NGS Super Media Release

Thursday, 4 August 2022

SUPER FUND DIVESTS FROM MAJOR FOSSIL FUEL COMPANIES ON PATH TO CARBON NEUTRAL

Industry super fund NGS Super is making strides towards a carbon-neutral portfolio by 2030, announcing the divestment of oil and gas exploration and production companies,[1] including Woodside and Santos. This follows the previous announcement of an interim target of a 35% reduction of scope 1 and scope 2 carbon emissions by 2025 within the Diversified MySuper portfolio.

The fund has restrictions on holding companies that generate more than 30 per cent of revenue from distribution, power generation, or extraction of thermal coal, and has now expanded those restrictions to include companies who are in the oil and gas production and exploration sector.[2] This exclusion has been applied in all investment options offered by NGS Super except for the Indexed Growth investment option.

NGS's research[3] has shown that this divestment will reduce risk and free up capital to invest across industries that are aimed at solving climate change, such as green hydrogen, renewable energies, agriculture solutions and automation. As many super funds move from intent to action in decarbonising portfolios, NGS Super demonstrates that it is truly a fund committed to creating a more sustainable future.

NGS Super is a trailblazer in the sector, last year setting an ambitious 2030 carbon-neutral portfolio target, two decades earlier than other super funds. This target has been confirmed by the fund as achievable, and they have also set an **interim target**.

NGS Super Chief Investment Officer Ben Squires said, "To solve climate change, we need to rapidly transition to energy sources that don't emit carbon and methane into the atmosphere. At NGS Super we're making bold moves to protect our members' long-term investment returns and their future."

"We're not a 'mega-fund', but with over $13 billion in funds under management, we can have a positive impact for our members and our planet. We're walking the talk when it comes to building a brighter and more sustainable future for our members."

"Companies whose revenue relies on further oil and gas exploration and production are at risk of becoming stranded assets as the world decarbonises, especially if they are solely focused on upstream[4] oil and gas production. By divesting these companies, we expect to generate higher returns from allocating capital elsewhere," said Squires.

This divestment of approximately $191 million (as at 31 May 2022) has been redistributed to other holdings within the fund's equities portfolio.

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1. As defined by the Global Industry Classification Standard (GICS).
2. For listed investments, as defined by the GICS sub-industry; for unlisted investments, an internal assessment is made.
3. Scenario analysis and tracking error study completed early 2022.
4. The upstream sector includes exploration of potential crude oil and natural gas reserves, and development of fields to extract these reserves from the subsurface.

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This move has a sustainable and member-first mindset, Squires explained: "but it would be irresponsible to put our members' financial interests at risk without a portfolio well-positioned for the future. We are striving to replace those companies that have high carbon intensive businesses that are either failing to rapidly decarbonise or unlikely to be able to, with companies that have a clear transition plan to decarbonise. Making these assessments takes time and effort, so we are bolstering our internal resources to address this challenge and we are optimistic that our members will be well compensated by staying ahead of the curve."

As it relates to oil and gas exploration and production, "We view this exclusion as manageable because the sector is not significant in Australian and international equity benchmarks. We'll continue to measure each year to make sure it's still manageable, and our decisions will always be based on our members' best financial interest."

"There's always the chance of short-term rallies in oil prices because of geo-political tensions, supply chain constraints or underinvestment in fossil-fuel extraction. The war in Ukraine is a prime example of all these factors coming together to lead a rally. We take these considerations into account when constructing portfolios to make sure we participate in these rallies through other portfolio completion strategies. In the long term, the weight of evidence we collect calls for immediate action which goes beyond the political environment and seeks to invest in a sustainable future for generations to come, regardless of race, religion or country."

NGS Super says more divestments are likely as they progress towards their 2025 interim target and the 2030 target for a carbon-neutral investment portfolio. However, these divestments are likely to be selective rather than industry-wide. The fund's updated exclusion list solely focuses on companies where oil and gas exploration and production are a key part of operations.

"Divestment is not our first option. If we have an investment with high scope 1, 2 or 3 emissions, and they have a realistic business plan to transition to the low-carbon economy within a timeframe deemed acceptable to the fund (considering industry trends and the overall global 2050 net zero target), we take an engagement approach."

"This is a moment in time where drastic action must be taken to contribute to change. By using the collective capital of committed NGS Super members, we will support companies building sustainable, lower carbon businesses, while aiming to improve on current average long-term investment returns for members," Squires concluded.

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About NGS Super

NGS Super is an industry superannuation fund for all Australians. We specialise in non-government education and community organisations, working with around 12,000 employers and managing over $13.4 billion in super savings.

We're an Industry SuperFund which means all profits go back into the fund to help secure the financial futures of our members.

Note: For the purposes of this transition, carbon neutral is defined in terms of carbon dioxide ($CO2$). $CO2$ is by far the largest contributor to greenhouse gases — in 2018 approximately 81% of the total greenhouse gases emitted were carbon dioxide, hence a "carbon neutral" goal as opposed to a "net zero emissions" goal.