



# PRIME SUPER

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## Climate Change Policy

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## Glossary

Board	The Trustee's board of directors
ESG	environmental, social and governance The relevant Prime Super policy is the Environmental, Social and Governance Policy
Fund	The regulated and registered superannuation fund known as 'Prime Super'
IPCC	Intergovernmental Panel on Climate Change
Member	A member of the Fund
Prime Super	Prime Super Pty Ltd acting either as a trustee of a regulated fund or in its personal capacity or both (as the context requires)
UNPRI	Principles for Responsible Investment, backed by the United Nations
RSE	Registrable Superannuation Entity
TCFD	Task Force on Climate-related Financial Disclosures
Trustee	Prime Super
Whitehelm	Whitehelm Capital Pty Ltd, an outsourced investment consultant whose services are utilised by Prime Super (as at the date of this Policy)

## 1. Objective

Prime Super Pty Ltd as trustee for Prime Super (the Trustee) has a fiduciary duty to act in the best interests of members. The Trustee believes that considering climate change factors as part of investment decision-making on behalf of members is consistent with this responsibility.

This Policy is designed to support the Trustee's overview of the Fund's approach to managing and identifying climate change risk in its investment decision-making.

## 2. Background

This Policy forms part of the Investment Governance Framework of Prime Super and supplements the Investment Strategy and the Environmental, Social and Governance Policy of the Trustee in relation to Prime Super (the Fund).

### 2.1 Intergovernmental Panel on Climate Change

The Trustee accepts the assessment of climate change science by the Intergovernmental Panel on Climate Change (IPCC)<sup>1</sup> that warming of the climate is unequivocal, the human influence is clear and physical impacts are unavoidable.

The IPCC released its sixth assessment report in August 2021. The latest report finds that unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to 1.5°C or even 2°C will be beyond reach. But the report also finds that climate change can be limited if there are strong and sustained reductions in carbon emissions and other greenhouse gases, and underlines that momentum for the global energy transition is likely to build faster and faster.

### 2.2 Paris Agreement

The Trustee supports the objectives of the Paris Agreement.

The Paris Agreement is an internationally recognised binding agreement to commit to combat climate change and address the effect it has on the global environment. The objective of the agreement is to limit global temperature rise to below 2°C and preferably 1.5°C above pre-industrial levels by the year 2050. The Trustee, as an investor in Australian and international companies, and as a significant business in its own right, seeks to:

- continue to take action to reduce its own emissions
- influence companies in which it invests to make climate change a key area of risk focus as part of good business practice to, in turn, ensure that those companies continue to perform at the highest level<sup>2</sup>
- make investment decisions that have regard to the risks of climate change.

Climate change risk is like any other business risk and investment risk in the sense that it must be identified and managed from a business and an investment perspective.

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<sup>1</sup> The IPCC is the United Nations body established for assessing the science related to climate change. The IPCC was established in 1988. 'The objective of the IPCC is to provide governments at all levels with scientific information that they can use to develop climate policies. IPCC reports are also a key input into international climate change negotiations.' (Source: IPCC website <https://www.ipcc.ch/about/>).

<sup>2</sup> In the sense of active management of an investment rather than 'activism'.

However, climate change, as a risk, was identified by the World Economic Forum<sup>3</sup> in 2018 as the biggest risk to the world, together with technology, in their survey of global risks. In their top five global risks, after weapons of mass destruction, extreme weather events, natural disasters, failure of climate change mitigation and adaptation, and water crises were named as risks two to five.

Given the above, climate change risk (from both a business and an investment perspective) is deserving of a separate policy and this document outlines the Trustee's climate change risk management policy. This is to assist the Trustee in:

- its aim of delivering better long-term superannuation retirement returns for members of the Fund
- managing its business.

A climate change policy enables a Registrable Superannuation Entity (RSE) licensee to implement a holistic approach to the management of climate change and ensure that the business is aware of the potential impact of climate change on the RSE licensee's business and ability to continue to deliver a better long-term investment outcome for members.

### **2.3 Task Force on Climate-related Financial Disclosure**

The Trustee fully supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and ensures that it is the Trustee's responsibility to consider the physical and investment-related risks of climate change and the impact a transition to low carbon economy has on its portfolio.

The Trustee will use the recommendations of the TCFD as the broad framework for the basis of its Climate Risk Report.

- Governance
  - Disclose Prime Super's governance around climate-related risks and opportunities.
- Strategy
  - Disclose the actual and potential impacts of climate-related risks and opportunities on the organisations and business' strategy and financial planning where such information is material.
- Risk management
  - Disclose how the organisation identifies, assesses and manages climate-related risks.
- Metrics and targets
  - Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

## **3. Application of this Policy**

The core policy in relation to the management of investments is the Investment Strategy. The Investment Strategy sets out the key considerations used in framing the overall

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<sup>3</sup> The World Economic Forum Insight Report 'The Global Risks | Report 2018 (13th edition)' published on 17 January 2018 at: [http://www3.weforum.org/docs/WEF\\_GRR18\\_Report.pdf](http://www3.weforum.org/docs/WEF_GRR18_Report.pdf)

investment strategy for the Fund as well as the investment strategy for the various investment choice options offered to members.

This Policy is aimed at enhancing the Investment Strategy through consideration of climate change in the overall Investment Strategy.

If there is any conflict or inconsistency between this Policy and any applicable laws or regulations, the laws or regulations will take precedence. Full details of the issue should be reported to the Board as soon as possible.

## 4. Communication of the Policy

This Policy must be provided to the Trustee's Investment Consultant<sup>4</sup> and must be considered in framing the Investment Strategy, and investments (both as to procurement and their ongoing retention and viability) of the Fund.

The Policy is also a public document that will be available to members and interested parties on the Trustee's website.

## 5. Climate Change Policy

### 5.1 What is climate change?

The IPCC Report entitled 'Climate Change: The IPCC 1990 and 1992 Assessments' notes in the overview<sup>5</sup> (on page 52) the following:

**'We are certain of the following:**

- There is a natural greenhouse effect which already keeps the Earth warmer than it would otherwise be.
- Emissions resulting from human activities are substantially increasing the atmospheric concentrations of the greenhouse gases: carbon dioxide, methane, chlorofluorocarbons (CFCs) and nitrous oxide. These increases will enhance the greenhouse effect, resulting on average in an additional warming of the Earth's surface. The main greenhouse gas, water vapour, will increase in response to global warming and further enhance it.'

The overview further states that:

- Sufficient evidence is now available from a variety of different studies to indicate that changes of climate would have an important effect on agriculture and livestock.
- Patterns of agricultural trade could be altered by decreased cereal production in some of the currently high production areas.
- Relatively small climate changes can cause large water resource problems in many areas, especially arid and semi-arid regions and those humid areas where demand or pollution has led to water scarcity.
- The most vulnerable human settlements are those especially exposed to natural hazards, for example, coastal or river flooding, severe drought, landslides, severe

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<sup>4</sup> As at the date of this Policy, Whitehelm Capital Pty Ltd (Whitehelm).

<sup>5</sup> At: [https://www.ipcc.ch/site/assets/uploads/2018/05/ipcc\\_90\\_92\\_assessments\\_far\\_overview.pdf](https://www.ipcc.ch/site/assets/uploads/2018/05/ipcc_90_92_assessments_far_overview.pdf)

wind storms and tropical cyclones. The most vulnerable populations are in developing countries, in the lower-income groups: residents of coastal lowlands and islands, populations in semi-arid grasslands, and the urban poor in squatter settlements, slums and shanty towns, especially in megacities.

- Global warming can be expected to affect the availability of water resources and biomass, both major sources of energy in many developing countries.
- Global warming will accelerate sea-level rise, modify ocean circulation and change marine ecosystems, with considerable socioeconomic consequences.

While the impact and timing are not certain nor the financial impact precisely quantifiable, the finding is that human-influenced climate change will have an impact on society from water supply to food production and to human settlement, with an ultimate impact on the world economy.

From an investment perspective, climate change is therefore a risk that must be considered in the long-term consideration of an investment and its ability to continue to generate a satisfactory return into the future.

## **5.2 General principles of climate change and investing**

While there may be, as noted above, no precise quantifiable financial impact of climate change at this time, there is no doubt that there is a link between climate change events and adverse changes in the economic environment. Accordingly, in the Trustee's view, appropriate management of those risks will lead to a better long-term outcome for the members of the Fund.

Climate change factors and risks form a subset of the overarching Environmental, Social and Governance Policy of the Trustee involving each aspect of the Policy:

- **Environmental** – a strong focus on an environmental impact by an entity will lead to a more sustainable enterprise that delivers to shareholders of that entity a better long-term investment result.
- **Social** – the social impact of certain behaviours can have a negative or positive impact on the revenue and cost basis of a business. Any unpopular decision/s can lead to a downturn in the prospects of a business and therefore reduced dividend flows and capital losses.
- **Governance** – strong governance ensures a business is focused on all risks and addresses those risks appropriately, again, leading to a better business outcome and results for that business and its owners.

## **5.3 The response to climate change on the Investment Strategy**

The response to climate change on the Investment Strategy of the Trustee is multi-layered.

### **5.3.1 Third party Investment Managers**

The Trustee utilises the services of investment managers to directly manage listed share holdings. Environmental, social and governance (ESG) considerations have long been an

inherent consideration in investment selection processes. However, these considerations are now becoming more explicit and significant.

Effective governance is a strong indicator of a successful business or, in the case of weak governance, an indicator of a business at risk. Processes around Director selection and disclosures, as well as the ability to engage directly with shareholders, are strong indicators of a business that can deliver out-performance relative to the rest of the market.

The management and disclosure of climate change-related risk and risk mitigation strategies is no different to the disclosure of other risk and related risk mitigation strategies. The factors are considered by Investment Managers in the process of selecting a share as one to purchase or one to sell.

The Trustee utilises the services of Investment Managers that take appropriate consideration of environmental, social and governance considerations in the stock selection process. The Trustee also seek managers that provide regular reporting on their ESG approach and engagement.<sup>6</sup>

### **5.3.2 Investment Consultant**

The Trustee utilises the services of an outsourced Investment Consultant, Whitehelm, and leverages its expertise to deliver more in-depth analysis and review of the investment arrangements of the Fund. Whitehelm is a signatory to the United Nations backed Principles for Responsible Investment (UNPRI) and provides advice to the Trustee that applies the UNPRI six core ESG investment principles.<sup>7</sup> In addition, Whitehelm is a member of GRESB (Global Real Estate Sustainability Benchmark) infrastructure and supports the TCFD, the Paris Agreement and the UN Global Compact.

### **5.3.3 Direct investments**

The Trustee invests directly into property, infrastructure and credit opportunities. The investment process includes the receipt of a preliminary memorandum setting out the details of the investment and expected risks and returns, followed by a detailed risk analysis report from the Investment Consultant, Whitehelm. A key element of the Whitehelm detailed risk report is consideration of ESG matters, including climate change risk. Whitehelm undertakes an annual portfolio wide climate risk assessment of Prime Super's direct investments which measures transition and physical climate risks for each asset as well as climate-related opportunities.

The Responsible Investment framework adopted by the Trustee consists of the following considerations:

- compliance with Responsible Investment policy;
- compliance with Responsible Investment code of practice

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<sup>6</sup> By way of example, see the annual 'ESG Engagement Report' of Ausbil Investment Management Ltd (March 2019), which was annexed to the Trustee's board papers for the April 2019 meeting. Prime Super also receives a quarterly report monitoring the engagement activities of its third-party investment managers from its Investment Consultant.

<sup>7</sup> UNPRI is the United Nations-supported Principles for Responsible Investment adopted by an international network of investors working together to put the six 'responsible investment' principles into practice. See those principles at: <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>

- ESG is included in the due diligence scope for technical advisors
- ESG is analysed at the execution stage of the investment in due diligence documentation
- ESG is monitored in post-merger integration
- ESG is managed and reported on throughout the asset management process
- compliance with UNPRI commitments on ESG is monitored and reported
- active engagement with Investment Managers and underlying companies around ESG matters occurs
- best practice overlays with respect to ESG matters are considered throughout the investment process.

Through the ongoing management of Fund investments from an ESG perspective, the Trustee aims to deliver an improved investment return.

In addition to the above, the Trustee also reviews investment opportunities (and monitors existing investments) on the following principles:

- Awareness – strengthen awareness of ESG issues in its culture and process, investment analyses and activities, aiming at reinforcing the practice of responsible investing.
- Process – ensure that the ESG issues are, before the investment being undertaken, manageable through adequate procedures and, after the investment, monitored to reduce risks and maximise compliance with established standards.
- Risk management – employ an integrated approach to ESG risk evolution and management, which considers multiple risks through the entire investment process, from investment origination through to exit.
- Partners – choose investment partners with a proven track record of high ethical and business integrity standards and alignment with the Trustee’s views on ESG matters.
- Countries and industries – only invest in countries and businesses that meet the Trustee’s requirements on specific ethical issues.
- Conduct – promote the respect of high standards of integrity, honesty and business conduct by portfolio companies.
- Engagement – foster ESG awareness in the industry, stimulating competitors and peers to embrace responsible investment practices.

### **5.3.4 Investment Portfolio Strategy**

In addition to the above ESG processes already embedded in the investment process and monitoring by the Trustee, the Trustee is always looking to further develop and enhance the overall consideration of climate change from an asset allocation perspective.

The commissioning of the annual Climate Risk Report is an important component of the consideration of climate change and transition risks during asset allocation decisions.

### **5.3.5 Member direct investment choice**

The Trustee offers members a range of investment choice options that allow members to invest in an asset allocation that best suits their financial objectives, risk profile and wishes.

From 1 January 2019, the Trustee has offered members a Socially Responsible Investment option. This option invests in a cross-section of diversified assets with an emphasis on growth from socially responsible investments over the long term with a focus on reduced risk.

A member therefore has the ability to invest some or all of their superannuation savings in an investment option that has an overt focus on socially responsible investing, which incorporates climate change considerations.

## **6. Reporting to members**

A key element of the ESG criteria is 'social'. The social aspect of ESG and climate change includes the reporting to members and other interested parties on the actions the Trustee is taking in relation to ESG (including climate change) matters.

The Trustee is to provide reports to members, employers and other interested parties, through updates to the website:

- details of proxy voting activities
- ESG
- climate change matters.

## **7. Review of the Climate Change Policy**

The Investment Committee will review this Policy at least annually or when required and make a recommendation to the Board for approval.

This Policy may also be reviewed at any time for any reason, but in particular, where it becomes aware that:

- this Policy is out of date
- this Policy is no longer relevant to the circumstances of the Trustee.

Prime Super's General Manager Investments is responsible for identifying the need for reporting any required changes to the Trustee.