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Australian superannuation funds on the cusp of climate action: report

Superannuation sector efforts to address climate change risks are accelerating in Australia, according to a new report about Australia's 20 largest licensed funds.

The report found one-fifth of superannuation organisations studied have, in the past three months, publicly stated their intention to achieve net zero emissions across their investment portfolios by 2050, an indication of growing momentum in the sector.

Prepared by ClimateWorks Australia with the Monash Sustainable Development Institute, the report notes that three funds – Cbus, HESTA and UniSuper – have announced a net zero emissions by 2050 target across all of their investment portfolios. It assesses these targets as 'fully aligned' with the Paris Climate Agreement, which aims to keep global warming to well below 2 degrees Celsius.

A fourth fund, Aware Super (First State Super), has said it will seek to transition to net zero by mid-century, but has not committed to an explicit target.

Twelve superannuation organisations – or 60 per cent of those assessed – were engaged in a range of activities to reduce portfolio emissions intensity but were not yet aligned with net zero by 2050. Twenty per cent have disclosed no specific portfolio emissions reduction commitments or activities.

The Net Zero Momentum Tracker Super Sector report focuses on the 20 largest Registrable Superannuation Entity Licensees, which collectively hold AU\$1.5 trillion in total assets under management. It is the sixth in a series of assessments undertaken as part of the Net Zero Momentum Tracker initiative. Other sectors assessed so far include property, banking, retail, transport and local government.

ClimateWorks Australia CEO Anna Skarbek says that recent announcements reflect increasing momentum internationally from leading investors.

'In June, HESTA set a portfolio-wide target of net zero emissions by 2050,' she said. 'In July, Aware Super announced plans to divest from thermal coal miners and reduce emissions in its listed equities portfolio by at least 30% by 2023. In August, Cbus announced a net zero by 2050 target, as well as a commitment to reduce portfolio emissions by 45% by 2030. And just this week, UniSuper has followed suit.

'Most of these announcements meet the benchmark established last year by the UN-convened Net-Zero Asset Owner Alliance, whose members have committed to transition their investment portfolios to net zero by 2050 and are now working on methodologies and strategies that can achieve such an outcome.'

Ms Skarbek acknowledges that, until recently, the superannuation industry had lagged behind other sectors. Many funds, she says, remain hesitant to set a net zero portfolio target, due to a lack of clarity around how they will achieve it.

'In 2018, superannuation funds owned almost half of Australia's shares; by 2040, experts suggest they will own 60 per cent of ASX-listed equity. That means the decisions they make matter enormously to the rapid decarbonisation of the Australian economy.

'By setting targets now, superfunds can create the context in which their commitments become realisable. Their own actions can bolster expectations and spur the development of methods for sectoral decarbonisation.'

Amandine Denis-Ryan, ClimateWorks Head of National Programs, noted that superfunds increasingly recognised the threat to investments posed by climate-related risks – and faced growing pressure from regulators and customers to act on emissions and help prevent the worst impacts of global warming.

To date, the preferred response of most funds has centred on engagement – most often, asking the companies in which they invest to disclose their climate risks.

More recently, funds have begun asking companies to decarbonise through initiatives such as Climate Action 100+.

'Our analysis suggests that awareness of climate risks amongst Australia's biggest superannuation funds is starting to become action to reduce emissions in line with global goals,' says Ms Denis-Ryan.

'Over half of the superannuation funds considered in this report are pursuing emissions reductions through engagement, low carbon investments, divestment from exposed sectors and policy advocacy. As the expectations of the funds grow, we anticipate more pledging to reach net zero by 2050 across whole portfolios, with interim commitments and detailed transition strategies outlining how this will be achieved.'

The report indicates that, despite the economic repercussions of the COVID-19 pandemic, the superannuation sector is increasingly addressing climate risks.

'Just in the past few months, we found an important precedent has been set for this sector. These recent announcements provide hope we will see more funds taking a lead.'

The Net Zero Momentum Tracker Superannuation Report can be accessed at:

<https://www.climateworksaustralia.org/resource/net-zero-momentum-tracker-superannuation-sector/>

The Net Zero Momentum Tracker is an initiative of ClimateWorks Australia and the Monash Sustainable Development Institute: netzerotracker.org

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