Research / Engage / Influence /

ACSI

# Climate-related Financial Disclosure Statement (TCFD)

October 2021

# Foreword

Climate change is distinctly financial in nature, presenting risk and opportunities for businesses. There are physical risks and opportunities associated with rising mean global temperatures, rising sea levels and increased severity of extreme weather events, and transitional risks and opportunities as the economy adjusts to a lower carbon future. Because of this, ACSI has been engaging with companies on climate change risks and opportunities for over a decade.

For investors integrating climate-related risk into investment decisions, it requires investee companies to set their strategy to adapt to a low-carbon future. This includes a company demonstrating how climate risks and opportunities are integrated into its governance, strategy and risk management processes.

As a representative of long-term investors, ACSI engages with companies to understand their approach to managing the climate-related risks and opportunities material to their business, the challenges they face, and to clearly communicate our expectations.

We recommend the risk assessment and reporting framework in the Financial Stability Board's Taskforce on Climate-related Financial Disclosure (TCFD) and expect disclosure to extend to strategies, metrics and targets to manage risk.

We encourage companies to conduct and disclose scenario analysis that considers the transition risks of moving to a Paris-aligned economy as well as the physical risks associated with unmitigated climate change.

Adopting disclosure ourselves is our way of keeping ourselves accountable to what we expect from the companies we engage with. Although we do not have material climate risk exposure in our own business operations, we see the benefit of assessing and addressing climate change risk, and as such we are reporting here on our progress.

This report aims to demonstrate how it can be useful for businesses of all shapes, sizes and industries to undergo regular and thorough examination of their own exposure to climate change, and to question how it will impact the business going forward.

# About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include 34 Australian and international asset owners and institutional investors with over $1trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership to strengthen investment outcomes.

Active ownership allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage.

ACSI members can achieve financial outcomes for their beneficiaries through genuine and permanent improvements to the environment, social and governance (ESG) practices of the companies in which they invest.

34 Australian & international investors

Leading voice on ESG issues and advocacy

ACSI members managed over $1trillion in assets

# Table of contents

# Governance

The Australian Council of Superannuation Investors (ACSI) (ACN 164 568 610) is a public company limited by guarantee domiciled in Melbourne, Australia, employing 21 staff, and supporting our 34 Australian and International members.

## ACSI climate change beliefs

| | | |
|---|---|---|
| ACSI supports the Paris Agreement aim of limiting global warming to 1.5 °C which will require a shift to net zero emissions by 2050. | A planned and orderly transition to a low carbon economy is preferable to a disorderly transition. This includes ensuring an equitable and just transition for workers, communities, and other stakeholders. | Investors have an important role to play in driving the low-carbon transition through their stewardship activities. This includes engaging with investee companies on climate change risks and opportunities. |

## ACSI governance oversight of climate-related risks and opportunities

At ACSI, we acknowledge the risk that climate change poses, as a business, individually and within our community. Climate change and the impact on our members and their beneficiaries, is an important aspect of our ESG work. Where we identify or are informed of any instances of climate change risk, we will seek to understand them and will work constructively to minimise them.

Our Governance structure, and how we oversee risk management in relation to climate risk is outlined below:

| Executive Management | Finance, Risk and Audit Committee (FRAC) | ACSI Board |
|---|---|---|
| The Executive Management Team (EMT) is responsible for the assessment, development, and implementation of risk management activities, including to identify, prevent and mitigate risks, including climate risk. | The FRAC assists the Board in discharging its responsibility by advising on the effectiveness and operations of ACSI's internal controls over financial and other operations and reporting and compliance with legal and regulatory requirements. | The Board is responsible for the oversight of ACSI's audit, compliance and risk management and the interpretation of ACSI's rules and policies. |

### ACSI Member Council

The ACSI Member Council is an advisory body that reviews ACSI's climate change approach in consultation with Management. Its members contribute to the goals and direction ACSI takes in terms of ACSI's research, engagement and policy advocacy agendas, which include climate change risks and opportunities as a key area of focus.

## Management's role in assessing and managing climate-related risks and opportunities

ACSI is a member-based organisation supporting long-term investors and asset owners. Our members view environmental, social and governance risks and opportunities, including climate change, as financially material for long-term investment performance. The long-term investment time horizons over which ACSI members invest are highly correlated with the timeframes over which climate-related physical and transition risks and opportunities will impact. Therefore, the most material area of work ACSI does to support managing and mitigating climate-related impacts is supporting members in their stewardship activities. This includes research, engagement with the ASX300 and, policy and advocacy work with regulators and other industry bodies.

# Strategy

As a professional services body, ACSI is not materially affected by climate transition risk due to minimal greenhouse gas emissions. ACSI is located in Melbourne, Australia, and faces physical risks associated with climate change in this region. While ACSI faces limited transition risk as an organisation, climate change is a core focus of its day-to-day advisory work.

ACSI works to address climate related investment risk as part of its role as an ESG advisor to its clients many of which are superannuation funds. As such, ACSI identifies risks faced by its superannuation fund clients. These are described below.

## Climate-related risks and opportunities identified over the short, medium, and long term

ACSI's members invest in multiple asset classes including equities, bonds, infrastructure, and property, both in Australia and overseas. ACSI provides research, engagement and (in some cases) voting research and recommendations in relation to Australian equities and International equities (focusing on the ASX200, with voting advice provided across the ASX300).

There are significant risks to companies associated with the transition to a lower carbon economy. As investors, ACSI's members, have a strong interest in managing these risks, and in encouraging companies to pursue opportunities associated with this transition.

ACSI has identified ASX200 companies facing significant transition and physical risks, and targets these companies in engagement, regularly meeting with directors of these companies.

ACSI has undertaken a major research project, hiring Vivid Economics, a London-based economics consultancy, to model the resilience of ASX200 companies to Paris-compliant transition scenarios, in line with the recommendations from the Task Force for Climate-related Financial Disclosures (TCFD). The research identifies the most at risk sectors and companies and provides detailed information on the source of the risk (including demand destruction, carbon pricing and competition impacts).

## Impact of climate-related risks and opportunities on strategy and financial planning

The identification and management of climate risks through engagement, research and policy advocacy is a core responsibility for ACSI in its role as an ESG advisor to superannuation funds, and therefore has an impact on strategy and financial planning. Climate change engagement, research and policy aims are included in ACSI's strategic plan, which is approved by the Board. Staff resources are used to engage with ASX200 directors to express expectations around climate related risk. ACSI funds internal and external research on climate change.

## Resilience of organisational strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

As a professional advisory firm, ACSI is not exposed to high levels of transition risk, and therefore has not completed scenario analysis as an organisation. However, ACSI uses services that are subject to levels of climate related risk, such as our building occupancy. In this example, we are a sub-tenant and our head lessor - Charter Hall - has completed scenario planning. Charter Hall has adopted SDG13 with regards to their climate resilience approach, focusing on target 13.1 "strengthening resilience and adaptive capacity to climate-related hazards and natural disasters in all countries, specifically Australia." Additionally, Charter Hall has committed to net zero scope 1 and scope 2 emissions by 2030. A link to the latest TCFD report from Charter Hall can be found here.

ACSI recognises the importance of scenario analysis for the companies its members invest in, particularly where they are subject to high exposure to climate risk. ACSI has funded research into transition risk in ASX200 companies across three well-below 2-degree scenarios. This research has been distributed to members.

# Risk management, metrics and targets

## ACSI's operations

Whilst ACSI's exposure to climate risk is low, we seek to reduce our level of exposure as follows:

- Engaging with our lessor, as a sub-lessee of Charter Hall to understand and influence decisions about renewable energy choices made in addition to monitoring how they progress against their own targets as noted above.
- Where business related travel is required, making choices about the mode of transport used and where possible offsetting carbon emissions or selecting providers who enable the offset of carbon emissions.
- Proactively looking for opportunities to minimise waste, including:
  - Recycling goods including paper, cardboard, e-waste and other recyclable goods.
  - Minimising printing by utilising digital options to reduce waste where possible.
- Conveying environmental management expectations of our suppliers through our Supplier Code of Conduct. Suppliers are expected to minimise the environmental impact of their operations and maintain environmentally responsible policies and practices.

  Suppliers must comply with all applicable laws and regulations relating to the environment, including any management, and reporting obligations. Where relevant, suppliers are expected to manage the environmental impact of their operations by:
  - ensuring the safe storage, transportation and disposal of hazardous substances including hazardous waste.
  - maintaining policies and practices for the efficient use of energy, water and natural resource consumption.
  - maintaining policies and practices that reduce the risk of pollution, loss of biodiversity, deforestation, damage to ecosystems and greenhouse gas emissions.

## ACSI's work to support members

### How ACSI supports members to identify, assess, and manage climate-related risks.

ACSI members are exposed to climate change risks in two ways, through their portfolios and investee companies and through their broader exposure to the economy.

Therefore, the most material role ACSI plays is to support our members in managing and mitigating climate-related risks through stewardship activities.

ACSI has identified ASX200 companies facing significant transition and physical risks, and targets these companies in engagement, regularly meeting with directors of these companies.

## 1. Identification and assessment of climate change risks

ACSI assesses climate-related risks by identifying sectors and companies most exposed to physical and transition risks in the ASX200, including broader social implications for the low carbon transition.

Where risks and opportunities are systemic, ACSI identifies and advocates for policies that will reduce climate-related risks for investors.

## 2. Management of climate-related risks

ACSI responds to climate-related risks through:

- Engaging with target companies to encourage the companies to take measures or modify behaviours to reduce and manage climate related risk.
- Undertaking research projects that provide an evidence base for engagement with companies on climate-related risk.
- Undertaking research projects that provide an evidence base for policy change that will reduce climate-related risk for investors.

## 3. Reporting progress and prioritising action

ACSI's climate change engagement priority company list is reviewed and updated annually. Where ACSI identifies issues, we engage with the companies throughout the year and track and monitor progress against our defined objectives. ACSI provides formal semi-annual updates and evaluations to members on where objectives were or were not met.

Where objectives are not met, ACSI continues to prioritise those issues in company engagements and apply our Climate Change Policy where appropriate.

## 4. Member Council oversight

Each year, the companies identified to have one or more material issues become engagement priority companies. ACSI aims to both support companies in the low carbon transition and create meaningful change in investee companies by setting specifically defined concerns and objectives across governance and disclosure, risks and opportunities, metrics and targets and strategy.

## The impact of ACSI's work in research, engagement and policy and advocacy: Identification, metrics, targets and progress

# Research

| Report | Objectives | Achievements |
|---|---|---|
| ESG Reporting in the ASX200<br>ASX200 report findings generate 20 or more company engagements on underling themes of climate, safety and workforce reporting. | This report assesses the quality of ESG reporting by ASX200 companies, covering a broad range of financially material ESG risks and opportunities, including climate change. | ACSI's report, and accompanying letter to boards explaining each company's rating, has helped support the evolution of ESG reporting, accelerating the number of companies providing high quality ESG disclosures to investors. |
| Promises, pathways & performance – climate disclosure in the ASX200<br>ASX200 report findings identify the how companies are progressing in climate change management and disclosure across the following indicators:<br>TCFD adoption and disclosure, short, medium and long-term target setting, net zero commitments, scenario analysis and physical risk analysis. | This study highlights examples of best practice and gaps in reporting, provides a snapshot of TCFD adoption rates and an insight into how companies are setting objectives for meeting the Paris Agreement. | ACSI conducts a comprehensive analysis of ASX200 company climate change disclosure, allowing informed dialogue between ACSI, its members and companies about their climate change goals. |
| Transition risk research by Vivid<br>ACSI commissioned Vivid Economics, a London-based economics consultancy with deep experience in the economics of climate change, to provide investors with a detailed analysis of the transition risks and opportunities facing the ASX200 companies. | In this report, Vivid Economics tests the resilience of ASX200 companies to Paris-compliant transition scenarios, in line with the recommendations from the TCFD. | ACSI used this research to:<br>1. Engage with target companies on their approach to transition risks and opportunities in constructive new ways and in greater depth than previously possible.<br>2. Inform investors' approach to considering climate-related financial risks in Australian companies. |

# Engagement

ACSI has been engaging ASX-listed companies on climate change for over a decade, and since 2017 has been explicitly asking for companies to align disclosure to the TCFD framework and integrate climate change considerations into corporate strategy, capital allocation and investment.

For ACSI members to be able to integrate climate-related risk into investment decisions it requires investee companies to set their strategy to adapt to a low-carbon future. This includes a company demonstrating how climate risks and opportunities are integrated into its governance, strategy and risk management processes.

ACSI has strengthened its engagement framework used with companies to understand their approach to managing the climate-related risks and opportunities material to their business, the challenges they face, and to clearly communicate expectations.

## ACSI's climate change framework

Where companies face material climate-related risks, ACSI expects companies to:

- Disclose their approach to climate-related risks by adopting the TCFD: Adopt the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) risk assessment and reporting framework.
- Align corporate strategy: Align corporate strategy to the Paris Agreement and the objective of net zero emissions by 2050. Paris-aligned metrics should inform company strategy and be integrated into capital allocation decisions, financial reporting and audit, and where appropriate, remuneration practices.
- Undertake scenario analysis: Companies should stress-test the resilience of their portfolios and strategy against a range of plausible but divergent climate futures, including a Paris-aligned 1.5°C scenario and physical-risk scenarios based on current warming trajectories.
- Set Paris-aligned emissions targets: Setting short, medium- and long-term emissions-reduction targets that align to the Paris Agreement. In addition to quantitative metrics, targets may including undertake planned actions, partnerships, research and development, or investment to address risks material to the company.
- Analyse and manage physical risk: Companies should undertake analysis of the physical risks arising for assets within its portfolio. Assessment should be detailed and include asset-level and/or industry-level exposures and resilience plans.
- Align policy and advocacy activity: Companies should ensure their policy and advocacy activity is consistent with the goals of the Paris Agreement, including activity undertaken both directly and via industry associations.
- Plan for just and equitable transitions: Incorporate impacts on employees, communities and other stakeholders into transition strategy and planning.

These minimum expectations are also the framework that informs how ACSI analyses each company and the metrics by which we measure progress.

### Action and escalation

Where companies consistently fall short of ACSI expectations, applying the indicators set out in this policy, ACSI may make recommendations to vote against directors of ASX200 companies, on a case-by-case basis.

ACSI recommendations will focus on the individual directors most accountable for oversight of climate-change related risks, for example company Chairs, and the Chairs of the Risk and Sustainability committees or similar.

As always, ACSI recommendations will be combined with direct company engagement, and take a balanced approach, with the long-term interests of members' beneficiaries paramount.

### Support for 'Say on Climate' resolutions

To further support engagement between companies and investors on management of climate-related risk and opportunities for the long-term, ACSI supports the provision of a 'Say on Climate' whereby companies provide investors with an advisory vote on the company's management of climate-related risks and opportunities (using the indicators outlined above). While much of this work is already conducted through engagement between investors and companies, a 'Say on Climate' advisory vote would provide further focus, transparency and accountability.

Whilst ACSI has focused priority climate change engagement targets within the ASX200 in sectors that have the highest and most material risk to climate change, beyond the focus group of high-risk companies with known issues, ACSI engages with a much larger group of ASX300 companies on their progress in identifying and addressing climate related risk within sectors that are exposed through investments, finance and lending including banks and insurers as well as energy users such as property companies and consumer staples companies.

## How we measure and track progress?

The broad engagement program aim is to engage with target companies to encourage the companies to take measures or modify behaviors to reduce and manage climate related risk. ACSI sets clear and measurable objectives for companies, depending on their industry and progress to date, annually. Each calendar year ACSI reports to the Member Council the progress achieved for each company and where improvement is needed.

Progress at ACSI is defined as the vast majority of target companies making some or material improvement against our stated objectives.

ACSI's climate change framework above discloses the seven key principles of which we set objectives within and measure progress against and provides clear objectives of what ACSI expect companies to meet. The exact targets that are set annually for companies depends on the company, industry and the progress the company has made to date, the objectives differ for each company. A case study has been provided below to give readers a real-life example of how ACSI set targets and ratchet expectations.

## Case study of ACSI engagement with industrial company:

2017

ACSI engaged with the company on TCFD adoption.

2018

Company produced first TCFD report.

2019

**2019 targets**

included improving this reporting by covering Scope 3 emissions, undertaking scenario analysis, beginning physical risk analysis and looking at the key levers for decarbonization.

**2019 progress**

Company produced a comprehensive TCFD report, reported Sc3 emissions, set short term target, disclosed key levers for decarbonization in <2°C scenario and disclosed first iteration of physical risk assessments.

2020

**2020 targets**

Disclosure of transition risk scenario analysis, setting of medium and net zero targets, improving physical risk disclosure.

**2020 progress**

Disclosed scenario analysis against well-below 2°C pathway and began investigating pathways and medium and long-term targets.

2021

**2021 targets**

Investigation of decarbonization pathways and integration into corporate strategy, setting of targets to align to this pathway, improving physical risk analysis.

## What progress has ACSI achieved?

ACSI held 345 engagement meetings with ASX300 listed boards in FY21.

345

71

This included 71 meetings with climate priority companies, alongside broader engagement outside of this list on climate change when material.

19

As at 30 June, of ACSI's 23 climate priority companies, 19 have set net zero targets and 13 had made some or significant improvement against our stated objectives during the calendar year.

13

ACSI's engagement and priority areas typically include multiple climate-related targets for companies, some examples of the notable wins included:

- An energy & utilities company setting a net zero target and defining their decarbonization pathway to achieve that target, including short- and medium-term targets and levers for decarbonization.
- Seven companies adopting a 'Say on Climate' resolution at their FY22 AGMs.
- Seven companies setting/improving medium term targets and five companies setting/improving short term targets.

ACSI's latest research "Promises, pathways & performance" – climate disclosure in the ASX200 found the following:

- investor engagement and collaboration with companies had contributed to ASX200 companies with a collective market capitalisation of over $1 trillion dollars (50%) now being covered by net zero commitments (research as at 31 March 2021).
- Eighteen companies in the ASX200 are seeking to demonstrate 'Paris alignment' by obtaining science-based accreditation mostly for their Scope 1 & 2 emissions.
- Adoption and disclosure against the TCFD accelerated during 2020, with 80 companies now having adopted the framework.
- Fifteen companies set targets and actions to drive Scope 3 emissions reductions.
- Sixty-two companies have undertaken scenario analysis in 2020 reporting.
- 36 companies had undertaken and disclosed physical risk analysis in the ASX200. A further 25 companies who disclosed a basic level of physical risk and weather-related risk identification.

## Policy and advocacy

The risks of climate change are deeply embedded across the financial system and will influence the value of ACSI members' investments. ACSI's policy and advocacy work is therefore aimed at mitigating the impact of these risks on members' investments. ACSI engages with a number of policymakers and regulators, advocating for a regulatory environment that facilitates effective climate risk mitigation, in the best financial interests of member funds.

Governments and policymakers will have a vital role in setting a policy framework that will facilitate the achievement of the Paris goal of limiting global warming. To strengthen investor confidence, it is essential that policymakers deliver credible and continued support for action to achieve a net-zero emissions and climate-resilient economy. This involves acting to:

- Develop pathways to a net-zero emissions economy, including economy-wide strategies to achieve net zero by 2050 and 2030 targets that are aligned to Paris Agreement objectives.
- Ensure a managed energy-sector transition, including credible integration of climate change and energy policy and a strategy to ensure an orderly, just and equitable transition.
- Build resilient communities and economies including a national adaptation strategy and incorporate climate change as a systemic risk into corporate and financial regulation and disclosure frameworks.

ACSI makes formal submissions as part of consultation processes on policy and legislation related to climate-related risk. In 2020-21, ACSI made a number of submissions, including the following:

- To the Joint Standing Committee on Trade and Investment Growth's Inquiry into the Prudential Regulation of Investment into Australia's Export Industries. ACSI's submission demonstrated the material risk faced by Australia's emissions-intensive export industries if there is a disorderly transition to a low-carbon economy. ACSI also appeared at a hearing of the Joint Committee.
- Regarding APRA's draft Prudential Practice Guide on Climate Change Financial Risks.
- To the House Standing Committee on the Environment and Energy, on the Climate Change (National Framework for Adaptation and Mitigation) Bill 2020 and Climate Change (National Framework for Adaptation and Mitigation) (Consequential and Transitional Provisions) Bill 2020.
- Regarding Australia's Technology Investment Roadmap – a framework to accelerate low emissions technologies.

Across all of these submissions, ACSI made clear that it is supportive of policymakers and regulators promoting and providing clear guidance on effective management of climate-related risk.

ACSI also engages in discussions with regulators and policymakers and shares its expertise on the climate-related risk faced by ASX listed companies and the consequent investment risks. Likewise, ACSI engages with other organisations working on climate-related risks, to share knowledge and understanding of the issues. For example, this includes the Investor Group on Climate Change (IGCC) and the UN's Principles for Responsible Investment (PRI).

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