

Climate change position statement

In line with our status as a leading superannuation fund, UniSuper aims to be at the forefront of the industry in transitioning to a low carbon world. Accordingly, this position statement outlines the scope of our commitments in the following areas:

1. Portfolio construction and related activities
2. Engagement and collaboration
3. Product offerings and member communications
4. Managing the carbon footprint of our own operations

Guiding beliefs and principles

At the core of our position on climate change is the acceptance of the scientific consensus that human activity is a significant contributor to the warming of the planet. Global warming represents a long term risk to societal wellbeing, economic growth, and by extension the retirement outcomes of our members. The Paris Agreement of 2015 committed its signatories to a set of actions that would limit the rise in temperature to well below two degrees above pre-industrial levels by the second half of the century. Accordingly, UniSuper is fully supportive of the Paris Agreement and intends to play its part in ensuring that Australia fulfills its commitments as a signatory. From this fundamental basis arises the following beliefs and principles:

- The totality of our actions will be consistent with the ultimate goals of the Paris Agreement, in particular targeting zero net emissions by 2050
- Decarbonisation will be a pervasive theme for at least the next decade. It is both essential and inevitable. This will involve a much greater share of renewables as a baseload energy source and a phasing out of fossil fuels
- Factoring the decarbonisation theme in our investment considerations is consistent with our fiduciary responsibilities, and is aligned with the Trustee's duty to comply with the sole purpose test
- As a fund represents the aggregation of debt and equity held in companies, the greatest impact we have is via the ownership of stakes in companies. Ownership provides the scope to directly influence companies through engagement or exercising of voting rights. Divestment of ownership, while always an option, is most likely to result in a reduction in the influence we have over companies

1. Portfolio construction and related activities

As a long-term investor it is incumbent upon UniSuper to recognise the physical risks posed by climate change and the transitional risks and opportunities arising from decarbonisation. A prudent approach to portfolio management will involve the avoidance of assets that are most likely to be stranded. It will also involve being aware of the risks of owning high emitters in a world that may require a faster transition to carbon neutrality than currently forecast. In such a scenario carbon-emitters are likely to be required to pay for negative externalities. Accordingly, as key tenets of our portfolio construction and associated activities we will:

- Exclude investments, held in actively managed in-house portfolios, in companies generating greater than 10% of revenues from the production of thermal coal
- Extend the above thermal coal exclusion to passively managed index portfolios (where practical)
- Seek alignment of views on stranded assets with external managers prior to their appointment
- Incorporate a shadow carbon price when analysing and valuing material investments that are expected to be held for the medium to long term

Ultimately, we are aiming to be a carbon neutral fund by 2050 but we will actively strive to achieve this over a shorter period, whenever practical opportunities arise for specific portfolios. Accordingly, we are currently targeting net zero emissions for the direct property and infrastructure portfolios by 2030. In the medium term we are also aiming for our key diversified portfolios (including the default Balanced option and the Defined Benefit pool) to have a carbon footprint lower than the market benchmark.

2. Engagement and collaboration

Ultimately, achieving a net zero emissions target for the fund will require that portfolio companies (in aggregate) have also set targets that are aimed at achieving the goal. As a large investor in the Australian share market, UniSuper is in a position to influence the companies in which we invest. Our influence is typically strongest when we are dealing with companies held in our Australian portfolios that are managed by our in-house team. In these circumstances our ability to vote on company resolutions is reinforced by direct and regular engagement with company management and boards.

Accordingly, we are aiming for 100% of Australian companies held in our actively managed portfolios to have publicly stated Paris-aligned commitments by the end of 2021. As a first step we want companies to disclose emission footprint and targets in a manner consistent with the framework designed by the Taskforce for Climate-related Financial Disclosures (TCFD).

While we are confident that our engagement activities will be successful over time, there will be occasions when companies are not moving fast enough. In such circumstances we have options such as supporting shareholder resolutions or even voting against the re-appointment of directors or the remuneration report. Ultimately, in circumstances when we believe that the strategy of a company is not aligned with our long-term aims, we have the option of divesting.

On top of direct engagement with companies UniSuper is also an active participant in climate-focused action groups. Three groups we are currently involved with and our specific responsibilities are:

- Investor Group on Climate Change
 - Secretary of the Management Committee
 - Member of thought leadership working groups
- Climate Action 100 (engaging companies responsible for two thirds of global emissions)
 - Lead investor for one company and support investor for three other companies
- Climate League 2030 (campaign to reduce Australian emissions by 230mt by 2030)
 - Need to tangibly demonstrate commitment by integrating, collaborating, and investing to reduce emissions

3. Product offerings and member communication

Being a fund that is dedicated to the tertiary education sector, the Board and Management of UniSuper understand how passionate and concerned many of our members are with respect to the subject of climate change. We appreciate that some members do not want any link with fossil fuels, and want to express this wish by investing their superannuation in strategies that avoid companies involved in the production, generation, or

transmission of coal, oil, or gas. In this regard UniSuper offers three investment options (Global Environmental Opportunities, Sustainable Balanced, and Sustainable High Growth) that are designed to avoid investments in such companies. There are also four other investment options (Cash, Australian Bonds, Listed Property, Global Companies in Asia) that are also “fossil-fuel-free” due to the nature of their portfolio mandates (as distinct from deliberately screening out).

Therefore, Accumulation members have a choice across the whole risk/return spectrum if they wish to avoid fossil fuels. As is the case with all of UniSuper’s investment options we aim to deliver competitive returns at low cost.

In terms of communication the primary document is “Climate Risk and our Investments”. The document is available on our website, and our intention is to revise it at least annually.

It covers:

- Major physical and transition risks
- Investments in companies that provide low carbon solutions
- Examples of climate-related company engagements
- Carbon intensity of key portfolios
- Progress against targets

4. Managing the carbon footprint of our own operations

UniSuper Management Pty Ltd is targeting for the fund’s operations to be carbon neutral by 30 June 2022. It has embarked on the process to measure, reduce and if necessary, offset emissions that are generated through the operation and management of the fund.

Concluding comments

The UniSuper Board and Management believe that the above set of commitments places the fund as one of the leaders in demonstrating alignment with the ultimate goal of the Paris Agreement. However, we also recognise that we are at the start of a long journey and maintaining a leadership position will involve a regular review of our progress. Currently, about 35% of companies included in the main global indices do not report emissions, let alone reduction targets. There is a long way to go. And while the path to net zero may not be smooth our members can be assured that we fully intend to be on it.