



# Statement on Climate Change

## **Our purpose**

NGS Super aims to generate strong long-term returns for members. The objective is to exceed the retirement expectations of our members by generating superior returns to the competition, whilst investing responsibly in line with the Fund's Responsible Investment Policy.<sup>1</sup> This involves understanding and assessing the material financial risks to our members' investments whilst pursuing new opportunities. One of the major risks posed to our investment portfolio and financial markets more generally is the effect of climate change.

## **Climate change risk**

The scientific community agree that the global warming trends over the past century are extremely likely due to human activities.<sup>2</sup> The major cause of climate change relates to increased carbon dioxide in the atmosphere which has led to rising temperatures. Temperature rises affect sea level, rainfall patterns, and the frequency of extreme weather events such as heatwaves, droughts and storms.

Climate change has been identified as an investment risk, and as a result, we need to understand if companies and investment managers are factoring in emission intensity, potential policy changes, rising incidents of weather events, energy transition, and consumer behaviour and attitudes because these factors create uncertainty of future earnings and valuations.

## **Global commitment to reducing climate change**

To address climate change, parties to the United Nations Framework Convention on Climate Change (UNFCCC) adopted the Paris Agreement in 2015. The Paris Agreement has a long term goal of keeping global temperature rise this century well below 2 degrees Celsius and pursuing efforts to limit the temperature increase even further to 1.5 degrees Celsius. However, the Intergovernmental Panel on Climate Change (IPCC), which includes more than 1,300 scientists from the United States and other countries, have found that under current policy, we are unlikely to limit global warming to 1.5 degrees by 2050. They predict that 1.5 degrees of warming will be reached within the next two decades.<sup>3</sup> The continued collaboration of countries, companies and individuals is critical to ensure a stable transition to a low carbon society.

## **NGS Super's perspective on climate change**

NGS Super has long recognised the risk posed by climate change and the importance of continuing to refine the way climate change risk is integrated into investment decision making and risk management systems. The risk and potential consequences are significant for not only the financial system in which we invest members' retirement savings, but the world in which our members are to retire in.

NGS Super is striving to decarbonise Diversified (MySuper) investment option by 2030. This target is also accompanied by an interim target of 35% less emissions on 2021 levels by 2025. The achievement of this goal is subject to:

1. ensuring members best financial interests are maintained, and
2. NGS Super complies with other applicable regulatory obligations.

Given the future is uncertain, the Fund may need to adjust its climate goals as policy, regulation and technology change.

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<sup>1</sup> Available at: <https://www.ngssuper.com.au/investments/manage-your-investments/how-ngs-manages-investments/policies-and-principles>

<sup>2</sup> J. Cook, et al, "Consensus on consensus: a synthesis of consensus estimates on human-caused global warming," Environmental Research Letters Vol. 11 No. 4, (13 April 2016); DOI:10.1088/1748-9326/11/4/048002

<sup>3</sup> IPCC 6<sup>th</sup> Assessment Report - <https://www.ipcc.ch/assessment-report/ar6/>.

The latest update to members on the progress of climate transition scan be found [here](#).

In addition to assessing the direct economic impact of climate change on the investment portfolio, NGS Super aims to promote positive change in government policy and company practices. NGS Super does this by engaging with like-minded investors via organisations like Australian Council of Superannuation Investors (ACSI) and <sup>4</sup> Hermes EOS.<sup>5</sup> NGS Super is a member of ACSI and holds a seat on their member council. Climate change is one of ACSI's and Hermes EOS' prioritised engagement themes which is aligned with NGS Super's engagement objectives as outlined in the Fund's Active Ownership and Engagement Policy.<sup>6</sup>

Superannuation is a long-term investment – we see our members needing to be invested for the long term in both accumulation phase and pension phase. Investment returns and income are important in both phases of any member's superannuation journey. Climate change risk impacts will materialise over the long term and as such, NGS Super has a fiduciary duty to manage this risk on behalf of members.<sup>7</sup> There are two key categories of climate risk, these are:

- **Physical risk** – these can be acute or chronic. Acute risks refer to more extreme weather events such as floods, heatwaves, wildfire, cyclone, etc. These events can damage company assets, disrupt supply chains, all of which can lead to significant financial losses. Chronic risks are longer term gradual changes in climate including rising sea level and sustained higher temperatures or chronic heat waves.
- **Transitional risk** – these are things like policy, regulatory and legal risk; market risk; technology risk; financial risk; standard asset risk; and reputational risk. In summary, they are the potential shifts in the operating environment that if not prepared for or adapted to, will impact the profitability or sustainability of a company or asset.

Industries that damage the environment are at most risk of disruption from substitution or technological obsolescence.<sup>8</sup> This is why NGS Super has a fossil fuel restriction to mitigate the Fund's stranded asset risk. *For more detailed information on the scope and application of the fossil fuel restriction, please visit the [Responsible Investment Policy](#).*

However, with every risk there is a counter opportunity and NGS Super conducts active research on [secular trends](#) to help inform the search for new investment opportunities and ideas. With this approach, it is hoped that climate risk is mitigated and opportunities are pursued as we transition to a low carbon economy.

## Integrating climate change into investment decision making

In most cases, organisations will be able to adapt to gradual changes in climate conditions,<sup>9</sup> however it is the extreme conditions that pose the most risk to NGS Super's investment portfolio. Developed economies, like Australia, will be better positioned to cope with changes in the natural environment. Developing nations are currently bearing the heaviest burden of climate change. This is because they are often more frequently exposed to material weather events and have less resources to cope with these. Some industries will also be impacted worse than others due to poor adaptation, government policy reforms/carbon based taxes, social boycotting, and technological disruption. Ongoing global collaboration between developing and developed nations is required to minimise this impact and reduce greenhouse gas emissions.

<sup>4</sup> ACSI cover the ASX300. ACSI complete policy engagement on behalf of members: <https://acsi.org.au/submissions/>.

<sup>5</sup> Hermes EOS engages with international companies and coverage of NGS Super holdings fluctuates from 30-40% of holdings.

<sup>6</sup> EOS Engagement Plan 2024-26: page 6. [ACSI website](#). [NGS Super Policy and Principles – Active Ownership and Engagement Policy](#).

<sup>7</sup> In the next 5-20 years.

<sup>8</sup> Disruptive innovation, stranded assets and forecasting: the risk of renewable energy; JOURNAL OF SUSTAINABLE FINANCE & INVESTMENT, 2017 VOL. 7, No. 2, 169-187.

<sup>9</sup> Assessing organizational resilience to climate and weather extremes: complexities and methodological pathways; Martina K. Linnenluecke & Andrew Griffiths

As a global corporate citizen, NGS Super uses several channels to assess the risk and opportunities of climate change and contribute to achieving the goal of reducing greenhouse gas emissions, including:

- engaging with industry bodies who are empowered to influence government policy and company practices.<sup>10</sup>
- limiting exposure to fossil fuel companies in our portfolio as outlined in the [Responsible Investment Policy](#).
- investing in climate solutions such as renewable energy and technology required to transition to a low carbon economy.
- measuring the greenhouse gas (GHG) emission of our investments and our progress towards our climate goal.<sup>11</sup>
- considering climate change in the investment selection (where NGS Super are investing directly), investment manager selection, investment monitoring and disposal processes.
- incorporating expected climate change impacts into the Fund's capital market assumptions, strategic asset allocation, and annual stress testing.<sup>12</sup>
- completing climate scenario analysis over the investment portfolio annually based on selected NGFS<sup>13</sup> scenarios informed by the IPCC<sup>14</sup> reports.
- understanding our exposure to sustainable businesses by assessing the sources of companies' future revenue and the potential impact on the environment and people.

NGS Super will continue to improve its process of measuring and identifying climate change risk and report this progress to NGS Super members.

For further information regarding NGS Super's approach to sustainable investing, refer to [www.ngssuper.com.au](http://www.ngssuper.com.au).

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<sup>10</sup> NGS Super largely relies on third parties to execute this engagement (ACSI and Hermes EOS).

<sup>11</sup> Refer to page 1 of the Statement.

<sup>12</sup> These functions have been integrated in 2024.

<sup>13</sup> <https://www.ngfs.net/ngfs-scenarios-portal/>

<sup>14</sup> IPCC 6<sup>th</sup> Assessment Report - <https://www.ipcc.ch/assessment-report/ar6/>.



## Talk to us – we're here to help

You can contact us at [ngssuper.com.au/contactus](https://ngssuper.com.au/contactus)

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