



MEDIA RELEASE
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Policy uncertainty a problem, but no excuse for not hedging climate risk: climate change survey

Uncertainty over a price on carbon pollution is a significant barrier to action on climate change but is no excuse for superannuation funds not hedging against climate risk, a survey of Australian superannuation funds shows.

“Policy uncertainty is a barrier for superannuation funds in managing climate change risk and opportunity, but in the light of the ground-breaking Mercer report on climate risk, most funds are not prepared or informed to manage these risks and opportunities,” said Julian Poulter, Business Director at The Climate Institute.

The third annual The Climate Institute/Australian Institute of Superannuation Trustees (AIST) survey was responded to by 18 of Australia’s largest funds managing \$200 billion of retirement savings.

It comes after February’s ground-breaking Mercer report – *Climate Change Scenarios: Implications for Strategic Asset Allocation* – which advocated a 40% allocation within portfolios to climate sensitive assets.

“The implications for Australian superannuation funds are huge, with a 40% allocation to climate sensitive assets representing a very significant \$500bn of current and future retiree’s money,” said Mr Poulter.

For the second year, superannuation funds have been rated and ranked funds according to their ability to manage climate change risk and opportunity. The leading funds in this year’s survey are (in order) Local Government Super, Christian Super, NGS Super and CareSuper.

Each of these funds was in the top quartile in all ten areas of the survey. They also showed particular strength in:

- Reporting of climate change issues and assets,
- Climate change skills, training and education, and
- Management of investment/fund managers.

“There are some encouraging signs that funds are making progress, but there’s still much funds can do to address the risks posed by climate change,” said AIST CEO Fiona Reynolds.

“The super industry is undergoing significant structural change at present, but trustees must make sure they prioritise this issue and take action on climate change to protect members’ retirement savings,” she said.

Meanwhile, the Australian super funds’ increased advocacy efforts in relation to climate policy uncertainty is welcome as are their efforts to better engage their membership however there are concerns that their actions still fall short of what is required.

The Climate Institute/AIST survey remains unique in that it goes to the heart of retirement funds' management of climate risk, asking for information on:

- Portfolio emissions footprint to manage portfolio risk
- Portfolio fossil fuel reserves exposure
- Disclosure of climate change risk hedging strategies
- Public ranking and rating to create competition amongst funds

Some key results of The Climate Institute/AIST survey are outlined below:

Policy uncertainty

- More than 75% of funds identified lack of certainty around climate policy (domestic and/or international) as a barrier to them acting collectively to fund large-scale renewable energy investments or portfolios.
- 50% of funds identified climate change-related policy from government as key to encouraging climate change-related investments in general.

Asset allocation

- Only 17% of funds have a specific allocation to climate change related investments and these allocations varied in size between 2% and 6% - significantly below the 40% allocation currently being advocated by leading investment consultant Mercer.

Managing systemic risk

- 94% of funds do not calculate any portfolio-wide climate change risks (up from 91% last year) and 72% of funds have no methods in place to mitigate climate change related risks (a high proportion but a slight improvement on last year's 84%).
- 83% of funds don't know what portion of their portfolio is invested in high climate impact sectors and 67% of funds don't know what portion of their portfolio is invested in low-carbon investments.

Improvements in active ownership

- There have been some significant improvements in active ownership with a greater proportion of funds this year who have engagement (28%, up from zero) and proxy voting policies (17%, up from 6%) that specifically address climate change.

Property

Property is the stand out area of excellence for most funds in terms of both climate change considerations within investments and also in managing their own environmental footprint.

- 72% of funds consider climate change related factors when making investment decisions with nearly all of those funds interested in the Green Building Council of Australia's "green star" accreditation and water, energy and waste use and management.

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