Climate Change Statement

Purpose

This statement describes why climate change is important to HESTA and our approach to the management of climate-related financial risks.

Why Climate Change is important to HESTA

Climate change poses a material, direct and current financial risk that is relevant to HESTA's management of its investment portfolio in the best financial interests of our members.

Climate risks include physical, transition and liability risks which can cause damage to assets, reduced revenue, increased costs, changes in asset viability, business disruption and penalties. Additionally, industries that fail to adapt to a low-carbon economy, may have workforces that become displaced, resulting in unemployment and precarious economic conditions for some communities.

As a large, diversified asset owner, long-term climate-related risk exists for HESTA members, regardless of portfolio assets, as the risk is systemic. We consider members' best financial interests are served through a timely, equitable and orderly transition to net zero emissions by 2050 in order to minimise the systemic risks of climate change. This requires a Paris-aligned transition of our economy, which seeks to hold the increase in global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C.

HESTA also 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 that will help deliver long-term value for HESTA members.

The social impacts of climate change are of particular relevance to HESTA members, as the health and community services (HACS) sector is at the front line of dealing with impacts such as heatwave-related deaths, the spread of infectious diseases, and the potential social dislocation caused by climate refugees.

Our climate targets

To manage climate risk and work towards alignment with the Paris Agreement, HESTA has set climate targets. These are summarized below together with our plan to achieve each target, how we will measure our progress and assumptions made.

In 2020, HESTA declared our ambition to reach net zero carbon emissions across our investment portfolio by 2050. In 2022, HESTA strengthened its interim emissions reduction target to 50%

reduction in normalised[1] emissions (scope 1 and 2[2] emissions per dollar invested) below the 2020 baseline, by 2030.

We measure progress toward our 2030 and 2050 carbon reduction targets through monthly measurement of emissions for listed equities and annual measurement for all other asset classes. Our progress will be reported through our Climate Change Report. We expect to meet our 2030 interim emission reduction target primarily through active ownership which encourages companies to set and achieve carbon reduction targets that move towards alignment with a 1.5ºC transition pathway.

Where there are significant residual climate risks and or companies' actions are clearly mis-aligned with a shift towards a 1.5ºC transition pathway, we may use our escalation framework. Escalation can include use of either one or a combination of escalation tools such as a 'watchlist', votes against 'Say on Climate' resolutions, Director re-elections, support or filing of shareholder resolutions and/or consideration of divestment where we consider that progress has been insufficient to address the risks.

In 2022, HESTA also set a target to have 10% of the portfolio invested in climate solutions opportunities by 2030.

We measure progress toward our 2030 climate solution target through annual measurement of investments aligned to SDG 7, 11.6 and 13, such as renewable energy and sustainable property[3], according to the Sustainable Development Investment Asset Owner Platform (SDI AOP) Taxonomy[4]. Our progress will be reported through our Climate Change Report. To achieve the proposed target, the largest changes will be required within infrastructure, through deployment to renewable energy, and international equities, through anticipated greening of international equity benchmark indices. Increases over the period would be expected to be approximately linear.

The following assumptions have been relied upon in setting and tracking progress in relation to the above targets:

- That HESTA remains a diversified investor with exposures to emissions-intensive companies;
- Emissions-intensive companies will successfully deliver their current climate targets;
- That our engagement, in collaboration with other investors, will be successful in encouraging emissions-intensive companies to set and deliver more ambitious targets;
- That the global economy will achieve net zero emissions by 2050;
- That international equities indices will transition in composition to include a greater proportion of companies who derive revenue from climate solutions; and
- That accurate data is supplied by our investment managers and external data providers.

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[1] Normalised carbon emissions (tonnes CO_2e / $m invested) – we've chosen normalised carbon emission as it represents HESTA's share (based on Enterprise Value) of real world emissions.

[2] Scope 1 and 2 – carbon emissions are assessed based on the scope 1 (direct combustion) and scope 2 (electricity use) emissions of our investments. This is on the basis that reducing scope 1 & 2 will have flow on effects across the economy, thereby reducing scope 3 (value chain) emissions. We are still prioritising scope 3 in engagement with companies, but in terms of target setting, we note that data coverage for scope 3 emissions remains poor.

[3] Sustainable property aligned with SDG 11.6 applies to the unlisted portfolio only.

[4] https://www.sdi-aop.org/sdi-classification/

Our approach to managing climate risk

Reflecting both the science and regulatory guidance, HESTA incorporates climate change into its investment process in a way that is consistent with the best financial interests of our members. This includes incorporation of climate change as part of the investment strategy process, risk framework, stress testing, selection and review of investment managers, company engagement and escalation, investment in climate solutions, advocacy and reporting.

HESTA endorses the Paris Agreement. HESTA may also endorse standards that guide disclosure on climate risk and opportunities where it considers them to be relevant. We are a signatory to the Paris Aligned Asset Owners (PAAO) group, and have committed to address climate risks and opportunities across the Fund by:

- Incorporating the underlying principles of the Paris Agreement and an equitable transition into our approach to the management of climate-related risks and opportunities for investments;
- Considering the short, medium and long term consequences of climate change and integrating these into investment strategy, stress testing and portfolio construction processes
- Assessing investment manager processes to identify and manage climate-related risks and opportunities as part of the selection and monitoring of investment managers;
- Actively engaging with investment managers and service providers to encourage greater awareness and integration of climate risks and opportunities into the investment process;
- Assessing the exposure of our investments and their supply chains to climate-related risks including, but not limited to, physical, transition and legal risks;
- Engaging with investment managers to ensure risks are being managed appropriately;
- Engaging with companies and assets, and collaborating with other investors, to advocate for emission reduction targets and plans aligned to the Paris Agreement, capital allocation and executive remuneration aligned with climate targets, disclosures with regard to relevant standards and Board capabilities in the area of climate change;
- Exercising our voting rights consistent with our engagement objectives;
- Escalating engagement to manage material residual climate risks;
- Proactively investing in climate solutions that offer competitive risk-adjusted returns;
- Advocating for strong action on climate change by companies and governments consistent with transition to a net zero emissions global economy by 2050;
- Measuring and monitoring portfolio carbon emissions, with a view to reducing emissions in line with HESTA's climate objectives; and
- Disclosing our progress on the above with regard to relevant standards that guide disclosure on climate risks and opportunities.

Climate change considerations are integrated across our responsible investment activities. We continue to adjust and advance our approach to management of climate-related risks as circumstances change.