Climate Smart Super: Understanding Superannuation & Climate Risk
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Why

There is an emerging awareness of the climate and carbon risks to our superannuation funds but awareness about disclosure, advocacy and active ownership has been patchy. The Climate Institute is at the forefront in examining the assumptions behind such investment decisions and the extent to which climate risk is or is not integrated.

This report aims to inform citizen investors and decision makers on the intersection of business, investment and climate change. It lays out why managing climate risk in the context of superannuation matters to you, why you should ask what your fund is investing in and ensure you are comfortable with how your retirement savings are managed.

Climate risk is an area of continued and growing interest for The Climate Institute and we expect to produce more reports on this topic in the coming year.

How

This report consolidates analysis and review of the impact of climate and carbon risks on retirement and superannuation savings, especially in Australia.

It builds on work The Climate Institute has undertaken with its partner organisation the Asset Owners Disclosure Project (AODP) in asking the world’s largest funds to disclose how much of their investment is in high versus low-carbon assets. It includes the 2013-14 index results, with a focus on the performance of Australian funds.

It also looks at the emerging civil economy movement, in the context of fossil fuel divestment campaigns and activism activities such as the AODP’s offshoot, The Vital Few campaign.

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Climate Smart Super: Understanding Superannuation & Climate Risk and associated content can be accessed at www.climateinstitute.org.au

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Climate change is the most high-risk, high-certainty event that will ever impact global investment. Retirement funds worldwide are largely exposed and ill-prepared for the predicted re-pricing of carbon, let alone climate risks, with the casualties being ordinary "citizen investors" and their retirement nest eggs.

Collectively worth more than $30 trillion, global superannuation (or pension) funds make up the single largest consolidation of money in the world. These funds are at the very top of the wealth chain, dwarfing the richest individuals, the most successful companies and the most powerful governments.

Importantly, we believe superannuation funds have a responsibility, and in many cases a fiduciary duty to their members, to manage the long-term risks associated with climate change.

Over 55 per cent of these funds are estimated to be invested in risky high-carbon assets and less than 2 per cent in low-carbon solutions.

The response of the investment chain is critical to business decision-making. This chain can define the behaviour of investee businesses and the movement of capital, determining whether money is invested in low- or high-carbon assets.

If superannuation funds shifted even a small additional proportion of their money to low-carbon assets, it would drive billions of dollars into low-carbon solutions, creating a tipping point and ushering in a sustainable low-carbon economy.

This report seeks to inform you as a citizen, as an investor, and as a citizen investor. It does not seek to provide financial advice, or recommend any particular superannuation fund. But it lays out why superannuation matters in the context of climate change. It also explores the top-down and bottom-up approaches needed to change investment decisions to support the transition to a global low-carbon economy.

The Asset Owners Disclosure Project (AODP), ranks the world’s 1,100 largest asset owners – pension funds but also large insurance companies, sovereign wealth funds and foundations.

The 2013-14 AODP index found that:

+ There is an overall crisis of transparency for large asset owners globally, with lack of disclosure about investment practices in the context of climate risk.

Australian funds rank relatively well globally, perhaps because they have been surveyed under a pilot project for longer than funds overseas. Four of the top 10 funds on the global index are domestic, led by Local Government Super, which is ranked No 2.

This report gives some options for you, as a citizen investor. But let us remind you again that you should always talk to your financial advisor first.

LEARN

This report outlines initiatives such as The Vital Few social media platform and the 350.org divestment campaign (see page 13 and 19). These are just some of the routes you can take to ask your fund how it’s managing climate risk.

LOBBY

If you’re not getting the transparency you’re after from your fund, ratchet up your engagement to chasing local politicians to improve regulatory disclosure requirements.

MOVE

When you see the AODP rankings, you’ll know what your fund is telling, or not telling you. If you’ve engaged and you’re still not happy then discuss with a financial adviser and move to a fund that is more representative of your values.

A. Climate change is the most high-risk, high-certainty event that will ever impact global investment.

B. Importantly, we believe superannuation funds have a responsibility, and in many cases a fiduciary duty to their members, to manage the long-term risks associated with climate change.

C. Collectively worth more than $30 trillion, global superannuation (or pension) funds make up the single largest consolidation of money in the world. These funds are at the very top of the wealth chain, dwarfing the richest individuals, the most successful companies and the most powerful governments.

D. The response of the investment chain is critical to business decision-making. This chain can define the behaviour of investee businesses and the movement of capital, determining whether money is invested in low- or high-carbon assets.

E. If superannuation funds shifted even a small additional proportion of their money to low-carbon assets, it would drive billions of dollars into low-carbon solutions, creating a tipping point and ushering in a sustainable low-carbon economy.
You think only Warren Buffet and a handful of others are the world’s most powerful investors? Think again.

You are. Don’t believe it?

Even if you have only been in the Australian workforce for a few years, you have a superannuation or pension savings account into which your employer has been putting a minimum of 9 per cent of your salary for you. By the time you retire, that nest egg is intended to substantially or completely support you.

There is upwards of $1.6 trillion under management in retirement savings in Australia as of mid-2013 – an amount that is slightly larger than the country’s entire annual gross domestic product.

Superannuation assets have been growing at a rate of 10.5 per cent a year in the decade leading to June 2012, making Australia the fourth largest pool of retirement savings in the OECD.

Globally, the total pool managed by superannuation and retirement savings is a staggering $30 trillion, nearly twice as big as the entire US economy. In 1995 these funds’ investments accounted for an average ownership stake of 15 per cent of companies listed on global stock markets; they now own over half.

What this means is that your money has joined that of other citizens to create a new type of powerful investor, at a scale never seen before in economic history.

At the moment most of us are accidental investors, not entirely sure what our retirement funds are invested in. However, a vital few are realising they can act as citizen investors and can provide a counterbalance to short-term and unsustainable investment decision making.

Investment is defined as “putting money in an asset with the expectation of capital appreciation, dividends and/or interest earnings.” Banks invest and businesses, from factories to local shops, invest. And you, the average citizen, invest. As an investor, you control – or should control – your own investment decisions.

Most regularly you invest by purchasing assets such as homes or cars. In the long-term, arguably your most important investment is through superannuation or pension savings. In fact, superannuation is the largest asset for the average Australian, after his/her home.

Supernannuation funds are part-owners of not only some of the largest domestic companies, but also some of the largest globally. They are mostly invested across all asset classes from property to mining to agriculture to health services.

This makes superannuation funds “universal owners”. Unlike the financial barons of old, universal owners can’t just privatise the gains and socialise the losses – those losses appear in their own investments.

A well informed universal owner would know that their interest is best served when the entire economy performs well. We believe universal owners with long-term investment periods – such as funds whose members have on average 20 year investment horizons – need to ensure long-term social and environmental as well as economic sustainability. To ensure that this happens, superannuation funds should properly account for potential risks and have the best possible governance structures in place.

In reality, there are a number of barriers that reinforce short-term and unsustainable decisions that are making us, as fund members, accidental investors in some unsavoury business.
Many of us are accidental investors in sectors and companies that face or indeed drive significant long-term risk. Think climate change.

As research has shown, climate change represents a systemic risk, whose impacts cascade across economic sectors. Extreme weather events will increase with climate change and evidence of economic impacts is not hard to find. Superstorm Sandy in the US in 2012 disrupted communication, transport and other infrastructure closing down Wall Street and the financial sector. In Australia, bushfires and heatwaves disrupt energy, transport and water supply infrastructure.

These disruptions threaten life and property but also cause lingering effects to thinly stretched supply chains and transport dependent workforces as well as enduring impacts on individual and community wellbeing.

In 2011 Queenslanders lived through severe weather events – cyclones and floods. Immediately after the storms there were food shortages and many local crops were destroyed which either significantly raised prices, or extended item shortages to other parts of the nation. Afterwards, insurance premiums went up or were simply not offered at all. And it isn’t only Queensland. While Australia makes up less than 2 per cent of the global reinsurance market, over the last five years it has incurred 6 per cent of global losses with the figures expected to keep growing apart.

Globally, climate change is already costing an estimated $1.6 trillion per year, rising to over $4 trillion by 2030. For Australia, conservative estimates for the annual costs of unmitigated climate change on the infrastructure sector alone are about $9 billion by 2020 and $40 billion by 2050.

Analysis by investment firm Mercer found that climate change is a systemic risk contributing up to 10 per cent of portfolio investment risk. At the same time, a survey of Australian funds in 2011 found that a vast majority of surveyed funds (83 per cent) believe that climate change is not currently being priced in asset valuations.

So the risk is there and it’s only growing. And you and your retirement nest egg are exposed to extreme weather events and other climate change impacts that are likely to become more frequent.

A 2013 report by investment bank HSBC found that Australia has the second highest cost per GDP from extreme weather events among the G20 nations. In the previous two years, Australia recorded the biggest increase in temperatures of any G20 country and the second worst deterioration in water availability.

Around the same time as the HSBC report and within weeks of each other, the heads of the most significant and conservative economic institutions around the world – the International Monetary Fund, the World Bank and the OECD – spoke about the need to address climate change and keep global average temperatures from rising above 2°C.

Largely based on the work of the Intergovernmental Panel on Climate Change (IPCC), over 190 governments including China, US and Australia, have already agreed that the world should avoid a 2°C increase of average global temperature.

For Australia, as the advanced economy most exposed to climate and extreme weather impacts, achieving this goal is not only in our national interest – it is in our retirement interest.
Climate scientists are unequivocal that our climate is changing and that global average temperature has already warmed by almost 1°C above pre-industrial average. They are as certain as tobacco causes cancer that heat trapping carbon dioxide pollution, mostly from our fossil fuel driven power stations, vehicles and factories is driving the warming.\(^{17}\)

In order to prevent global temperatures from rising more than 2°C, there is a finite amount of fossil fuels that can be burnt. This amount that the world could still burn is known as the “carbon budget”.\(^{19}\)

This concept has been around since the early 1990s but recently popularised by groups such as the Carbon Tracker Initiative.\(^{19}\)

In 2013, the group released research on the expected valuation impact on companies with fossil fuel reserves where such a budget is actively in place.\(^{18}\) It found that for there to be an 80 per cent chance of keeping to the 2°C guardrail, only 20-40 per cent of existing coal, gas and oil reserves can be burnt. \(^{17}\)

This carbon budget concept has been applied by the International Energy Agency and by the IPCC\(^{26}\) in its latest update of climate science released in September 2013.

If only 20-40 per cent of known fossil fuel reserves have economic value, there will be a significant repricing impact on the companies with large quantities of the 60 to 80 per cent of these reserves stranded on their balance sheets. These reserves have been dubbed “unburnable carbon”.\(^{20}\)

This has tremendous implications globally, but particularly in Australia. Despite having 11 per cent of global markets, the 51 gigatonnes of carbon pollution (GtCO\(_2\)) in Australian coal reserves that companies already have on their books represent about 25 per cent of a precautionary 200 GtCO\(_2\) global carbon budget for coal. Commercially exploitable resources could be 75 per cent of that budget.\(^{20}\)

Either Australia has to achieve a near monopoly on global coal exports, or Australian coal investments, and taxpayer supported infrastructure, will be wasted.\(^{21}\)

It is highly likely that a significant portion of your retirement savings is invested in fossil fuel activities. As such, you consider you directly exposed to any risks these investments carry in a world moving to address climate change.

The typical superannuation fund invests 53 per cent of its portfolio in shares of listed companies (29 per cent in Australian shares and 24 per cent in international shares).\(^{23}\) The Australian economy comprises about 2 per cent of the global economy.\(^{24}\) We think that a superannuation fund allocating just under a third of its portfolio to the Australian equity market is considerably overexposed to the Australian economy compared to other investors around the world.

In addition, the Australian equity market’s exposure to carbon intensive companies is high, with domestic giants like BHP Billiton and Rio Tinto dominating our stock exchange. Australia is second only to Mongolia in terms of coal exports as a proportion of GDP.\(^{25}\)

We believe that this dangerously high level of exposure to a market with comparatively high-carbon intensity means that Australians – you and I – are more exposed to the effects of the build-up of unburnable carbon, a carbon bubble, than their overseas counterparts.

Yes, carbon bubble. Remember the sub-prime crisis, which caused the global financial crisis and subsequent recession around most of the globe? We consider that there is a frightening parallel between the sub-prime collapse and a carbon bubble. The sub-prime collapse resulted\(^{27}\) from unsustainable lending practices that saw average people buy homes for which they could not service the mortgage payments. It was driven from the single and false underlying assumption that housing prices in the US would only keep going up.

It is similar to the assumption that we can continue to emit carbon dioxide and other pollution at an unchecked rate. Investments that will lead to greater carbon emissions increasingly rest on a speculative bubble of climate denial or indifference. Either the bubble bursts, or the climate impacts grow.

The OECD head recently noted\(^{28}\) that the Asset Owners Disclosure Project estimates an average of over 55 per cent of superannuation and pension funds’ portfolios is being invested in high-carbon assets or sectors greatly exposed to climate change physical impacts and climate change-related regulation.
AODP GLOBAL CLIMATE INDEX 2013-14

The Asset Owners Disclosure Project’s (AODP) 2013-14 global climate index spotlights a lack of investment transparency. Arguably, Australian funds do better, based on higher representation in the top 10 ranking, but the industry still has a long way to go.

Four of the top 10 funds this year are Australian, compared to six last year; Australia is still better represented in the top rankings than other countries.

The No.1 spot in the index this year is held by the UK’s Environment Agency Active Pension Fund. That fund stands out for its investment in assets with a low climate change risk, such as sustainable infrastructure, sustainably managed forestry and agribusiness and energy efficient low-carbon buildings.

The index ranks the world’s 1,000 largest asset owners endowments – on how they manage climate risk. 50 sovereign wealth funds and 50 foundations/over 800 pension funds, 80 insurance companies, agribusiness and energy efficient low-carbon buildings.

The best performers from Australia this year are Local Government Super, VicSuper and AustralianSuper. Each of them is a leader in disclosing the potential impact of climate change on their investments to their members.

Most funds have no public information and are slow to respond to surveys, often providing an incomplete picture. Many don’t even respond. This year 24 funds submitted responses, which accounts for many of the newcomers within the global top 10.

The AODP has rated over 450 funds from publicly available statements and data that can be compiled to address questions in the five categories. Many of the newcomers to the top 10 for Australia this year are funds that had not previously submitted full responses to the AODP survey, such as the NAB Group funds. This transparency pushed the NAB funds above some who had been in last year’s top 10, such as UniSuper, Vision Super, HESTA and State Super.

The 2013-14 index information is re-produced courtesy of AODP. For the full report and index visit www.AODPProject.net

<table>
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<th>Rank</th>
<th>FUND NAME</th>
<th>FUNDS ($US M)</th>
<th>COUNTRY</th>
<th>FUND TYPE</th>
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<td>Pension</td>
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<td>UK</td>
<td>Pension</td>
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</table>

Here are some of the practices that give these funds a top ranking:

1. **Local Government Super**
   - $6.5 billion under management
   - Publishes carbon and environmental, social and governance portfolio audits for its listed equities portfolios allowing members to review their carbon footprint. It also assesses the emissions footprint and the fossil fuel reserves exposure of its equity portfolio and evaluates the energy, emissions and water efficiency of its property assets.

2. **VicSuper**
   - $6.2 billion under management
   - Provides estimated carbon footprint for its listed equities portfolio for members’ superannuation savings. The fund has also improved its disclosure of its climate change risk management practices and provided more information on its investment in low-carbon assets.

3. **AustralianSuper**
   - $50.6 billion under management
   - Incorporates climate change considerations into its strategic asset allocation, risk management strategy and investment policy. This allows the fund managers to invest in assets with a lower climate change risk, such as renewable energy projects, a 6-star rated energy property portfolio and green bond, which are issued by governments to finance sustainable development.
Now that you get the idea of how important your involvement with your super is - beyond serving as a nest egg for old age - there are two key things to understand if you want to make a difference.

**Fiduciary duty**

Retirement savings are uniquely required to be managed for the long-term interests of fund members - that is you and me. The managers of our funds, superannuation trustees, have a direct fiduciary duty to us as members/beneficiaries. For the purposes of this report, we believe that this means that if fund members ask their funds for certain information, it has to be provided. In our view this is also means that trustees ought to manage your superannuation investments for your longer term interests.

**The tipping point**

The amount of capital that needs to be shifted away from carbon-intensive industries to cleaner ones is large but manageable. Of the $30 trillion held under management by retirement savings funds, less than 2 per cent is invested in low-carbon solutions. If we can encourage superannuation funds to shift even a small additional proportion of their money to low-carbon assets, it is possible to see billions of dollars redirected, creating a tipping point and ushering in a sustainable, low-carbon economy. By engaging with your super fund, you can become a part of a quiet revolution underway in capitalism: the emergence of the citizen investor and the civil economy.

IF WE CAN ENCOURAGE SUPERANNUATION FUNDS TO SHIFT EVEN A SMALL ADDITIONAL PROPORTION OF THEIR MONEY TO LOW-CARBON ASSETS, IT IS POSSIBLE TO SEE BILLIONS OF DOLLARS REDIRECTED, CREATING A TIPPING POINT AND USHERING IN A SUSTAINABLE, LOW-CARBON ECONOMY.
Examples of citizen calls for corporate responsibility date as far back as the 1600s when Amsterdam’s religious groups boycotted the Dutch East India Company over the use of violence in its trading operations.32 The history book of corporate campaigns has thickened since then, driven by the faith, union, environmental, and anti-apartheid movements. But recent activism in the pension industry is part of the global democratisation of capital ownership33. It is early days but some investment funds have already begun demolishing old rules and habits, laying the groundwork for a new “constitution of commerce” – or civil economy – one in which investors, corporate executives, information providers, civic lobbies, political parties, unions, religious institutions and involved citizens all play a role.

As everyday people get a bigger say in investment decisions, they also help drive good long-term financial management. Already this pressure is delivering results, especially when it comes to a push for corporate transparency. Separate from the superannuation landscape, Britain, for instance, has introduced laws giving shareholders a binding vote on executive pay34 and more and more information about corporate executives is making its way into the public domain.35 Shareholder voting is also on the rise36 and when people get involved, change comes. For instance, in the United States the Council of Institutional Investors is petitioning the Nasdaq Stock Market to require directors who are not elected by majority support to resign and not be reappointed.37 Importantly, citizen involvement is paying off for companies. Recent studies suggest that firms responding to the civil economy perform better financially.38 In Australia, responsible investment funds have outperformed mainstream funds over the past decade.39

### Accountable Government
- Constitution
- Elections
- Limitation of powers

### Informed Electors
- Voters understand and able to choose between coherent political programs at elections

### Independent Monitors
- Free press, independent judiciary
- Independent statistics, freedom of information

### Credible Standards
- Relevant and independent statistics and other ways to measure performance

### Civil Society Organisations
- Freedom within the law and the constitution to campaign to change government policy
- Acceptance of the right of others to scrutinise background and motivation of any such action

### Civil Economy Organisations
- Freedom within the law to campaign to change company policy
- Acceptance of the right of others to scrutinise background and motivation of any such action

### Accountable Corporations
- Constitution of board (i.e. board charter)
- Election of boards
- Powers of executive limited

### Engaged Shareowners
- Owners’ fiduciaries (e.g. fund managers) informed, skilled, and appropriately engaged with the companies they invest in

### Independent Monitors
- Fully independent annual audit giving information owners need
- Voting advisory services, remuneration consultancies transparent and unconflicted

### Credible Standards
- Relevant and independent statistics and other ways to measure performance

### Civil Economy Organisations
- Freedom within the law to campaign to change company policy
- Acceptance of the right of others to scrutinise background and motivation of any such action
In many cases, to see change a big push is required. But when it comes to getting your super to respond, it may not take much. That’s because even though a fund may represent thousands of people, even one member asking a question requires a proper response.

Pension funds should invest members' money in the members’ best interests. But members are fast realising that their funds’ interpretation of best interests may not align with their own, particularly where climate change is concerned. A recent survey found that a quarter of Australians would switch funds if they discovered their retirement savings were being invested in fossil fuel companies. But walking away shouldn’t be their first option.

In a world-first experiment, the power of the few is being tested by The Vital Few campaign. The campaign draws its name from the Pareto principle, whereby 80 per cent of results are driven by 20 per cent of the causes. The Vital Few campaign believes that citizen investors deserve to know where their money is being invested. They also have a right to request that their funds invest in a way that doesn’t compromise their pockets, or the planet. The Vital Few enables members to pose those questions to their funds directly, through an online platform and just a few clicks.

Since the campaign was launched in late 2012, its membership has surpassed 1,300 retirement fund members, mostly in the pilot regions of Australia, the UK and Canada. This membership base represents upwards of 200 of the world’s largest funds.

Early findings from the pilot activities show that funds are more likely to provide detailed disclosure when pushed by civil society. Therefore, the campaign has not only shown members that they have financial power but has elevated the issue of climate change risk up the chain of command at major funds. It has revealed that for the most part, funds are not adequately prepared for climate risks and are not prepared to defend their inaction on climate change. But they do understand their requirement to respond to members’ questions. Funds are sensitive to public opinion and care about how they are perceived. This makes them vulnerable to their members’ opinions, which in turn empowers fund members. Thus, the world’s single largest pool of wealth could be shifted away from being a driver of climate change, to being a provider of climate solutions.
Large investors do not change practices very often. In fact, little data was even understood about how investment decisions are made before the advent of the Carbon Disclosure Project (CDP). Since 2003, the CDP has asked the world’s largest companies to provide information on their emissions and emissions reduction strategy.

Today legislation is emerging worldwide forcing companies to disclose their position. In Australia this is already the case through the National Greenhouse Energy Reporting (NGER) Act legislated by the Howard Government in 2007.

Based on our research, some of the information companies have to disclose is around their carbon pricing assumptions. Many carbon intensive companies invest their shareholders’ money into very long-term assets – up to 40 years in some cases. In the life of those assets an inevitable and significant high-carbon price may make many of these investments marginal and companies should be pricing this into their investments now.

Most companies are already aware of the material risk to their business in the future, and thus their future share price, that climate change represents and many have assumed or shadow carbon prices guiding their long-term decision making. But many fail to disclose this information to the market or prefer to ignore the issue.

Shareholders and regulators around the world consider this information material. For instance the US’ Securities and Exchange Commission has made such disclosure mandatory, while the Johannesburg Stock Exchange and other major stock exchanges have designed extensive disclosure guidelines.

Apart from the NGER requirements to report greenhouse gas emissions, there are no explicit regulatory requirements relating to the disclosure of climate change related issues in Australia. However enactment of legislation like the carbon laws, which price and limit carbon, should by extension imply that businesses of all sorts take a closer look at their practices. Users of financial statements of companies in carbon-exposed industries need to be able to ascertain the risks they are facing as investors. Likewise regulatory bodies should be looking closely at disclosures and reporting requirements around how these risks are presented.
WHAT DO YOU THINK ABOUT SUPERANNUATION?

CHRISTOPHER THE

WHAT DO YOU THINK OF WHEN YOU THINK OF SUPERANNUATION?
It’s the fall back position for most Australians, but I am not relying on mine to pay for all of my retirement.

DO YOU EVER THINK ABOUT SUPERANNUATION IN THE CONTEXT OF CLIMATE CHANGE - EITHER AS A THREAT OR AS A WAY OF INVESTING IN LOW-CARBON SOLUTIONS?
Never thought of it that way.

NOW THAT YOU KNOW THERE ARE ACTIONS YOU CAN TAKE IN THAT CONTEXT, WOULD YOU PURSUE ANY OF THEM?
Possibly yes. But I’d mostly want something safe as an investment. So I would have to research it.

LUCY PHELAN

WHAT DO YOU THINK OF WHEN YOU THINK OF SUPERANNUATION?
Future security.

DO YOU EVER THINK ABOUT SUPERANNUATION IN THE CONTEXT OF CLIMATE CHANGE - EITHER AS A THREAT OR AS A WAY OF INVESTING IN LOW-CARBON SOLUTIONS?
I’ve thought about it in regards to insurance. But yes, generally I have wondered where my money is being invested.

NOW THAT YOU KNOW THERE ARE ACTIONS YOU CAN TAKE IN THAT CONTEXT, WOULD YOU PURSUE ANY OF THEM?
Yes, probably.

RODOLFO KEY

WHAT DO YOU THINK OF WHEN YOU THINK OF SUPERANNUATION?
Secure retirement.

DO YOU EVER THINK ABOUT SUPERANNUATION IN THE CONTEXT OF CLIMATE CHANGE - EITHER AS A THREAT OR AS A WAY OF INVESTING IN LOW-CARBON SOLUTIONS?
I’ve never related the two topics.

NOW THAT YOU KNOW THERE ARE ACTIONS YOU CAN TAKE IN THAT CONTEXT, WOULD YOU PURSUE ANY OF THEM?
Yes, probably.

SAMANTHA LEE

WHAT DO YOU THINK OF WHEN YOU THINK OF SUPERANNUATION?
Investing in the share market and hoping to get some payment when you’re a bit older.

DO YOU EVER THINK ABOUT SUPERANNUATION IN THE CONTEXT OF CLIMATE CHANGE - EITHER AS A THREAT OR AS A WAY OF INVESTING IN LOW-CARBON SOLUTIONS?
I do think about super and how your money is invested in a whole range of things that you don’t have any idea about ... so it would be good to know what happens to that money and if you can redirect it to something else if you want to.

NOW THAT YOU KNOW THERE ARE ACTIONS YOU CAN TAKE IN THAT CONTEXT, WOULD YOU PURSUE ANY OF THEM?
It’s complicated because I think that shifting super seems like quite a big task. I’m just thinking practically, but it would have to be a very climate-minded individual to change for those reasons.

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You have checked how your fund ranks on the AODP index and you have asked your fund for more information. If you are still unhappy, have a chat to your financial advisor, and move to a fund that is more representative of your values.

Educate yourself about your retirement savings and their relationship to climate change. Reading this report and considering your own situation constitutes a good start.

You can get directly involved with helping to drive disclosure of carbon risk exposure and super funds’ carbon pricing assumptions. Through The Vital Few you can participate in a grassroots pressure push to get superannuation funds thinking.

Other initiatives in this space include the fossil fuels divestment campaign run by 350.org that has been stoking up the pressure on retirement and endowment funds, mostly in the US and Europe but also here in Australia.

An October 2013 report by Oxford University compares the fossil fuel divestment campaign with those against apartheid in South Africa, tobacco, armaments, gambling and pornography and finds that the newest movement is growing faster than its predecessors. It concludes that the direct financial impact of such campaigns on share prices or the ability to raise funds is small but the reputational damage, or stigmatisation, poses a far greater risk in the long-term.

Fixated on fossil fuels, this fund is so besotted by the allure of short-term returns they deliberately avoid any dialogue about the danger of high-risk, high-carbon investments.

Adopting the herd mentality of resistance, this fund is sitting on the fence waiting for another fund to make the first move.

Cleverly using green wash techniques, such as their commitment to ESG (environmental, social and governance) this fund is distracting your attention from the real material issues.

While politely acknowledging the importance of climate risk and recognising your serious personal concerns this fund conveniently fails to take any responsibility for the solution.

Old fashioned lobbying of local politicians may seem outdated. But the practice is still there, in fact made easier by social media tools and email.

An ask you should be putting to your local Member of Parliament (MP) is to ensure that regulations are in place to require funds to measure, disclose and manage the climate change risks their investments are exposed to.

As a Harvard Business School study on the topic found, “what gets measured gets managed.”

More broadly, you can write or call your MP and pose the question of what is being done to address climate change, or how your MP is ensuring that your nest egg savings will be there for you when you need them.
I knew we were in trouble when a leader in the Australian financial services sector told us “in our business mate, ninety seconds is a f@#!ing eternity.” We’d met him to discuss our efforts to re-prioritise long-term interests in the over $1 trillion superannuation industry.

Since 2007 The Climate Institute has “followed the money” back up the investment chain - tracking the basis for investment decisions in high-carbon assets like coal power stations, coal mines and more. In Australia over $1.6 trillion, more than Australia’s annual GDP, is held in superannuation funds whose legal purpose is to manage funds for our long-term interests – our retirement.

With an average life of 20 years for superannuation accounts, we’ve wanted to understand how these funds are managed and to what extent longer term risks – like the implications of accelerating climate change, and potential responses to it – were factored in. How do superannuation trustees, to whom we entrust our money to the trustees, to fund managers, and to market traders such as our friend above.

Days before the 2007 Federal election, we hosted a meeting of leaders in the superannuation industry and it was clear that there was at best an emerging awareness of these issues. Reflecting on the discussion one participant said a bit quietly, “It’s true - we own the coal lobby.” It was an exciting moment, full of potential.

Yet subsequent years have shown the challenges of moving the managers of our retirement funds from awareness, to asking questions, to taking action in their investment decisions.

In those early years, The Climate Institute teamed up with the Australian Institute of Superannuation Trustees to conduct groundbreaking surveys of the managers of Australian superannuation funds in what we called the Asset Owners Disclosure Project (AODP).

There were positive stories of funds asking more questions of emission reduction strategies of companies and some investment action in climate solutions. However, the reality is that most investment action is dominated by the market traders, short-term returns and a group-think that sees superannuation funds huddling closely around index performance measured mostly on quarterly performance.

Because of this dominance of short-termism, many of us are accidental investors in businesses that care little for the medium or long-term, with funds investing on average around 2 per cent of funds under management in low-carbon solutions. As the head of the OECD noted recently, over 55 per cent of investments are in high-carbon or climate exposed investments.

The challenge of engaging longer-term thinking reveals, yet again, that while climate change is a threat multiplier, climate action can be a solutions multiplier. As we posed questions about the chronic short-termism from a climate perspective, we realised that we were joining many others raising similar questions on issues from environment, health, worker conditions and poverty perspectives.

We also realised that we were joining a tradition of citizen calls for corporate responsibility dating as far back as the 1600s when Amsterdam’s religious groups boycotted the Dutch East India Company over the use of violence in its trading operations. The history book of corporate campaigns has thickened since then, driven by the faith, union, environmental, and anti-apartheid movements.

But recent activism in the superannuation industry is part of an even more exciting and profound development that has arisen with the tremendous growth in scale and influence of the global pool of monies invested on behalf of citizens for long-term benefits. These include superannuation and insurance funds, but also include sovereign wealth funds established by governments to manage taxpayer funds for the longer term such as Australia’s own Future Fund.

These funds have become what are called “universal owners”, investing across all asset classes from infrastructure, to health to agriculture to property. Old time financial barons such as the Rockefeller’s could privatise the gains in selective investments like polluting industries, but socialise the losses caring little for consequences elsewhere. There are still a number of these barons around but these funds have skin in the game on good governance and longer term sustainability across all parts of the economy.

Together, these funds have moved from about 15 per cent of global share markets in 1995 to over 50 per cent now. With around $60 trillion under management, they represent the largest pool of capital available today. They can be immensely powerful if what has been called the global democratisation of capital ownership or the rise of the citizen investor can reap its full potential.

It is early days but some funds have already begun demolishing old rules and habits, laying the groundwork for a new “constitution of commerce” - or civil economy – one in which investors, corporate executives, information providers, civic lobbies, political parties, unions, religious institutions and involved citizens all play a role.

There are plenty of hurdles ahead but you and I can put an end to the days of being an accidental investor not only by understanding more about how our superannuation funds are managed, but also by actively engaging in their management.

This report has been prepared to give you some of the results from the latest AODP survey, now a global initiative looking at the world’s 1,000 largest funds. We also provide information about how you can take greater action exercising your rights as fund members and what is called the fiduciary duty to you of the trustees of your superannuation money.

The report provides tips for those who want their funds to invest more in low-carbon climate solutions or to divest from the high-carbon investments that are putting our climate, and future, at risk. Lifting our gaze from the market traders screen reveals that too much of our retirement funds are invested in high-risk, high-carbon investments resting on a speculative bubble of climate denial, indifference or delay. Acting together as citizen investors we can help create an investment tipping point in low-carbon, climate solutions. We hope this report helps in that endeavour.

John Connor CEO
14 The Australian Institute of Superannuation Trustees and The Climate Institute, Funds Survey Results March 2011, 2011.
26 Citi Research Commodities, The Unimaginable Peak Coal in China, September 2013, https://citi.com/Sba2GDMg%2F9pigtJ2CHkz7Lunzqhvw6bxw/URGO69bxQ6QaYM5Q%3D3D.
41 ASX-listed companies are required to comply with ASX continuous disclosure requirements under Listing Rule 3.1 and the Commentary on Principle 7 Risk Oversight and Management of the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations, but these requirements currently contain no explicit reference to climate change risk.
DOING IT YOURSELF?

This guide is directed at those citizens who are members of traditional superannuation funds. But not everyone in Australia saves for retirement this way.

Almost one-third of Australia’s superannuation pool is held in self-managed superannuation funds (SMSFs). If you have a self-managed fund, how can you manage climate change risk?

+ If you are invested in pooled funds…
   - Contact the fund managers to find out what the funds are invested in. If you’re looking for a pooled fund, see the list of service providers certified by the Responsible Investment Association Australasia.
     www.responsibleinvestment.org

+ If you are invested in shares directly…
   - Check out the Carbon Disclosure Project for details on how the world’s largest companies are managing risks associated with carbon.
     www.cdproject.net

+ If you are invested in property…
   - Improve your property’s energy efficiency and use of materials.
     Find out more at the Green Building Council of Australia www.gbca.org.au and get familiar with the National Australian Built Environment Rating System.
     www.nabers.gov.au

+ If you are invested in cash…
   - Find out whether or not your bank is financing projects you may not be very comfortable with and consider asking them to change their practice.
     www.marketforces.org.au/banks

Key imagery in this booklet has been photographed by Michael Hall, Creative Fellow at The Climate Institute.

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Now more than ever, we need your help to build public awareness and support for climate and carbon action. Support our Carbon Crunch Appeal and help ensure Australia’s zero-carbon future.
www.climateinstitute.org.au/support