

Climate Change presents risks and opportunities for investors

Funds SA recognises that climate change presents a systemic risk impacting potential investment returns over the coming decades. Across the globe, economies are decarbonising and this brings significant risk and opportunity for investors.

Climate change related risks can present as:

- **Physical risks**, including extreme weather events, have the potential to damage assets, erode asset value and cause supply chain disruption.
- **Transition risks**, including risks related to regulation, policy, technological innovation, energy advancements and social adaptation, can result in stranded assets.
- **Liability risks** stem from the potential for investee companies that do not adequately consider or respond to the impacts of climate change to suffer reduced asset values, reputational impacts, and possible litigation.

Opportunities to enhance risk adjusted returns include equity and debt investments in:

- Companies that demonstrate a commitment to transitioning to a low carbon economy.
- Companies that engage in research and product development to support the transition to a low carbon economy.
- Physical assets (e.g. property and infrastructure) that support a low carbon economy.

Funds SA's role in addressing climate-related risks

The *Superannuation Funds Management Corporation of South Australia Act 1995* stipulates an objective of achieving the highest return possible on investment while having regard to:

- The need to maintain the risks relating to investment at an acceptable level;
- The need for liquidity in the Funds; and
- Such other matters as prescribed by regulation.

To achieve the best financial outcome for clients, Funds SA sees it as very important to include climate change considerations into investment decision making.

In 2021, Funds SA is commencing a comprehensive climate change review with a view to developing an action plan that enhances the climate change resilience of its portfolio and is in alignment with the global direction of decarbonisation. Activities to be considered in the action plan include ways to reduce exposure to assets that are unable to transition to a low carbon economy and increase exposure to assets that support the transition and how Funds SA will manage the portfolio's exposure to the physical risks of climate change.

What is Funds SA currently doing to address the risks of climate change?

Funds SA's Responsible Investment Policy outlines the explicit inclusion of environmental, social and governance (ESG) factors in investment analysis and decisions. Climate change is an important focus area in this approach.

Funds SA requires investment managers to provide information on their ESG processes to establish how each investment manager incorporates ESG risks into investment due diligence; integrates ESG considerations into investment decision making; and monitors ESG risks within the portfolio. Investment managers are also assessed on actions taken to assess, monitor and/or mitigate climate-related investment risks in the portfolio.

Reporting of climate-related risks

Funds SA acknowledges its responsibility to report on climate risks and how they are managed. Funds SA will enhance its reporting capabilities over the course of 2021.

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