

# Statement on climate change

*Effect on NGS Super's investment portfolio*



## Our aspiration

**To generate strong long term returns for our members. The objective is to exceed the retirement expectations of our members by generating superior returns to the competition, whilst transforming the world we live in by making our invested capital work towards improving societal outcomes. This involves understanding and assessing likely material risks to our members' investments whilst pursuing new opportunities. One of the major risks posed to our investment portfolio is the effect of climate change.**

## Climate change risk

The scientific community unanimously agree that climate warming trends over the past century are extremely likely due to human activities<sup>1</sup>. The major cause of climate change relates to increased carbon dioxide in the atmosphere which has led to rising temperatures. Temperature rises affect rainfall patterns, and the frequency of extreme weather events such as heatwaves, drought 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 towards companies because these factors create uncertainty of future earnings and valuations.

## Global commitment to reducing climate change

To address climate change, in 2015 parties to the United Nations Framework Convention on Climate Change (UNFCCC) adopted the Paris Agreement, which has a long term goal of keeping global temperature rise this century well below 2 degrees Celsius and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius — although 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 are predicting that 1.5 degrees of warming will be reached within the next two decades<sup>2</sup>. The continued collaboration of countries, companies and individuals is critical to ensure a stable transition to a low carbon intensive society.

1. 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.

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

# Investment decisions and climate change considerations

## Integrating climate change into investment decision making

In most cases, economic assets will be able to adapt to gradual increases in climate conditions<sup>3</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 however some industries will be impacted worse than others due to poor adaptation, government policy reforms/carbon based taxes, social boycotting, and technological disruption. Developing nations are currently bearing the heaviest burden of climate change. Ongoing global collaboration between developing and developed nations is required to minimise this impact and reduce greenhouse gas emissions.

As a global corporate citizen, NGS Super uses several channels to assess the risks and opportunities of climate change and contribute to achieving the goal of reducing greenhouse gas emissions, ensuring that the Fund's investments, members' money, is being used to support the global commitment to reducing climate change. These include:

- engaging with industry bodies who are empowered to influence government policy and company practices
- limiting exposure to fossil fuel companies in our portfolio
- measuring the greenhouse gas (GHG) emission of our portfolio and measuring our progress towards our interim<sup>4</sup> and end target of delivering a carbon neutral Diversified (MySuper) investment option by 2030
- investing in climate solutions such as renewable energy and technology required to transition to the low carbon economy
- measuring our exposure to sustainable businesses by assessing the sources of companies' future revenue and the potential impact on the environment and people.

As a responsible corporate citizen NGS Super, can make a difference to mitigate climate change and thereby improve the long term economic benefit of our retirement savings and society as a whole. 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 [ngssuper.com.au](https://ngssuper.com.au)



3. Assessing organizational resilience to climate and weather extremes: complexities and methodological pathways; Martina K. Linnenluecke & Andrew Griffiths.

4. 35% less carbon emissions in the Diversified (MySuper) investment option (based off the 30 June 2021 measurement levels) by 2025.

# Promoting positive change

## 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 risk management systems and investment decision making. The risks and potential consequences are dire for not only the financial system in which we investment members retirement savings, but the world that our members are to retire in. Therefore, we are taking a bold stand in targeting a carbon neutral investment portfolio (Diversified (MySuper) by 2030. We have also set an interim target of 35% less emissions on 2021 levels by 2025.<sup>5</sup> You can read more about our carbon neutral transition plan on our website at [ngssuper.com.au/cn2030](https://ngssuper.com.au/cn2030).

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 by engaging with like-minded investors.

NGS Super assesses the risk of climate change over the long term as the impacts are not as evident over the short term and, as a result, assets may be become stranded and permanently impaired.

Industries that damage the environment are at most risk of disruption from substitution or technological obsolescence<sup>6</sup>. With every risk there is a counter opportunity and NGS Super believes that the clean technology industry will provide major disruption to traditional forms of energy production, transportation, manufacturing and agricultural production. This opportunity will more than offset the disruption caused to high carbon intensive industries.

5. In the Diversified (MySuper) investment option.

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

## Need more information? Contact us

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

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