

Funds SA Climate Risk Response Plan Phase one



Contents

This **Climate Risk Response Plan** (Plan) sets out Funds SA's approach to managing the risks and opportunities of climate change.

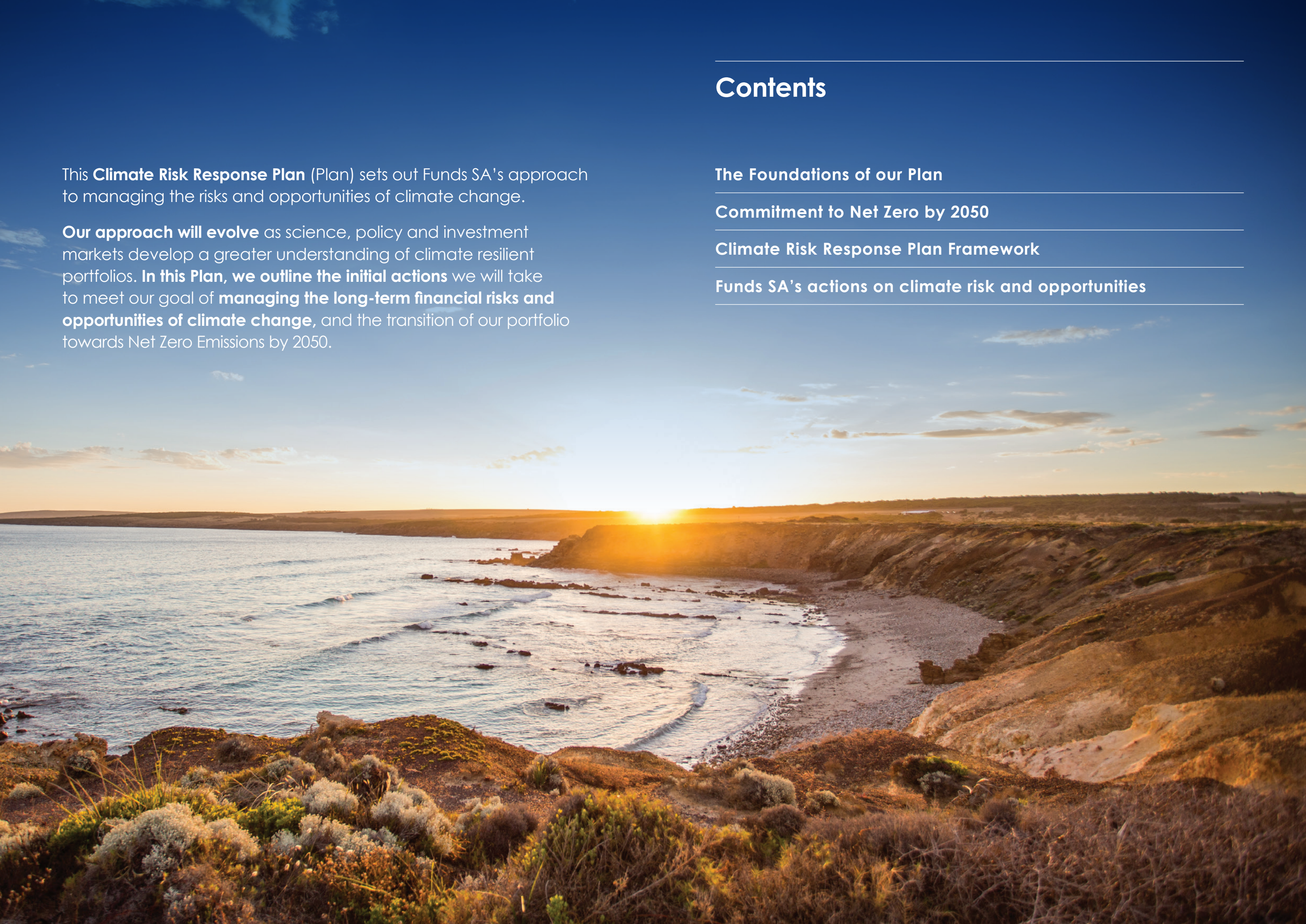
Our approach will evolve as science, policy and investment markets develop a greater understanding of climate resilient portfolios. **In this Plan, we outline the initial actions** we will take to meet our goal of **managing the long-term financial risks and opportunities of climate change**, and the transition of our portfolio towards Net Zero Emissions by 2050.

The Foundations of our Plan

Commitment to Net Zero by 2050

Climate Risk Response Plan Framework

Funds SA's actions on climate risk and opportunities





We are responding to the risks and opportunities of climate change

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 support the transition to a low carbon economy through research and product development.
- Physical assets (e.g. property and infrastructure) that support a low carbon economy.

Funds SA's role in addressing climate-related risks

Funds SA's governing legislation, the *Superannuation Funds Management Corporation of South Australia Act 1995*, stipulates an objective of achieving the highest return possible on investment while having proper 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 critical to include climate change considerations into investment decision making.

The Foundations of our Plan

In developing our Plan, we reviewed the latest scientific and financial analysis as well as emerging best practice to build a framework informed by the following Principles and Beliefs.

Principles

- 1** Our primary responsibility is to achieve the highest risk adjusted investment returns.
- 2** The best scientific evidence is our basis for considering the potential investment impacts and opportunities of climate change.
- 3** To achieve Net Zero emissions by 2050, Fund SA's investee companies and investment managers need to be aligned with the global pathway, including the critical role of the 2030 interim goals.

Beliefs

- 1** The physical impacts of climate change are visible and significant, and expected to grow if action is not taken.
- 2** The world is taking action now on climate change and this will have significant impacts on financial markets through the transition to Net Zero Emissions by 2050.
- 3** Managing climate change impacts is essential to meeting our investment objectives as well as fiduciary and regulatory obligations.
- 4** The risks of climate change can be mitigated by how we allocate capital and how we engage with our investment managers and investee companies.
- 5** Aligning to the goals of the Paris Agreement will help to mitigate climate change risks for our clients.



Funds SA commits to transitioning our investment portfolio to Net Zero by 2050

We recognise that across the globe economies are decarbonising and view a commitment to Net Zero Emissions as essential to building a climate resilient portfolio.

To achieve our commitment to Net Zero by 2050, we will take action across our 5-Pillar Climate Risk Response Plan Framework to support a 45% reduction in global emissions by 2030 consistent with the goals of the Paris Agreement.

1

Governance & Culture

Defining how investment decisions are made at Funds SA, including continuously improving our knowledge of the risks and opportunities of climate change.



2

Investment Strategy

Investment processes, including utilising scenario analysis to monitor and build portfolios that mitigate climate-related risks, identifying how different asset classes, sectors, industries and companies will be affected, and positioning the portfolio to invest for the future.



3

Manager & Company Engagement

Engagement with new and existing investment managers and highest risk companies to evaluate current practices and encourage the integration of climate change into decision making processes.



4

Advocacy

Engagement with industry bodies, corporate entities and service providers to improve practices and encourage the integration of climate-related risks and opportunities.



5

Disclosure

Ensuring transparency and open communication with clients and other stakeholders.



Funds SA's actions on climate risk and opportunities

1) Governance & culture	Timeframe
Regular reporting to the Board on climate performance and portfolio climate risk exposures	2022 onwards
Utilise scientific and financial analysis to oversee, assess, and manage climate change-related risks and opportunities	2022 onwards
Ensure relevant Funds SA policies and plans are aligned with the commitment to Net Zero by 2050	2022
Engage with our clients on Climate Risk Response Plan goals and activities	2022
2) Investment strategy	
Progressively incorporate climate risks and opportunities into portfolio construction and asset allocation decisions	2022 onwards
Review suitability of benchmarks to align with a Net Zero by 2050 pathway (incl. consider how benchmarks capture opportunities)	2023
Phase out thermal coal exposure except where a credible transition plan exists	2022
Actively seek new opportunities and investments that are part of the solution to achieve a Net Zero by 2050 outcome	2022 onwards
Build an average 5 Star NABERS Energy rating for office buildings and ensure that a credible transition plan is in place for lower rated buildings	2025 or sooner
Undertake analysis to better understand the resilience of the portfolio to the physical impacts of climate change	2022 onwards
3) Manager & company engagement	
Expand our manager monitoring and engagement process to achieve alignment with Net Zero by 2050	2022
Engage with our investment managers to assess their climate transition plans	2022 onwards
Encourage our investment managers to commit to Net Zero by 2050	2023 onwards
Implement a company engagement process that is aligned with our Net Zero by 2050 commitment	2022
Prioritise engagements with high-risk companies to assess their climate transition plans	2023
Encourage high-risk companies owned to commit to Net Zero by 2050	2023 onwards
Reinforce company engagement goals via proxy voting activities	2022
4) Advocacy	
Increase partnerships with other investors to strengthen our collective voice and impact in engagements with companies owned	2023 onwards
5) Disclosure	
Publish the Climate Risk Response Plan, report on progress, and ongoing review of our Plan	2022 onwards
Publish an annual climate risk report in alignment with the Taskforce on Climate-related Financial Disclosures (TCFD) framework	2023 onwards



Funds SA**ABN 74 140 346 751****Office**

Level 20

25 Grenfell Street

Adelaide SA 5000

T +61 8 8218 6400**E** fundssa@funds.sa.gov.au

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