

State Super's 2050 Net-Zero Greenhouse Gas Emissions Plan

What is State Super's net-zero greenhouse gas emissions plan?

State Super agrees with the current views published by the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of Australia (RBA) that climate change risk is a significant financial and investment risk. We believe mitigating this risk through the adoption and implementation of a plan to achieve net-zero greenhouse gas emissions by 2050 is in our members' best interests and their risk adjusted investment returns over the long term.

Our net-zero greenhouse gas emissions target is determined with regard to the goals of the Paris Agreement and were approved by the Board after consideration of our role as trustee and relevant regulatory and, environmental, legal and investment factors.

As outlined by the world's leaders and scientists at the 26th conference of the parties (COP26) climate summit in Glasgow in November 2021, the risks arising from climate change are increasing, and it is now widely recognised that climate change is more than just an environmental or ethical issue; it presents an unprecedented financial risk.

Following COP26, approximately 90% of the world's economy is covered by a commitment to achieve net-zero carbon emissions. State Super's commitment aligns us with this target, reflecting increased recognition of the risks presented by climate change.

By adopting a plan to achieve net-zero greenhouse gas emissions for our portfolio, we are aligning our risk focus to more explicitly consider the broader market path. As stewards of our members' retirement savings, understanding and mitigating these risks will enable us to navigate and manage the financial impacts arising from climate change, with the

objective to deliver better risk adjusted investment returns for our members.

State Super is already committed to incorporating climate change risk in our analysis and has now taken the further step of committing to a net-zero target. This includes a commitment to reviewing our processes, structures and expertise to ensure they continue to remain aligned with our intention of managing the financial risks posed by climate change. This reflects our objective to address and mitigate the embedded climate-change risks of assets in the Pooled Fund. While mitigating these risks, the Trustee is also cognisant of potential investment opportunities that may materialise from the transition to a low-carbon economy over short, medium and long-term investment horizons.

What does net-zero mean and why is it important to reduce greenhouse gas emissions?

Net-zero emissions mean that all man-made greenhouse gas emissions, such as carbon dioxide, methane, nitrous oxide and fluorinated gases (also often referred to in its short-hand form as "CO₂e") are balanced by removal of greenhouse gases from the atmosphere¹.

Carbon dioxide is the main contributor to climate change so finding ways to reduce it is important². For example, this can be achieved by shifting away from fossil fuels and towards renewable energy, or using drawdown technologies like direct air capture.

The federal, state and territory governments have made a commitment to achieving net-zero CO₂e emissions by 2050. We believe that every organisation and individual has their own part to play in helping to achieving this.

¹Intergovernmental Panel on Climate Change (IPCC) Glossary

²Intergovernmental Panel on Climate Change (IPCC) Report

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How will State Super's net-zero CO2e emissions plan be implemented and what steps have already been taken?

State Super's plan to achieve net-zero CO2e emissions by 2050 was developed with input from external experts and is approved by State Super's Board. The Trustee's goal is to adjust its portfolios over time to ensure its emissions decline progressively in line with the agreed milestones.

As part of the 2050 net-zero CO2e emissions plan, State Super is also aiming to achieve an important medium-term milestone of 45% reduction in the weighted-average intensity of CO2e by 2030 against a CO2e baseline for the Pooled Fund as at December 2020.

In June 2021, State Super conducted a detailed assessment of asset-level data to establish the baseline. Over 80% of State Super's overall portfolio was assessed, with proxy used where data is not currently available. As more companies and assets report on carbon and other metrics over time, we'll continue to incorporate and use the information to recalibrate and review our strategy as appropriate.

When establishing the baseline, two primary metrics were included:

- **Weighted Average Carbon Intensity (WACI³):** This is the metric which will be used to manage portfolio carbon emissions over the short to medium term. This measure is used for the 2030 milestone; and
- **Absolute Emissions (tCO2e/\$M Invested):** This metric connects the portfolio with the real economy, as a reduction in absolute emissions is a reduction in real world total emissions. This forms the basis for the goal of net-zero CO2e by 2050.

To achieve State Super's net-zero CO2e emissions by 2050 target, the Trustee will focus on potential implementation pathways over the near term (2020-2025) and medium term (2025-2030) in the first instance. It will then take an iterative approach to refining longer-term decarbonisation strategies.

The first step will focus on driving CO2e emission reductions in the listed equities portfolio, as this portfolio represents the majority of baseline emissions in the Pooled Fund. Over time, the Trustee will focus on other asset classes, including alternatives and real assets portfolios.

³WACI represents companies' scope 1 and scope 2 carbon emissions normalised for the size of a company based on annual revenue (tons CO2e per \$M sales). For **Sovereign Fixed Income**, the WACI represents the carbon intensity of an economy (tons CO2e per \$M nominal GDP). For **Private Markets**, the average carbon intensity indices of comparable listed market subsectors have been used as proxies.

We have also taken both transition and transformation opportunities into consideration. Transition involves working with our managers to explore further options for decarbonisation within existing investment mandates. For example, this has included implementation of carbon constraints in some of our equities strategies and transitioning some of our strategies to low-carbon benchmarks.

Transformation opportunities will include financing investments that will enable us to actively accelerate the pace of CO2e emission reduction within the Pooled Fund and in the real economy, while balancing relevant risk and return objectives.

State Super will work closely with its fund managers and continue strong engagement with the companies and managers of the assets it holds, to ensure transparency and collaboration. In addition, the trustee will continue to evolve and refine its longer-term strategy through insights delivered by the continuing improvement of market data.

What is the significance of State Super's greenhouse gas emissions reduction goal of 45% by 2030?

Setting a CO2e milestone reduction of 45% by 2030 will serve as a checkpoint that will allow us to measure the progress of the Pooled Fund's carbon reduction objective. It will provide an interim target to measure and set the criteria to ensure the 2050 net-zero objective is met.

Does this mean you will no longer invest in fossil fuels?

Whilst we have not divested of fossil fuels, we recognise the importance of actively engaging with companies and encouraging them through our ownership to ensure that they manage material environmental, social and governance (ESG) issues appropriately and financial performance is maximised over the long term.

As outlined in our Responsible Investment Policy, we hold the view that active engagement and stewardship is ultimately a more effective tool to effect meaningful decarbonisation in the real world economy. Accordingly, we believe that divestment should be used as a last measure when engagement fails to achieve satisfactory outcomes, as through the act of divesting we are unable to use our influence to effect improved climate risk management and therefore do not achieve progress towards real world decarbonisation.

What benefit will the plan seek to deliver STC scheme members?

Climate change poses a real and unprecedented financial risk, and it is widely accepted that the ongoing effects of climate change will materially impact the value of many assets if risk mitigation strategies are not adopted.

Our research and financial analysis indicates State Super's plan to position its Pooled Fund for a 2°C scenario or less is in members' best financial interests compared with higher warming scenarios.

How will progress be measured?

To track progress on the 2050 net-zero CO2e emission target, State Super will measure absolute CO2e emissions as well as WACI for its Defined Benefit (DB) and Defined Contribution (DC) portfolio.

State Super will also monitor the carbon performance and trajectory of the Pooled Fund portfolio over time through internal Responsible Investment risk dashboards.

Has State Super canvassed members' views on the matter?

State Super has held a number of member forums, inviting teachers, healthcare workers and public servants to share their views on responsible investment. These forums have provided an invaluable way to gauge members' views on climate change risk over the past year. The Trustee has listened carefully to members' concerns as well as their encouragement, which has helped it to shape its decision and course of action in setting CO2e reduction targets.

State Super members' message has been clear: they want the Trustee to reduce climate change risk across the Pooled Fund's portfolios while ensuring the best possible returns are achieved.

How often will members receive updates on the plan's progress

State Super will regularly update members with progress reports on this important initiative. Periodic updates will be provided in the **SuperViews** and **PensionViews** newsletter.

In addition, the State Super Report to Members, which is published at the end of each calendar year, will provide detailed information on how we are tracking against our objective.

Is any action required by members?

Members do not need to take any action.

Where to go for more information

For further information visit the State Super website at **www.statesuper.nsw.gov.au** or email **enquiries@stc.nsw.gov.au**.

Call Customer service between 8:30am and 5:30pm, Monday to Friday on:

SASS 1300 130 095

SSS..... 1300 130 096

PSS..... 1300 130 097

Deferred members.... 1300 130 094

Pension members 1300 652 113

More information

If you need more information, please contact us:

Telephone: **SASS** 1300 130 095 **SSS** 1300 130 096 **PSS** 1300 130 097 **Deferred Benefits** 1300 130 094
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