

# Australian Retirement Trust – Climate Change Policy

## Contents

Overview .....	2
Key principles .....	2
1. Scope .....	3
2. Governance .....	3
3. Definition of climate risk .....	3
4. Beliefs .....	4
5. Policy .....	4
a) Portfolio target relating to climate change .....	4
b) Active ownership .....	4
c) Portfolio integration .....	5
Asset allocation .....	5
Listed shares .....	5
Public market fixed income .....	5
Mid-risk assets (real estate and infrastructure), private equity, and private credit .....	6
d) Reporting .....	6

## Overview

This document is the Climate Change Policy for Australian Retirement Trust (ABN 60 905 115 063) (“the Fund”).

This Policy defines climate risk and articulates the Fund’s management of these risks including active ownership, portfolio management and reporting. In addition, this Policy provides members with information on the Fund’s activities within this investment function. It should be read in conjunction with the Australian Retirement Trust Sustainable Investment (SI) Policy, which relates to a wider group of SI issues.

## Key principles

Climate change represents a significant financial risk and opportunity in the context of the Fund’s investment portfolios. Governments, regulators, communities, and members are increasingly focussed on climate change and the role of capital in effecting the transition to a low-carbon global economy. Managing the risks and opportunities of climate change is an important factor in pursuing the best financial interests of members.

The Climate Change Policy contains details on the beliefs, approaches to management and reporting that relate to climate change.

## 1. Scope

The Board's Policy sets out Australian Retirement Trust's approach to managing climate risks and opportunities within its investment portfolio. The Policy describes climate risks, articulates the Trustee's beliefs relating to these risks, states the carbon emissions target for the portfolio that must be achieved while meeting the investment objectives of the Fund, and provides the strategic roadmap that Australian Retirement Trust may use in order to achieve the target.

It does so in the belief that:

*The application of sustainable investment practices, encompassing long-term, finance-driven strategies that integrate environmental, social, and governance (ESG) factors in investment arrangements, will enhance the probability of meeting investment objectives.*

The Climate Change Policy and the program it creates perceive climate change as the source of both risks and potential opportunities, with the management of both enhancing the probability of meeting the investment objectives.

This Policy has application to all Australian Retirement Trust investments, noting, however, that the QSuper Socially Responsible Option and the *Super Savings* Socially Conscious Balanced Option are separate, stand-alone SI options with specific criteria outlined in their relevant Product Disclosure Statements.

Although this Policy is applied to all products, it may not extend to all asset classes or activity.

The Board's positioning on Sustainable Investment (SI) is outlined in a separate Policy and should be read in conjunction with this Policy.

## 2. Governance

The Trustee is at all times responsible for the Fund's investments. The Trustee has delegated primary responsibility for implementing the relevant strategic options to manage climate risk to Australian Retirement Trust's Chief Investment Officer (CIO) and primary oversight of the CIO to the Australian Retirement Trust Investment Committee. Other parties to the Climate Change Policy include but are not confined to the following:

- Relevant Board sub-committees
- The internal SI team and the broader Australian Retirement Trust Investment team
- Investment managers engaged by the Fund
- Service providers and advisers to the Fund.

The over-arching Australian Retirement Trust Investment Delegations position the Board as being responsible for the establishment of the Climate Change Policy's beliefs, governance, targets, and roadmap. The Climate Change Delegations establish the CIO as having Board-delegated authority to implement portfolio and active ownership activity.

## 3. Definition of climate risk

Climate risk has been grouped into transition risks and physical risks.

Transition risks flow from the major policy, legal, technological, and market changes associated with attempts to mitigate climate change or adapt to its impacts. Transition risks are most often assessed in their two main forms: the risk of a price introduced on carbon emissions and the risk of fossil fuel reserves becoming stranded as their extraction proves uneconomic because of changes in the market and regulation. Transition risks can also be assessed in terms of impacts on revenues and costs, namely capital and operational expenditures. These can be identified as follows:

- A collapse in demand for products due to policy shifts

- Input prices being permanently changed by climate change
- Business models failing to accommodate changing technologies
- Liability due to failure to foresee and mitigate losses from any of the above.

Physical risks are the physical impacts of climate change, relating to either extreme weather events or longer-term changes in climate patterns. These include:

- Direct damage to assets from extreme weather events linked to climate change
- Resources or supply chains being permanently damaged by climate change
- Liability due to failure to foresee and mitigate losses from any of the above.

## 4. Beliefs

The Board has the following beliefs regarding climate change:

1. Australian Retirement Trust accepts the science of climate change.
2. An essential element of the Trustee's fiduciary duty is the management of material risks and opportunities relating to climate change relative to the core investment objectives of the Fund.
3. The global ambition to keep global warming to well below 2°C and pursue efforts to limit warming to 1.5°C is important for functioning economies, markets, and the financial well-being and health of our members. The Trustee recognises that an orderly transition presents the least-cost impact on the global economy.
4. Achieving the ambition to limit global warming involves significant structural change, including a timely and just transition to a low-carbon economy. This transition is disruptive and creates both investment risks and opportunities.
5. Failure to transition is likely to result in climate change scenarios with higher temperature increases and greater physical damages. Unabated climate change is therefore a systemic risk that has the potential to impact the global economy over Australian Retirement Trust's investment horizon. As such, asset allocation decisions must take this risk into consideration.
6. Effective engagement with investment managers and investee entities is an important activity in de-risking the portfolio but does not address all the attendant risks.
7. Some market participants will attempt to reduce their exposure to climate risk by selling exposed assets at prices not sufficiently discounted to reflect such risks. Australian Retirement Trust aims to avoid buying or being left holding such assets.

## 5. Policy

### a) Portfolio target relating to climate change

Climate change is viewed primarily as a set of investment risk and opportunities that can affect the probability of the Fund's meeting its investment objectives. With the abovementioned climate change beliefs in mind, and cognisant of the divergent scenarios that inform a transition to a low-carbon economy, the Trustee will seek to manage climate risks and take advantage of transition opportunities by adopting the following target: a net zero carbon emissions investment portfolio by 2050 (NZE2050), aligned with the Paris Agreement goal of limiting global warming to well below 2°C.

Management will use credible pathways to inform its setting of interim targets relative to the NZE2050 objective.

### b) Active ownership

Australian Retirement Trust undertakes active ownership activities (engagement, voting, and advocacy) in the belief that these actions act to improve long-term sustainable returns for members.

Australian Retirement Trust believes that engaging on climate change will improve transparency, promote best practice, and lead to improved outcomes for members. Australian Retirement Trust's engagement program will involve both direct and collaborative activities. Direct engagement has the benefit of having uninhibited discussions and milestone-setting by Australian Retirement Trust for its major investments, whereas collaborative engagements have the benefit of enhancing Australian Retirement Trust's voice and sending clear messages on the importance of climate risk mitigation to these investee entities.

Australian Retirement Trust recognises that as a shareholder of numerous companies listed on stock exchanges throughout the world, including the Australian Securities Exchange (ASX), it has a responsibility on behalf of its members to monitor and influence the management of climate risk within the companies in which it has investments. Alongside engagement, the voting of shares represents another aspect of Australian Retirement Trust's involvement in the governance processes of these companies.

As the active ownership activity with the potential for the broadest influence, advocacy involves seeking to influence law or policy to improve the legal and economic environment in which Australian Retirement Trust invests, where it is in members' best interests to do so.

Section 5 (e) of the SI Policy details the various elements of active ownership activity that Australian Retirement Trust will undertake in support of its broader SI Program.

### c) Portfolio integration

In recognition of the belief that "effective engagement is an important activity in de-risking the portfolio, but does not address all the attendant risks", Australian Retirement Trust will implement a strategic roadmap in relation to its investments in order to make the investment portfolio more resilient to transition and physical risks resulting from climate change.

#### Asset allocation

Asset allocation is a key driver of investment performance. It is accepted that different asset classes, sectors, and geographies will be affected by climate risks in different ways, and as such, these risks must be incorporated into allocation decisions. Guiding this decision-making will be a combination of carbon foot-printing, NZE2050 alignment as informed by independent assessment, and physical risk assessments as stress-tested against various climate change scenarios.

#### Listed shares

Within the listed equity portfolio, Australian Retirement Trust has determined strategic options to manage the attendant risks presented by climate change. These options give Australian Retirement Trust the ability to appropriately manage the risks associated with listed shares in a holistic form and tailor its climate risk mitigation strategies for each, namely:

- For internal index composition, considering the carbon intensity and transition readiness of index components and adjusting the internal index to decarbonise and directly manage portfolio carbon emissions in global listed shares
- For externally managed passive strategies, considering the adoption of a climate-aware index
- For externally managed active strategies, considering the application of a tailored carbon intensity budget
- Across all listed shares strategies, divesting companies with material exposure to sectors or securities that do not meet the Fund's prudential considerations in line with the SI Policy.

#### Public market fixed income

Australian Retirement Trust's investment strategy provisions for allocation to government, quasi-government, and corporate debt issuance. The fixed income asset class is a source of "financed", rather than "owned", emissions, and as such these securities are exposed to climate risks that may affect spreads and broader default risk, particularly within corporate credit.

There is a growing universe of debt issuance, such as green bonds that may act to reduce the above risks and contribute positively to a decarbonising world. Fixed income strategies will consider climate risks and seek to avoid debt in industries likely to be stranded and to facilitate participation in the financing of the transition to a low-carbon economy.

### Mid-risk assets (real estate and infrastructure), private equity, and private credit

Australian Retirement Trust will hold material investments in unlisted assets, most likely in perpetuity. These assets, such as property and infrastructure, will in many cases be exposed to climate risks (both transition and physical). Such assets may be unlisted and therefore relatively illiquid, making consideration of climate risks during the initial investment decision phase important. Existing assets held will be required to align with Australian Retirement Trust's NZE2050 objective.

Similarly, private equity and private credit investments will contain exposures to climate risks and present as opportunities dependent on the profile of underlying assets. Reporting on climate risk metrics has historically been more opaque than those of listed market counterparts. Private equity and private credit will be assessed as part of Australian Retirement Trust's whole-of-portfolio NZE2050 target.

## d) Reporting

Australian Retirement Trust will provide a report on its SI activities on a half-yearly basis to the Board and relevant internal stakeholders, including the Investment Committee. This will include an update of activity status (addressing both active ownership activity and portfolio integration) relating to the identification and management of climate risks and opportunities.

Australian Retirement Trust will report to members, employers, and other external stakeholders on SI matters via its website on an annual basis. The SI report will summarise the initiatives and proxy voting activities undertaken by Australian Retirement Trust during that period. In addition, it will include climate risk reporting in line with the recommendations of the Taskforce for Climate-Related Financial Disclosures.