AustralianSuper

Active owner program in practice

Climate change

Active Owner Program

We believe active ownership is where we can have an impact on changing company behaviour to improve investment returns for members. Environmental, Social and Governance (ESG) management is an integral part of our Active Owner Program, and is embedded across our investment decision-making process at three levels.

ESG Integration
Assessing and integrating ESG risks and value drivers when choosing and managing investments

Stewardship
Actively engaging with companies to influence and improve ESG practices

Choice
Considering our members' values in our investment choices

Climate change can have a broad ranging impact on economies, financial markets and our members' investments over the long term. It has the potential to effect the longevity of assets, companies and their valuations in a variety of ways.

Investments in property and infrastructure, like toll roads, airports and ports, may be affected and there could be an impact on the operations of many companies in which AustralianSuper invests.

We actively engage with companies on the risks relating to future fossil fuel consumption and physical changes in the climate.

Rather than excluding particular investments on the basis of these factors, we weigh the risks and returns for each investment and determine the appropriate exposure.

We consider:

1. Constraints on future fossil fuel consumption due to public policy actions and/or technology developments.

- Stranded asset risk: what is the risk of fossil assets suffering a reduction in value?
- Carbon pricing risk: what are the implications of a price on carbon?
- Carbon constraint investment theme: which companies/ assets are likely to win or lose as the economy transforms towards lower fossil fuel consumption.

2. Physical changes in climate.

- Physical impact risk: which assets are likely to incur physical impacts?
- Climate change adaptation investment theme: which companies/assets are likely to win or lose as society adapts to the physical impacts of climate change?

Integration

The way we manage ESG factors in our decision making is focused on improving outcomes through the assessment, integration and valuation of ESG factors in the investment process.

Equities

As part of our internal equities investment process, we consider the key value drivers for companies. Some sectors are more susceptible to valuation impacts due to a constraint on future fossil fuel consumption while others are more susceptible to valuation impacts due to physical changes in the climate.

We identify these sectors and score companies in these sectors on the management of these issues. These scores feed into the active investment process that determines which companies we invest in.

We also monitor the integration of climate change considerations by the external fund managers who invest on our behalf. We review equity managers on an ongoing basis regarding their management of climate change issues including stranded asset risk.

To further consider how our investments may be impacted by a constraint on future fossil fuel consumption, we look at our whole-of-portfolio carbon risk relative to appropriate benchmarks by calculating the carbon footprint of our equity portfolio.

Obtaining this data is important from a trend-monitoring perspective. Given the long-term global move towards decarbonisation, it's critical to monitor our carbon intensity over time to ensure our portfolio is in a position to operate in a decarbonised world over the long term.

AustralianSuper commissions environmental data experts Trucost to analyse the exposure to carbon in our Australian and international share portfolios every two years.

10.63%
How much less carbon-intensive our Australian share portfolio is than S&P/ASX 300 (Trucost, 30 September 2015)

Property and infrastructure

We directly buy property and infrastructure, like toll roads, ports and airports around the world. During the bidding phase, we consider all aspects of the asset to determine its value. An ESG assessment of the asset is integrated into the bidding phase as good environmental management reduces risk and enhances value. This includes its current energy efficiency and how it will be managed to improve over time.

Given the physical nature of these investments they may also be affected by physical changes in the climate.

How an asset may be impacted by climate change given its geographic location is part of our assessment of its value.

We also assess how these risks are part of the asset management plan and what role a regulator may play in insuring asset owners against physical damage. For example if the regulator will provide compensation in the event an asset or part of an asset becomes stranded as a result of constraints on fossil fuel consumption.

For our major Australian infrastructure investments, we've undertaken a climate change adaptability risk assessment. This helps us understand the potential physical impact of climate change on these investments and to build strategies to manage these physical impacts in long-term asset management plans.

For example, if an airport was subject to rising sea levels or flood risk, a climate adaptability assessment would indicate how high a runway should be constructed to minimise this impact. In the long-term management plan of the runway, management could build into this plan a strategy to increase the height of the runway over time.

Every year Global Real Estate Sustainability Benchmark (GRESB) measure how our property assets are performing on energy efficiency, water usage and impact on society.

Stewardship

As an active investor we exercise the rights and responsibilities of being a large shareholder – including voting and engaging with companies. We aim to effectively communicate our long-term investment interests to companies we invest in so that we can improve returns for our members.

Company engagement

Information about what companies are doing to assess their carbon and other greenhouse gas emissions and potentially reduce them is becoming more important. In countries where there are existing emissions trading schemes or carbon taxes, or these are being introduced, this can have a short-term impact on a company, but it can also have implications for the longer term cost structure of a business.

We have frequent meetings with the large Australian companies we invest in to discuss these issues and how they're managing these risks. This helps us form an accurate investment view about the company.

We also encourage companies to provide greater disclosure on their assumptions and management regarding climate change.

Share voting

Climate change specific resolutions are put forward from time to time at company Annual General Meetings. When a company that falls within our voting coverage universe, AustralianSuper actively considers the merits of each of these resolutions and votes accordingly. You can view our quarterly voting history and read more about our approach to stewardship and governance at **australiansuper.com/InvestmentGovernance**

Choice

While we integrate ESG factors across the range of our investments we recognise that it's important to give members choice and we do that by offering members a range of investment options including the Socially Aware option. Find out more about this option at **australiansuper.com/SociallyAware**

Collaborative Initiatives

AustralianSuper is a member of the Investor Group on Climate Change (IGCC). This group focuses on the impact that climate change has from an investment perspective and advocates for constructive climate change policy. We're also a member of the Carbon Disclosure Project (CDP).

Reporting

AustralianSuper participates annually in the Asset Owners Disclosure Project. This global survey considers how well asset owners manage the issue of climate change across their portfolios and Fund's disclosure regarding climate change management.

Top 5%
AustralianSuper ranked 18 out of 500 of the world's largest asset owners on climate-risk management. (Asset Owners Disclosure Project 2017)

Find out more

Explore our Active Owner Program in Practice series:
- Integrating ESG considerations into each asset class
- Climate change
- Gender diversity
- Human rights and labour supply chain
- Executive remuneration

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