

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 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.

What is Funds SA 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's Climate Risk Response Plan outlines the initial actions it is taking to meet its goal of managing the long-term financial risks and opportunities of climate change, and the transition of its investment portfolio towards Net Zero Emissions by 2050.

To achieve its commitment to Net Zero by 2050, Funds SA is taking action across its 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.

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 through its Climate Risk Response Plan.

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