listed Equity, Debt, and Private Equity asset classes.
- **Stage 3** - Further development and internal engagement for non-infrastructure asset classes, building capability, uplifting governance and risk management processes and supporting firm-wide implementation.

We commenced with Stage 1, which focused on the infrastructure asset class. This reflects the critical role that infrastructure assets will play in the transition to a low carbon economy.



Vienna Airport has a planned 24 MW peak capacity solar farm.

Governance: Roles and Responsibilities

Board and BRISC

The IFM Group Board recognises the need to assess the impact that policy, technology and market changes associated with the transition to a decarbonised global economy could have on our investment returns. The IFM Group Board Responsible Investment and Sustainability Committee (BRISC), established in 2018, has been delegated responsibility for the oversight of our climate change management approach, strategy and work program.

Since the inception of the BRISC, climate change has been a key discussion item at every BRISC meeting. All relevant business units and investment teams are required to report on their climate change risk and opportunity management. The BRISC convenes on a quarterly basis and also receives written updates between sessions if required.

In 2020, the Board determined that IFM's investment portfolios should evolve to align with the goals of the Paris Agreement, and endorsed development of a longer-term, top-down climate change strategy. This strategy is designed to provide guidance for IFM's longer-term vision, incorporating how we both manage risk and seek to capture opportunities from climate change. While commencement of the strategic project to develop a firm-wide climate change strategy was initially delayed due to the COVID-19 pandemic, the work program commenced in late 2020, following IFM's announcement of a net zero 2050 commitment, and continued through 2021.

> **Our top-down climate change strategy provides guidance for IFM's longer-term vision, incorporating how we manage risk and seek to capture opportunities from climate change.**

Chief Executive

Taking guidance from the BRISC, our Chief Executive oversees that climate change is embedded in IFM's strategy and business planning and integrated within each investment team's process and investment decisions. Our Chief Executive also plays a leading role in articulating IFM's climate change principles and management approach to our investors and other key stakeholders.

Investment Committee

IFM's Investment Committee helps to ensure climate change is factored into our investment programs, portfolios and new acquisition decisions. Any proposed investments must include an assessment of climate change-related impacts and risks, including transition risks and physical risks where appropriate. Our capability to fulfil this requirement is improving over time as assessment methodologies and frameworks develop.

Investment Executives

The Global Heads of each of our investment teams and the Global Head of Asset Management are accountable for the execution and implementation of IFM's Responsible Investment Charter and ESG Policy in the investment and asset management process. They are supported in this process by the broader investment teams who are responsible for implementation of the charter and policies. The Charter and ESG Policy provide guidance to teams regarding explicit climate change considerations in the investment process. Each investment team is responsible for managing climate change considerations in their respective investment and asset management processes.

Executive Director (ED), Responsible Investment

Our ED Responsible Investment works closely with each Global Investment Head, the Global Head of Asset Management and their teams to provide execution support for the responsible investment strategy and ESG (including climate change). The Executive Director, Responsible Investment manages a team of five dedicated ESG and » sustainability professionals and is responsible for strategy development and implementation of IFM's Responsible Investment Charter and ESG Policy.

IFM has also recently appointed a Director, Climate Change Strategy, who is responsible for overseeing and project managing the development of IFM's firm-wide climate change strategy and implementation roadmap.

The Proxy Voting and Engagement Committee (PEC)

The PEC provides oversight of all proxy voting activity on listed securities. It comprises Executive Directors from each of the listed equities teams and the Responsible Investment team. The PEC has delegated authority for day-to-day engagement and voting on listed securities to representative members in the team, but it maintains responsibility for reviewing and approving votes cast in relation to shareholder proposals, an increasing number of which are climate change related.

Investment teams and Responsible Investment team

Investment teams are responsible for integrating climate change risks and opportunities into investment management activities and transactional decision-making processes. They are supported by the Responsible Investment Team, which provides subject matter and execution support. All teams draw on research and data from external fund managers and brokers, ESG research and data service providers, including through our membership of specialist climate change related investor organisations. Investment team representatives also coordinate knowledge sharing and attend conferences, forums and signatory working group sessions to build knowledge and share information back to investment teams and management on climate change related trends and developments.

External Service Providers

In addition to our internal resources, we engage and collaborate with a range of external consultants and membership bodies including: the PRI, Investor Group on Climate Change (IGCC), International Investor Group on Climate Change (IIGCC), Ceres, CDP, Paris Aligned Investor Initiative, the Net Zero Investment Managers Initiative (NZAMI), Climate Action 100+, Climate League 2030 and the Australian Council of Superannuation Investors (ACSI).

These collaborations leverage the resources and influence of like-minded stakeholders to help achieve the outcomes we seek in a more efficient and timely manner.

Policies

Our climate action beliefs and principles are encapsulated in our Responsible Investment Charter and ESG Policy. Principle 4 of the Charter recognises that climate change is real and we all have a shared responsibility for its impact and mitigation.

Our ESG Policy sets out the key elements of IFM's approach to identifying and managing ESG matters (including climate change) in our investment analysis, decision making and asset management across all asset classes. Climate change is a firm-wide ESG priority area and is explicitly considered in our investment processes and corporate initiatives.

Swift Current Energy has a 6 GW pipeline of solar, wind and energy storage projects located close to US demand centres.

Strategy

During 2021 we continued to develop our firm-wide climate change strategy that aims to build upon the actions we were already taking and map pathways for our asset classes' journeys to net zero.

High level objectives across the three stages outlined on page 8 include:

- Aligning IFM's climate aspirations across asset classes;
- Establishing processes for emissions data collection;
- Reviewing and uplifting climate change risk identification and assessment;
- Determining preliminary targets and commitments;
- Establishing guidance to support investment decision making across the asset classes;
- Identifying a high-level view of opportunities, including product development potential; and
- Defining the capabilities required to deliver on the strategy, including expertise, tools, and systems.

Transition over divestment

We are focused on developing investment strategies and portfolios that are resilient to climate risks and able to benefit from the shift to a more sustainable, low-carbon economy.

The emphasis of our strategy is on transition, rather than divestment - which effectively shifts the problem to someone else. Where we have influence, we aim to be part of the solution and harness investment opportunities for our investors in ways that create wider economic, social and environmental benefits for our broader stakeholders.

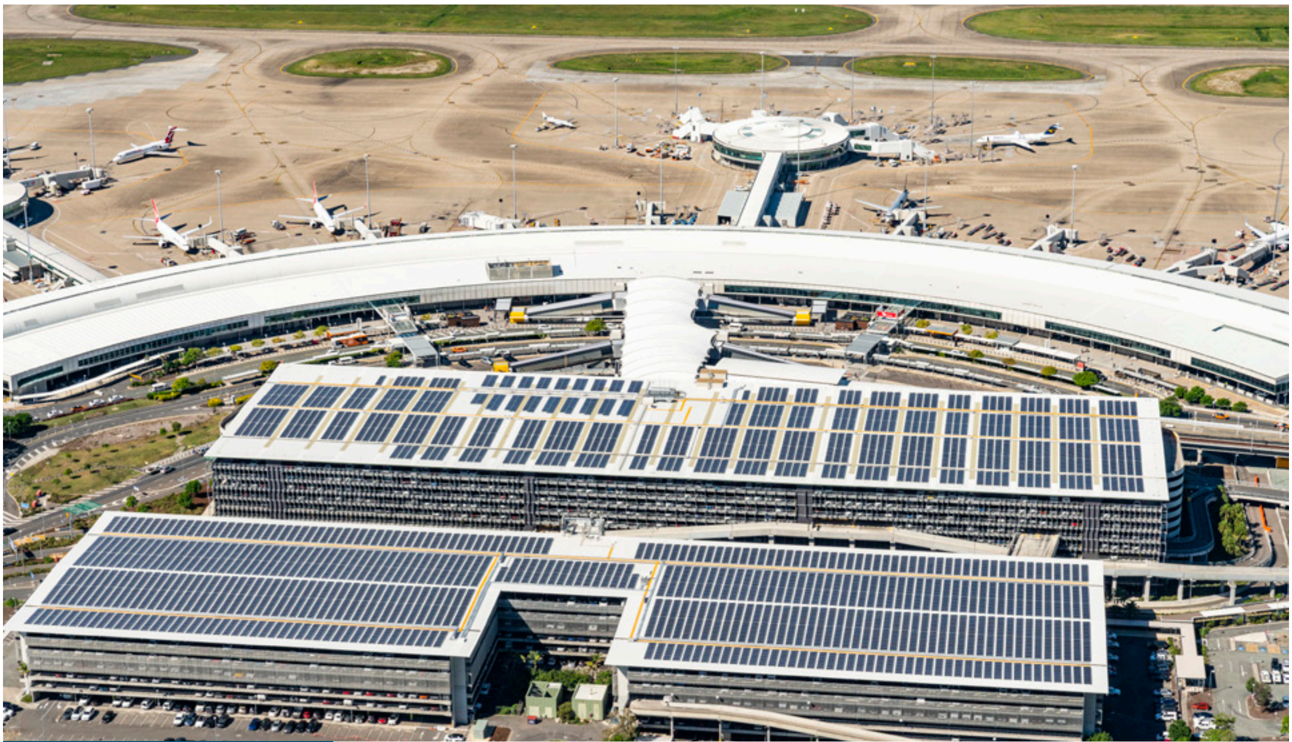
Asset class strategies

Each of our asset classes has adopted a range of measures that seek to determine climate risk exposures and opportunities across portfolios over time.

Infrastructure

As long-term owners and operators of infrastructure assets we have a responsibility to manage climate risks. We aim to support our portfolio companies to transition to a low carbon world so that they can continue serving the communities they underpin while generating competitive risk-adjusted returns.

We also recognise the important role infrastructure will play in the energy transition and to support the decarbonisation of emissions-



Solar panels at Brisbane Airport

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intensive sectors.

Within our infrastructure portfolio, we aim to drive climate change strategy with our co-shareholders and portfolio management teams via board representation.

Our approach centres on the six commitments outlined to the right.

Debt Investments

In Infrastructure Debt, work to identify actions for portfolio decarbonisation is progressing. Our preliminary analysis suggests over 70% of our holdings have identifiable transition pathways. For the balance, the duration of funding and natural rotation of sectors represented will likely contribute to reduced portfolio emissions and/or transition risk over time. The primary methods we plan to deploy are sector restrictions and other pre-transaction actions.

Our Diversified Credit portfolio has a distinctly lower carbon footprint than Infrastructure Debt. A sector categorisation approach may be considered during due diligence to help identify underlying climate risk and opportunity drivers. This builds on the team's existing approach, which subjects higher risk sectors and/or companies to a more detailed risk assessment.

Listed Equities

The majority of FUM in Listed Equities is managed through Investment Management Agreements (IMAs), as opposed to funds. This means that implementing change and delivering on climate targets will depend on engagement with our investors. Our work to date is focused on the following areas of work:

- Establishing automated emissions reporting and tracking;
- Developing a proprietary climate transition risk score (with different applications depending on the strategy);
- Formalising our company engagement strategy and building out a tracking and escalation process;
- Exploring the implications of sector restrictions, and;
- Low carbon and/or solutions-based product development.

FIGURE 03

Infrastructure Climate Strategy

Interim target

IFM has set a 2030 interim reduction target of at least 1.16 million tonnes of Co2e for the Infrastructure asset class. This target covers Scope 1 and 2 emissions and translates to a 40% reduction based on the portfolio as of 2019. The target will be adjusted annually for divestments and new investments.

Pursuing climate solutions

We, and our portfolio companies, will continue to seek to increase the amount we invest in the significant investment opportunities that are arising from the energy transition

Asset management processes

We have enhanced our asset management processes so that climate change transition and physical risks are assessed on a periodic basis, utilising reference scenarios, including 1.5-degree scenarios. We will also continue to work closely with our infrastructure assets to implement emission reduction initiatives.

Increased reporting

We will enhance our annual carbon footprint reporting by including disclosure on progress against IFM's 2030 emissions reduction target, changes to portfolio level targets due to acquisitions and divestments, and updates on key emission reduction initiatives across the portfolio.

Investment restrictions

We will phase out exposure to thermal coal by 2030 and will not make new investments in assets that derive material revenue from thermal coal.[9]

Investment processes

We have enhanced our investment decision-making processes to help ensure that new acquisitions are net zero by 2050 aligned, and that new acquisitions have considered climate change transition and physical risks under reference scenarios, including 1.5-degree reference scenarios.

[9] Revenue greater than 20% of total

Private Equity

Our Private Equity investment strategy focuses on service-sector companies underpinned by technology and tend to have relatively low carbon footprints. However, we recognise that our ownership position provides us with opportunities to add value to these companies by setting emissions reduction goals and developing decarbonisation strategies.

In 2021, all companies in IFM's Private Equity portfolio achieved carbon neutrality, and we will continue to seek this certification annually. The Private Equity team has also proposed that our Private Equity Growth Partners strategy and new strategies in the future will seek to consider decarbonisation opportunities as a key step in the investment selection and decision-making process.

> **The green infrastructure universe is evolving quickly, and the energy transition opportunity set continues to expand beyond renewables.**

Supporting the low carbon transition

During FY21, our Treasury Services team worked closely with Commonwealth Bank of Australia (CBA) to introduce Green Term Deposit exposure into IFM-managed cash portfolios. In May 2021, IFM was the first institutional manager in CBA's Green Term Deposits, making an initial commitment of A$10 million.

Green Term Deposits are structured like conventional term deposits; however, the money placed in a Green Term Deposit is used to invest in assets that facilitate and support the transition to a low carbon, climate-resilient and sustainable economy. Such assets are also referred to as 'Green Eligible Assets' that align with specific UN Sustainable Development Goals (SDGs).

These assets can include:

- Renewable energy projects;
- Green commercial and residential buildings;
- Projects that increase energy efficiency;
- Clean transportation;
- Sustainable water and wastewater management; and
- Pollution prevention and control.

CBA's Green Term Deposits are certified by the Climate Bond Initiative (CBI) as meeting the Climate Bonds Standard criteria for delivering a low carbon and climate resilient economy.[11] We look forward to working with CBA to encourage more Green Term Deposits to the market.

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Managing poor data availability in private market portfolios

Establishing the emissions baseline of the Debt portfolios is a necessary precursor to setting targets. IFM has not previously measured and tracked emissions for this asset class. This is primarily because emissions data is generally not readily available for private debt instruments and it is not something IFM or our investors have previously requested.

For the purposes of our climate change strategy project, we sought emissions data from issuers and we worked with an external consultancy to estimate the emissions of issuers for which no data was obtained. Despite the limitations of data quality estimates, we were able to determine that emissions are concentrated in relatively few sectors and assets.

Prior to setting an interim emissions reduction target, the Debt teams are continuing to work through a process of supplementing the estimations with higher quality data. The aim is to continue increasing emissions data quality and coverage, and we are collaborating with underwriters and several other large debt investors to develop standard covenants and reporting requirements that will be built into loan agreements and/or side letters.

Targeting net zero for our own operational emissions

IFM's organisation-wide net zero 2050 commitment encompasses our operational emissions across ten global office locations. Our climate strategy incorporates a plan that targets carbon neutral corporate emissions by 30 June 2022, which we aim to achieve through the purchase of carbon credits.

In FY21, we have expanded our carbon offset program beyond our FY20 program, which offset emissions associated with air travel and energy consumption at our largest global offices. For FY21, we have calculated emissions associated with all global operational activities across the entire value chain including Scope 1, 2, and 3 emissions, with an estimated total of 7,994 tCO2e.[7] To offset our FY21 emissions, we purchased offsets from in-region projects with certifiable benefits that extend beyond GHG emissions mitigation; for example, projects that support local job creation.

We are developing a comprehensive emissions reduction strategy, which aims to incorporate a greater use of renewable electricity. We expect to finalise the strategy by the end of 2022.

[7] We expect the accuracy of our data to increase as our understanding and measurement of carbon emissions in our supply chain (Scope 3) improves.

Meeting the climate challenge

Infrastructure and the energy transition

We remain committed to working closely with portfolio companies to support their critical role in the transition to a net zero economy. Many of our portfolio companies are implementing a range of strategies that aim to build resilience to climate change, harness opportunities in a decarbonising economy and create long-term value for stakeholders.

These strategies range from renewable energy installations and energy efficiency improvements to strategic acquisitions of renewable energy projects.

Melbourne Airport (Australia) - Melbourne Airport's 12-megawatt (MW solar) farm became operational in early 2021. It is the size of 26 soccer fields and has the capability to produce enough renewable energy to power all four passenger terminals, or up to 15% of the airport's annual electricity use.

OneH2 – Buckeye Partners invested in this US-based hydrogen supply and logistics solutions provider, currently servicing clients in the forklift market and well-positioned to capturing future opportunities in the heavy truck market.

Ausgrid (Australia) – Ausgrid launched a community battery trial across three Sydney locations in 2021. The first of its kind on the east coast, the batteries allow local residents to store excess solar power in a centralised and shared local facility. This aims to encourage solar uptake by substantially lowering costs for individual households and increasing the amount of clean energy that goes into the grid. Ausgrid has also partnered with JOLT to develop a fast EV charging network across Sydney.

Enwave
Enwave's Deep Lake Water Cooling system expansion capitalises on environmental benefits of the current system, which displaces 61 MW of peak energy demand, saving 220 million gallons (833 million litres) of water annually and using approximately 75% less electricity relative to traditional chillers.

Buckeye Partners – Buckeye is developing solar projects totaling c.600 MW generation capacity to offset 200+% of Buckeye's 2019 electricity consumption. Developments include two Texas-based solar projects acquired in Q3 2021, in addition to numerous footprint solar projects on and adjacent to existing Buckeye locations across North America.

Anglian Water - Anglian Water generated 134.4 gigawatt hours (GWh) of renewable energy in the 12 months to 31 March 2021, which is enough to power 40,000 homes. This includes 7.2 GWh from a growing portfolio of 14 solar photovoltaic (PV) onsite installations - an increase from 3 GWh in 2020. The company expects to generate more than 16 GWh from solar in the following 12 months. Anglian Water's biggest source of renewable energy remains its fleet of combined heat and power engines (CHP), which generated 114 GWh in the year to March 2021. The company is targeting 44% of energy requirements from renewables by 2025 as part of its 2030 net zero routemap.

Risk identification, assessment and management

At present, climate change risk is managed at the investment team level through measurement, a variety of assessment tools, investee company engagement (listed and unlisted) and collaboration with industry peers.

Investment teams are supported by the Responsible Investment team to identify, assess, understand and manage material climate change risks in their due diligence and asset management activities, as well as ensure compliance with applicable regulations and standards.

Building on our climate management work since 2016, our top-down strategy development includes a review and uplift of activities and resourcing across each asset class, capacity building, and further investment in processes and systems for analytics, data tracking and reporting.

Emissions measurement

Measuring and understanding our portfolios' emissions help us to build an understanding of material sources and opportunities for improvement. We have been measuring and analysing the source and scope of carbon emissions associated with our infrastructure assets since 2017, and for our Listed Equities and Private Equity portfolios since 2019.

Measuring emissions for our private debt portfolios (Infrastructure Debt and Diversified Credit) is more challenging due to a lack of publicly reported data. We engaged a third party to provide an initial estimate of financed emissions using the estimation methodology outlined in the Partnership for Carbon Accounting Financials (PCAF). The Debt Investments team continues to focus on improving portfolio emissions estimates by directly requesting bottom-up data from issuers.

Deutsche Telekom

Due Diligence framework and process uplift

We continue to enhance our due diligence processes within each asset class to embed explicit assessments of climate change risks and opportunities.

In Infrastructure, potential new investments are assessed against key criteria, which must be addressed in Investment Committee papers. These criteria include alignment with a net zero decarbonisation trajectory, as well as stress testing against relevant standard scenarios for transition and physical risks.

Investment teams draw upon a range of resources for climate-related data, research and expert advice. Across our Listed Equities asset class, investment teams access a variety of internal and external research, external climate data, analytics and benchmarking tools to help identify and assess portfolio emissions and company and sector level transition risk exposure.

Active asset management and stewardship (listed and unlisted)

As active owners, we regularly engage with unlisted and listed portfolio companies to maintain an understanding of climate change risks and how they are being managed and mitigated.

In Infrastructure and Private Equity, we engage with portfolio companies to set targets and develop transition plans for achieving targets.

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Across our Debt Investment teams, engagement on material climate change risks is concentrated in the screening and due diligence phase, prior to entering an investment. In some cases, we will negotiate with issuers during the origination phase, to determine acceptable mitigation actions for climate risks.

Our Listed Equities stewardship program is core to our current climate risk management approach. We engage with companies directly and collaboratively with Australian Council of Superannuation Investors, as well as through the Climate Action (CA) 100+. Key topics of discussion include emissions reduction targets, climate governance, linking targets and executive remuneration and giving shareholders a 'say on climate'.

We also exercise our voting rights and actively vote on all ASX300 companies' climate change-related shareholder resolutions. These resolutions are assessed on a case-by-case basis. Factors considered include strategic-level recognition of climate risk and the adequacy of targets, climate change management plans and disclosure.

Collaborating and influencing

In addition to being a signatory to the UN supported Principles of Responsible Investment (PRI), we work alongside several climate-related investor organisations to drive change. This involves providing our input into the development of ESG and climate standards, participating in working groups and round tables, contributing to thought leadership pieces, climate research and reports, encouraging companies to manage and disclose on climate change, and speaking on webinars and conferences.

Climate Action 100+

IFM is a supporting investor of the Climate Action (CA) 100+ initiative, the world's largest-ever investor engagement initiative on climate change. Over 2021, we supported engagement with 4 out of the 14 Australian target companies, which have all set net-zero 2050 targets and adopted the TCFD recommendations for their climate related disclosures.

Climate Action 100+ investor signatories continued to push for harder, faster climate action from focus companies in 2021 and secured numerous commitments in relation to setting net zero targets, improving climate lobbying disclosure and developing decarbonisation strategies. Two of the companies with which IFM supports engagement made significant commitments in 2021:

BlueScope announced a commitment to net zero emissions by 2050 and an initial capital allocation of US$150m over five years to support mid- and long-term climate ambitions, while exploring renewable hydrogen and options for low-emissions steelmaking.

Boral, Australia's largest construction materials and building products supplier, has set a Science Based Targets initiative (SBTi) verified absolute target to reduce Scope 1 and 2 emissions by 46% by 2030, making it the first company in the cement sector to set targets aligned with 1.5°C for Scope 1 and 2 emissions. Boral has additionally set a Scope 3 emissions intensity reduction target of 22% per tonne of cementitious materials produced by 2030.

In 2021 CA100+ also launched the Net Zero Company Benchmark and completed the first assessment of each of the CA100+ target companies. The Benchmark provides an objective way of measuring company progress against the initiative's three high-level goals: emissions reduction, governance, and disclosure. Since being released, the framework has been adopted by a broad range of consultants and service providers, who are assessing companies and/or sectors on their level of net zero alignment and decarbonisation progress.

The second round of assessments against the benchmark was completed in March 2022.

Source: 2021 Year in Review: A Progress Update (Climate Action 100+)

CASE STUDY

Innovation and collaboration driving 400GWh renewable energy program to power critical infrastructure

Enabling and supporting assets in our infrastructure portfolios to switch to renewable energy sources and improve energy efficiency is a strategy that IFM is implementing globally.

One of these initiatives involved the creation of a large-scale power purchase agreement (PPA) program to further support assets in our Australian Infrastructure (AI) portfolio to procure renewable energy.

Our aim was to create a multi-state, multi-asset solution, where all benefits would flow on to assets via a structure that provided:

Access to renewable energy at below market rates;

The ability to de-risk businesses against future electricity market volatility; and

The opportunity to significantly reduce their greenhouse gas (GHG) emissions, supporting, and in some cases, fast-tracking assets' existing net zero commitments.

Initial research indicated that there was no existing pathway or product in the market to meet IFM's needs; we therefore sought external support to help us develop a solution.

During 2021, we engaged with and brought other industry stakeholders into the project, including co-investors, large tenants of the assets and other large infrastructure owners. QIC, a co-shareholder in some of the assets in our AI portfolio, and Transurban were two key stakeholders. IFM's collaborative approach elevated the project to a wider industry initiative, which helped to create scale and price benefits for all parties, while also supporting the infrastructure industry's transition to net zero.

Over three stages, the program is expected to facilitate the supply of more than 400 GWh of renewable energy per annum by 2025, saving around 250,000 tonnes of GHG emissions each year.

By January 2022, stage 1 of the program was complete,[8] with contracts signed for the delivery of 132 GWh of renewable energy per annum for seven critical infrastructure assets across New South Wales and Victoria, including Melbourne Airport, NSW Ports, Southern Cross Station, Ausgrid, which are assets in IFM's Australian Infrastructure portfolio. Other assets participating include Nexus Hospitals, NorthWestern Roads Group's WestLink M7 and Transurban's CityLink.

Other critical Australian assets are expected to join the program as part of stages 2 and 3, which will be announced throughout 2022.

The significant demand for renewable energy created by the three stages could pave the way for further investment in renewable projects, helping to accelerate the greening of Australia's energy grid and supporting the creation of up to 1,000 new full-time jobs. It also provides a blueprint to help more infrastructure assets to accelerate the sector's net zero efforts.

We plan to develop a similar program for assets in our infrastructure portfolio, noting that several of these assets are already doing work to develop renewable energy strategies with green energy PPAs in place.

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[8] Phase 1 was completed in December 2021, however, public announcements regarding the program were made on 3 March 2022

The memberships and key collaborative initiatives we were involved with in 2021 are listed below:

NZAMI	Net Zero Asset Managers Initiative (NZAMI): IFM Investors is one of NZAMI's 30 founding signatories and was one of Australia's first asset managers to sign up. We are excited to be working with a growing number of cosignatories to share our infrastructure expertise and help galvanise the asset management industry to commit to net zero emissions by 2050 or sooner. Our Executive Director, Responsible Investment, is a member of the NZAMI Advisory Group. The group, comprising six signatory members, aims to champion the objectives of the initiative, to act as spokespeople for NZAMI, and to provide recommendations and advice to its steering committee on operations and engagement activities.
Investor Group on Climate Change	IGCC: A collaboration of Australian and New Zealand investors focusing on the impact of climate change on the financial value of investments. The IGCC operates through several working groups which help shape its position on key issues through the collaborative effort of members. IFM is represented on the Adaptation Working Group, Disclosure Working Group and Policy Working Group. The IGCC is part of the Global Investor Coalition on Climate Change which represents investors in Europe, North America and Asia.
IIGCC The Institutional Investors Group on Climate Change	Institutional Investor Group on Climate Change (IIGCC): We signed up to IIGCC, as sister organisation to CERES, to strengthen our presence in the EU, and we participate in the policy working group.
PAII	Paris Aligned Investment Initiative (PAII): We were invited to join PAII and lend our infrastructure expertise to a working group via our association with IIGCC. The PAII working group focuses on developing guidance to support infrastructure managers' net zero ambitions.
Ceres	Ceres: IFM is active member of the Ceres Investor Network and was invited to present at the organisation's annual conference. Ceres works with influential and sustainability-minded investors and companies to advocate for and tackle global sustainability challenges to fulfil its mission: transforming the economy to build a sustainable future for people and the planet.
CLIMATE LEAGUE 2030	Climate League 2030: We are a founding partner of this private-sector-led initiative focused on reducing Australia's greenhouse gas emissions by at least 230 million tonnes by 2030.
Climate Action 100+ Global Investors Driving Business Transition	Climate Action 100+: IFM is a signatory to this group which has committed to participating in direct engagement with several of Australia's highest corporate greenhouse gas emitters. Engagement is focused on encouraging strategic recognition of climate change and emissions reduction efforts in line with limiting average temperature increases to below two degrees Celsius.
Australian Council of Superannuation Investors	Australian Council of Superannuation Investors (ACSI): IFM is a full member of ACSI which focuses on engaging with ASX200 companies on a range of ESG issues. IFM sits on the ACSI Member Council, subscribes to its engagement service and receives proxy advice. We attend company engagements alongside ACSI and were an active contributor to its Governance working group, which published updated Corporate Governance Guidelines in October 2019.

Metrics and targets

We understand the importance of using metrics to assess, monitor and measure climate-related risks and opportunities in line with our strategic and management approach. Building on our annual infrastructure portfolio carbon footprint reporting, we are working on a suite of climate-related metrics for reporting consistently across all asset classes annually. We aim to use these additional measures and metrics help us to understand and communicate climate risk exposure, gauge progress and hold ourselves accountable to our commitments.

As part of our climate change reporting to our investors, in line with the recommendations of the TCFD, we currently provide absolute and financed emissions discloses for our Infrastructure, Listed Equities, Debt (Diversified Credit) and Private Equity Portfolios. We plan to disclose the financed emissions contributed by our Infrastructure Debt portfolios once we have adequate confidence in the data quality of our portfolio emissions estimations.

We have set a scope 1 and 2 emissions reductions target of at least 1.16 million tonnes of CO2e for the Infrastructure asset class by 2030 (from a 2019 baseline). This reflects a 40% reduction in emissions across our existing infrastructure portfolio. We plan to adjust this target annually for divestments and new investments.

To track progress, our Asset Management team is implementing a workplan and dashboard to track:

- Scope 1 and 2 emissions (including verification status);
- Asset level targets, target year and level of ambition (ie. Science Based);
- Measurement and progress on scope 3 emissions; and
- Transition plans.

For our Private Equity portfolio, we are targeting a 45% reduction in scope 1 and scope 2 emissions by 2030 (from a 2020 baseline). We are committed

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to obtaining carbon neutral certification through Climate Active for existing portfolio companies annually.[9] This will be achieved initially through the purchase of offsets. Each portfolio company has committed to developing a transition plan that will deliver real emissions reductions and reduce their reliance on offsets over time.

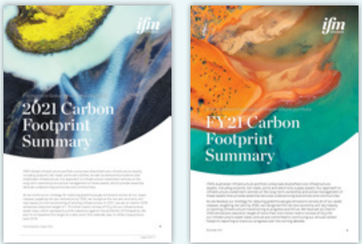
We are in the process of determining interim commitments, and associated actions to support implementation of these commitments, for our Listed Equities and Debt (both Infrastructure Debt and Diversified Credit) asset classes.

Transparency

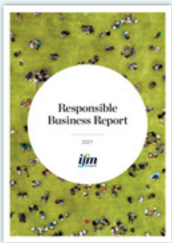
As we encourage our investee companies to improve climate risk-related disclosures and reporting, we remain committed to continuously improving our own reporting and maintaining transparency with our investors and the wider public.

As part of the Climate Change Strategy work program, we are reviewing both mandatory ((Sustainable Finance Disclosure Regulation and International Sustainability Standards Board) and voluntary standards, to develop formal reporting metrics for each asset class. These metrics will help track and demonstrate progress, both internally via reporting to our Executive and Board, and externally to our investors.

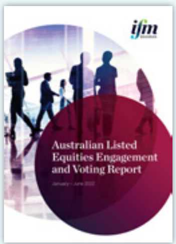
In addition to our annual Climate Change Summary Report, we publish additional reports containing information about our climate change management approach and portfolio exposures including:



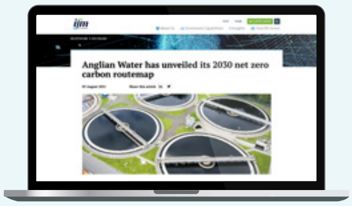
Australian Infrastructure Portfolio and Global ex-Australia Infrastructure Portfolio Carbon Footprint reports



IFM Investors Responsible Business Report



Biannual Australian Listed Equities Engagement and Voting reports



Asset and thematic case studies (available via the Insights page of our website).

Next steps

The next stage of our climate strategy project - Stage 3 - focuses on the shift from strategy development to capability building and supporting implementation.

We aim to build the tools and frameworks required to help the investment teams explicitly identify, assess and manage climate change risk. We will also be determining the changes required to processes and systems to enable the take-up and integration of these tools.

In addition to establishing interim targets and commitments, we are also assessing the data, systems, capabilities and additional resources that we are likely to need to monitor and report on progress.

[9] Climate Active is the Australian government-backed program with the most widely acknowledged certification in Australia currently. For more information visit: www.climateactive.org.au

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