

# Climate Change Statement

This statement details how we consider climate change in our investment decision-making to improve long-term investment returns for members and positively impact the world in which they live, work and retire.

The Climate Change Statement has been developed by H.E.S.T Australia Limited's ('the Trustee' or 'HESTA') and should be read in conjunction with the HESTA Responsible Investment Policy. This Statement is aligned with the Trustee's duty to comply with the 'sole purpose test' set out in the *Superannuation Industry (Supervision) Act 1993*.

Climate change is one of the most significant threats to our economies, societies and environment and it is likely to have implications for current and future generations if left unaddressed.

We consider climate change risks in our investment decision making, as failing to do so will likely have negative impact on the retirement outcomes of members.

HESTA has an important role to play in the transition to a low-carbon economy in line with the Paris Agreement goals, and we think there are important investment opportunities for us that will help deliver long-term value for HESTA members.

As a 'Universal Owner' – a large, globally diversified, long-term investor – we endorse the ambitions of the United Nations' Sustainable Development Goals ("SDGs")<sup>1</sup> as a way of delivering a healthy economy, environment and society. HESTA has identified seven SDGs to focus our impact.

Climate change is an important area of impact and it is reflected in:

SDG 7 – Affordable and clean energy for all

SDG13 – Climate action

## 1. Climate change principles

### a. Climate change is a systemic risk that will impact all areas of the economy

The impact of climate change will be felt across the economy, and present in a number of ways. Climate related risks include: physical risks (extreme weather events impacting basic services like health systems and infrastructure); transition risks (being invested in assets that might become stranded); and liability risks (associated with not carefully considering these risks as fiduciaries)<sup>2</sup>.

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<sup>1</sup> <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>  
 APRA, Information Paper, Climate Change: Awareness to action, 2019.  
[https://www.apra.gov.au/sites/default/files/climate\\_change\\_awareness\\_to\\_action\\_March\\_2019.pdf](https://www.apra.gov.au/sites/default/files/climate_change_awareness_to_action_March_2019.pdf)

Additionally, industries that fail to adapt to a low-carbon economy, are likely to have workforces that become displaced, generating unemployment and precarious economic conditions for some communities.

The complexity and interrelated nature of climate change risks makes them very difficult to assess, therefore a pricing mismatch might exist.

**b. Long-term value creation requires consideration of a transition to a lower carbon economy by mid century**

To make sure we can continue to generate long-term value for members, it is important that investors, and the business community, respond to climate change and transition to a low-carbon future in line with the goals of the Paris Agreement through targets to reach 'net zero' emissions by 2050. Such ambitions should be at the heart of a business's strategy, and leaders should be accountable for meeting these objectives.

**c. Climate change can present investment opportunities for investors**

To bring about the transition to a low-carbon economy, companies will need long-term, patient capital to build new infrastructure and develop new technologies. This can represent an investment opportunity for HESTA, matching an attractive risk/return profile with the ability to also positively impact the world in which our members live, work and retire.

**d. Transparency and disclosure about climate change risks is important**

Climate change represents a material risk for investors. Therefore we expect organisations in our investment value chain to make appropriate disclosures regarding risk management, including setting targets to reduce their exposure to high-risk areas, and reporting on progress towards those targets.

**e. Active ownership is a powerful tool to achieve change**

Ownership equals influence. As large investors we can use our voice when talking to companies and governments about climate change. We amplify our voice through collaborations with like-minded peers and other organisations to drive action, achieve climate stability and prepare to move to a low-carbon economy. We seek firstly to engage with companies rather than divest and lose our influence.

## **2. Implementation**

Climate change considerations are integrated across our responsible investment activities.

We conduct regular risk assessments across our portfolio for physical and transition risks within our investments, assessing a range of potential future climate change scenarios. To manage climate-related financial risks and align our actions with the goals of the Paris Agreement we have introduced carbon reduction targets for the HESTA investment portfolio, to reduce emissions by 33% by 2030, and to align the portfolio with the aim of 'net zero' by 2050.

Within our external manager selection process, we assess how effective our potential partners are at incorporating climate risks into their investment decision-making. We work with our managers to ensure they consider all the relevant risks arising from climate change and achieving our reduction targets.

We engage with companies to ensure they are considering how climate change will impact their operations, to ensure their business models align with a transition to a low-carbon economy, achieve 'net zero' emissions and more broadly to encourage them to contribute to climate stability. We exercise our voting rights as part of our stewardship activities and hold companies accountable when they fail to consider climate change risks and how they might impact shareholders. Our advocacy efforts seek to address climate change as a systemic risk, encouraging governments to lay out policies that provide certainty and that seek to achieve climate stability.

We identify opportunities in technology and infrastructure that are likely to play an important role in the low-carbon economy. We seek to partner with investment managers that help us source for these opportunities. We also quantify the positive impact these investments are likely to have in mitigating and managing climate change.