

# Climate Change Position Statement

## 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. Under international law, all States that are Parties to the United Nations Framework Convention on Climate Change, have an obligation to comply with their commitments under the Paris Agreement. The Australian Government has set a legislated target to reduce the nation's greenhouse gas emissions to net zero by 2050, with an interim target to reduce emissions to 62-70% below 2005 levels by 2035.

This evolving landscape presents both risks and opportunities for investors. Funds SA is committed to supporting global and national efforts to mitigate and address climate risk while protecting and enhancing the resilience of its investment portfolio and outcomes for its clients.

Climate-related risks can present as:

- **Physical risks:** Extreme weather events and long-term climate shifts can damage assets, erode asset value, increase insurance costs, reduce company revenues, disrupt supply chains and contribute to geopolitical instability.
- **Transition risks:** Changes in regulation, policy, technology, energy systems and societal expectations can lead to stranded assets, increased compliance and production costs and reduced revenues due to market share loss.
- **Liability risks:** Companies that fail to adequately address or adapt to climate-related risks may face reputational damage, asset devaluation and possible litigation.

Opportunities to enhance risk-adjusted returns include:

- Stewarding our fund managers and portfolio companies to position them to benefit from the transition to a low carbon economy and enhance resilience against physical climate risks.
- Investing in strategies and companies actively transitioning to a low carbon economy and/or driving innovation through technology, research and product development that support decarbonisation.
- Investing in physical assets (e.g. property and infrastructure) that support a low carbon economy.
- Designing the portfolio to underweight strategies and/or companies that are exposed to climate risks but are not actively transitioning.
- Investing in companies that understand and manage their impact on and reliance on nature.

## Funds SA's role in addressing climate-related risks

Addressing climate risk and supporting decarbonisation is integral to Funds SA's fiduciary duty to deliver long-term financial outcomes for its clients. The *Superannuation Funds Management Corporation of South Australia Act 1995 (SA)* stipulates an objective of achieving the highest return possible on investment while having proper regard for:

- 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 are prescribed by regulation.

To meet these obligations, climate considerations are embedded into investment decision-making and risk management processes.

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Funds SA is committed to transitioning its investment portfolio to Net Zero financed emissions by 2050. This commitment, however, is contingent on real-economy decarbonisation - global reductions in greenhouse gas emissions by companies, industries and countries. We recognise that this real-economy decarbonisation may not follow a linear pathway.

Funds SA aims to support genuine emissions reductions through its investment and stewardship activities, rather than merely repositioning carbon exposures within its portfolio.

## 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, including climate change, into investment analysis and decisions.

Recognising that real-world economy decarbonisation is essential to mitigating and addressing systemic risk, Funds SA prioritises active ownership and engagement over divestment. This approach targets areas where Funds SA has influence to drive change. Key tools include engagement with investment managers and companies, proxy voting and participation in collaborative initiatives.

## Reporting of climate-related risks

Funds SA acknowledges its responsibility to transparently report on climate risks and how they are managed. Funds SA will annually report on the actions taken to address climate risks in its investment portfolio. We will continue to review, strengthen and disclose our approach to climate risks as science, policy and technology evolve.

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