

38.78	84.20	75.50	120.57	8.27	21.57	91.27	26.07	70.13	59.75	13.65	35.24	10.32	38.78	4.20
-0.71	-0.22	+0.28	+1.4	-0.04	-1.71	-0.95	-0.03	+0.54	+1.12	-0.09	-1.46	-1.06	-0.71	-0.22



Asset Owners Disclosure Project (Australia) *Funds Survey Results*

March 2011

For more information, please contact The Climate Institute
info@climateinstitute.org.au | +61 2 8239 6299
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Introduction

The pressure on all business stakeholders to consider and disclose their position in relation to climate change has been building steadily in recent years. As the science around climate change has become more compelling, and government policies to deal with it move closer to fruition, there is significant pressure on organisations to disclose information about how climate change is affecting them now and how it will affect them in the future.

The risks and opportunities that are emerging are driven by the clear need to adapt to the degree of climate change already locked into climate projections for this century and also by government regulations seeking to reduce carbon emissions. This includes the emerging global regulated market for carbon, borne from national governments seeking to constrain carbon emissions domestically.

At the same time that Australian climate policy debate has landed in a political quagmire, leading global investment consultant Mercer has released a seminal report on the magnitude of risk climate change has on investments. Indeed, in this report climate policy uncertainty was identified as “...a significant source of portfolio risk for institutional investors to manage over the next 20 years”.

The report – “*Climate Change Scenarios: Implications for Strategic Asset Allocation*¹” – focuses on the impact that climate change risks have on investments and is the result of collaboration between Mercer and institutional investors representing approximately \$2 trillion of assets under management (including two Australian superfunds – AustralianSuper and VicSuper). The report's key finding is that climate change increases investment risk - a message The Climate Institute has been strongly advocating in the Australian business and investment communities for some time now, particularly within the Australian superannuation industry.

The Mercer report:

- Advocates immediate investment in low carbon assets to hedge climate risk.
- Advocates massive realignment in portfolios to 'climate sensitive assets'
- Says traditional portfolio models are incapable of managing climate risk
- Policy uncertainty adds 10% to portfolio risk

The implications for Australian superannuation funds are significant with a 40% allocation to climate sensitive assets currently representing approximately \$500bn of current and future retiree's money. The report also highlighted that a continued delay in climate change policy action could cost institutional investors around the world "trillions of dollars" over the coming decades.

This game-changing report has major implications for our superfunds and their trustees. We eagerly await the next iteration of the Asset Owners Disclosure Project to see how much this report has been taken on board by superfunds.

Meanwhile the science on climate change has strengthened as Professor Ross Garnaut's updated reports show. Among the impacts on Australia of a rapidly changing climate, Professor Garnaut's latest review found:

¹ <http://www.mercer.com/climatechange>

- Unprecedented warm sea surface temperatures in 2010 contributed to the record rainfall and high humidity across Eastern Australia in winter and spring.
- While heavy rainfall in 2010 ended a decade-long dry spell in much of southern and south-eastern Australia, the southwest suffered its driest year on record, including record low inflows to Perth's water storages. There is good scientific evidence to say that climate change is, in part at least, responsible.
- At the same time, there is an increasing risk of flooding as rainfall becomes concentrated into more intense torrential downpours.
- The intensity, frequency and extent of droughts is projected to rise in coming decades if there is insufficient action to arrest the rise in pollution.

In short, the scientific community's confidence in their observations and forecasts has strengthened, along with the seriousness of climate change impacts. The results show that the window of opportunity to deliver a policy mechanism that reduces pollution and drives investment in clean energy is fast closing.

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1. Scope and methodology of the survey

Now in its third year, the Asset Owners Disclosure Project remains the world's most comprehensive, independent survey of superannuation funds' readiness to manage the risks and opportunities of climate change.

The project is a joint initiative between the Australian Institute of Superannuation Trustees (AIST) and The Climate Institute. The survey provides valuable research and tools to asset owners to support them in the transition to an investment world that is increasingly impacted by climate change related factors. The objective of the survey is to facilitate incorporation of climate change capability in the superannuation industry and throughout the wider investment sector.

This year invitations to participate in the survey were sent to 142 Australian superfunds who each had more than \$200 million in funds under management as at 30 June 2010, representing approximately 60% of the entire value of the Australian superannuation industry² (over 85% of the industry when Self-Managed Superannuation Funds (SMSFs)³ are excluded).

Invitations to participate in the survey were sent to the Chairman, Chief Executive Officer and Chief Investment Officer (or their equivalents) at each of the funds on 5 November 2010.

A follow-up letter was sent to all invitees on 22 December 2010 from leading non-government organisations – Australian Council of Social Service, Australian Council of Trade Unions, Australian Conservation Foundation, Australian Youth Climate Coalition, World Wildlife Fund, GetUp!, Greenpeace, The Wilderness Society – as representatives of hundreds of thousands of members, urging participation for the “...*crucial insights into the way the retirement savings of millions of Australian workers are being managed*”.

Just over 12% of invited funds responded to the survey, representing \$179billion in funds under management – 15% of the entire Australian superannuation industry (22% of the industry excluding SMSFs). The size of the surveyed funds ranged from c. \$500 million in funds under management to superfunds with over \$55 billion, with median size of the surveyed funds \$3.4 billion. Unlike last year, the mid-size funds (c. \$3 billion to \$8 billion) tended to rank more highly than the larger funds. The performance of smaller funds again tended to lag, perhaps reflecting fewer resources.

The survey comprises 87 multiple choice questions covering the 10 main areas of a superannuation fund's operations and investments. The key areas of inquiry include portfolio exposure to climate change and fund strategy for:

- Dealing with climate change risks and opportunities;
- Actively engaging with investee companies – shareholder resolutions, engagement strategies, voting, etc.;
- Altering structural mechanisms to help manage climate change risks e.g. new mandate attributes, incentive re-alignment;
- Evaluating new low carbon asset opportunities; and
- Improving capability and capacity growth in the climate change risk area.

² Valued at \$1,225bn as at 30 June 2010 according to APRA (<http://www.apra.gov.au/Statistics/upload/June-2010-Annual-Superannuation-Bulletin.xls>).

³ Valued at \$393bn as at 30 June 2010 according to APRA (<http://www.apra.gov.au/Statistics/upload/June-2010-Annual-Superannuation-Bulletin.xls>).

The scoring process

The responses to the survey questions were analysed and ratings were applied to all funds. The scoring is broken down into four main components:

- “Disclosure”: One point awarded for each question the fund responds to. If the question is answered with “Other (please specify)”, the response will be checked for validity and scored accordingly.
- “Practice”: Points awarded for implementing elements of climate change best practice.
- “Performance”: Points awarded for reducing the exposure to climate change risks.
- “Insight”: Information gathering, no points awarded.

The overall distribution of weighting is:

- Disclosure: 40%
- Practice: 40%
- Performance: 20%
- Insight: N/A – no points awarded

The full scorecard can be viewed at <http://www.climateinstitute.org.au/business/aodp>.

The objective of the survey is to facilitate incorporation of climate change capability in the superannuation industry and throughout the wider investment sector. The survey encourages funds to engage in climate change related issues, often for the first time. In addition, the survey’s visibility and credibility enables participating funds to demonstrate their commitment to carbon disclosure and emissions management.

2. Executive summary

For the second year in a row in the Asset Owners Disclosure Project, participating funds have been rated and ranked according to their responses. The ratings methodology was substantially enhanced this year following consultation with funds (both participating and non-participating), auditors, industry group representatives and fund managers who formed an Advisory Council. The main enhancements were to allow greater flexibility to funds to respond to each question, to reward disclosure (regardless of the response provided) and also to not award any points for those questions where opinion was sought as industry opinion, as you will see, is still clearly divided on a number of areas of enquiry.

This approach provides transparency to members and stakeholders about the climate change management practices of participating funds whilst the aggregation of responses allows funds the freedom to answer questions honestly and frankly, thereby providing a platform for some of the more contentious issues to be aired.

The leading funds in this year's survey are:

- 1. Local Government Super
- 2. Christian Super
- 3. NGS
- 4. Care Super

These funds have shown strengths in all areas of climate change management and whilst the gap between the leading funds and laggards appears to be increasing we hope other funds follow their example. Each of these funds was in the top quartile in all ten areas of the survey. They also showed particular strength in:

- Reporting of climate change issues and assets,
- Climate change skills, training and education, and
- Management of investment/fund managers.

All of the participating funds will be sent their own scorecard for how they performed in each of the areas of the survey and overall.

On the whole this year saw significant improvement in a number of key areas including engagement, climate change data collection and tracking, policy framework, the development of internal capacity and capability and management of property investments. However, like last year, we continue to notice a gap between intention and action and what appears to be an inconsistency in practice with what the broadly accepted climate change science implies.

The key themes emerging from the survey are summarised below.

Lack of certainty around climate change-related policy proving to be a major barrier

The continuing uncertainty around climate policy (particularly Australia's climate policy) continues to be a substantial barrier for funds to either build climate change capability or invest in large-scale renewable energy investments.

More than 75% of funds identified lack of certainty around climate policy (domestic and/or international) as a barrier to them acting collectively to fund large-scale renewable energy investments or portfolios.

In addition, 50% of funds identified climate change-related policy from government as a key to encouraging climate change-related investments in general. This finding is confirmed by the strategic asset allocation report released by Mercer in February 2011 which identified climate policy uncertainty as the major source portfolio volatility going forward.

Improvements in active ownership

There have been some significant improvements in active ownership with a greater proportion of funds this year who;

- Have engagement (28%, up from zero) and proxy voting policies (17%, up from 6%) that specifically address climate change
- Have undertaken engagement on climate change related issues (56%, up from 47%)
- Participate in collaborative initiatives such as the Carbon Disclosure Project (56%, up from 25%) and ESG Research Australia (39%, up from 16%).

In addition, just under 90% of funds are willing to consider large-scale investment opportunities in infrastructure with other funds and/or government to help limit Australia's climate risk and maximise opportunity

No one knows how to deal with the problem of climate change

- 83% of funds believe that systemic risks like climate change are not currently being priced into asset valuations yet only 39% of funds (or their advisors) have a plan or process to assess systemic risks and only 11% of funds have a strategy for measuring and managing climate change risks at the portfolio-level.
- 76% of funds believe there will be a global climate change agreement to limit atmospheric carbon concentration to 450 parts per million within the next eight years yet only 17% of funds (or their advisors) are able to calculate their portfolio's carbon liabilities at a range of carbon prices.
- 94% of funds do not calculate any portfolio-wide climate change risks (up from 91% last year) and 72% of funds have no methods in place to mitigate climate change related risks (a high proportion but a slightly improvement on last year's 84%).
- No funds were able to report on their exposure to fossil fuel reserves.
- 83% of funds don't know what portion of their portfolio is invested in high climate impact sectors and 67% of funds don't know what portion of their portfolio is invested in low-carbon investments,
- Twice as many funds this year were able to calculate their scope 1 and scope 2 emissions in some asset classes... but this represents only 17% of funds.

Confusion over the science

A little under half of funds, through their own risk management framework, identify the likelihood of climate change as low. Only 11% of funds thought the likelihood of climate change was high. This is almost the polar opposite of the view of the Intergovernmental Panel on Climate Change (IPCC) which concluded in 2007 that global warming is 'unequivocal' and placed a confidence level of over 90% that global warming is caused by human actions.

Half of funds identify the impact of climate change as being low. This could in theory be due to those funds having sufficient climate change risk hedging strategies in place however the responses throughout the survey indicate this is not the case. Confirming this finding,

approximately 80% of funds felt there were barriers to developing climate change capability with lack of knowledge of climate science the main culprit.

Asset allocation is stuck in the past

Only 17% of funds have a specific allocation to climate change related investments and these allocations varied in size between 2% and 6% - this level is a very positive sign but even these funds have a long way to go to reach 40% allocation to carbon sensitive assets currently being advocated by leading investment consultant Mercer. This may be the result of:

- Only 6% of funds have climate change related allocations reflected in their asset consulting agreements.
- Climate change related issues are not reflected at all in 56% of asset consulting agreements
- 50% of funds do not consider climate change capability or performance when appointing an asset consultant
- 39% of funds' asset consultants do not consider climate change issues in their short-listing of investment managers
- No funds knew if their asset consultants had a climate change policy.

Property leads the way in climate change management

Property is the stand out area of excellence for most funds in terms of both climate change considerations within investments and also in managing their own environmental footprint.

Of those funds that invest in property 72% consider climate change related factors when making investment decisions with nearly all of those funds interested in the Green Building Council of Australia's "green star" accreditation and water, energy and waste use and management.

In addition, 78% of funds take at least one measure to limit their own emissions with 72% of funds adopting green building practices and a third adopting carbon reduction programmes. It should be noted though that no funds were able to report their emissions.

Members are becoming engaged

Around a quarter of funds this year have communicated to their members how climate change issues impact upon their superannuation and there has been a significant increase in the proportion of funds who have communicated to their members and/or authorities how climate change issues are incorporated into their investment process (50%, up from 26%). In addition, this year 61% of funds reported receiving feedback from their members regarding concern about climate change (up from 35% last year).

Still though, not all funds (67%) see a branding opportunity or competitive advantage in building climate change capability and this is reflected by roughly the same proportion of funds (41%) not planning to increase their climate change capability and capacity.

3. Survey results

3.1. Fund overview

Q1.2 Which of the following best describes your fund?

	%
<i>Public sector fund</i>	16%
<i>Corporate fund</i>	6%
<i>Industry, or multi-employer, fund</i>	72%
<i>Master trust</i>	6%
<i>Other (please specify)</i>	-

A little over 12% of invited funds responded to the survey, representing \$179 billion in funds under management. This is equivalent to approximately 22% of all of Australia's superannuation funds under management, excluding self-managed superannuation funds⁴.

This is a significantly lower response rate than last year (which had a 30% response rate). Invitations to participate in the survey were sent to all Australian superfunds with more than \$200 million in funds under management, including a significantly greater number of small superfunds than last year – the lower response rate may reflect the fewer resources that smaller funds have available to respond to such initiatives.

The five largest non-participating asset owners were:

- AMP
- BT
- Colonial First State
- Future Fund
- ING

3.2. Climate change policy and governance

Q2.1 How are climate change issues integrated into your policy framework?

	%
<i>Standalone climate change policy</i>	6%
<i>Included in investment policy</i>	6%
<i>Included in environmental, social and governance (ESG) policy</i>	56%
<i>Other (please specify)</i>	-
<i>No policy on climate change</i>	33%

⁴ Association of Superannuation Funds Australia (ASFA), March 2011 Superannuation Statistics.

This year has again seen a substantial increase in the proportion of respondents with climate change issues integrated into their policy framework (last year was 50%, the year before was only 30%) however one-third of funds still do not have any policy on climate change at all. The improvement this year was again driven by funds integrating these issues in their ESG policy.

One fund stated “... we do not believe there is a sufficiently robust framework in place from a regulatory perspective to form a policy on which to make investment decisions. Different federal and state level policies and ETS strategies make it difficult to establish a meaningful policy at the current time”.

Q2.2 Does your fund have a formal plan to build climate change capability either internally or via external service providers?

	%
Yes	39%
No, we will not be building climate change capability as we don't think it impacts how we manage the fund's portfolio	17%
No, we will not be building climate change capability as we don't know if it impacts how we manage the fund's portfolio	28%
No, we have been building capability and now believe it is sufficient	11%

A new question this year that reveals a little over 60% of respondents currently have no formal plan to build climate change capability. Some of these may believe this because they believe their current capability is sufficient but most because they either *do not know if climate change will impact* how they manage the fund's portfolio or they *do not think climate change will impact*.

N.B. Not all funds responded to this question.

Q2.3 What type of approach will you adopt to build climate change capability?

	%
We will build climate change capability internally	11%
We rely on our asset consultant to build their climate change capability	28%
We rely on our investment managers to build their climate change capability	28%
Other (please specify)	33%
Not applicable - we will not be building climate change capability	-
Not applicable - we believe our present capabilities are sufficient	-

Conflicting a little with the responses in the previous question, despite some funds having no formal plan, all funds claimed they would be looking to build climate change capability with a pronounced reliance on asset consultants (28%), investment managers (28%) and other external parties (33%). This is concerning in light of some later responses that reveal few funds are selecting their asset consultants based on their climate change capability and few provide any climate change direction to investment managers.

Q2.4 Does your fund consider the assessment of climate change risks/opportunities as consistent with fiduciary duties?

	%
Yes	100%
No	-

The 100% affirmative response to this question highlights the growing consensus that considering climate change and other ESG risks is consistent with fiduciary duties. This level of positive response is a huge change from last year when only 38% of funds said they considered this to be the case (the majority had not yet considered it or were unsure and a small proportion thought it wasn't consistent with fiduciary duty).

The issue of fiduciary duty in the context of the consideration of ESG issues has yet to be clarified by regulators in Australia. The Climate Institute continues to engage with Australian Prudential Regulatory Authority (APRA) to encourage regulatory clarification of this issue.

Q2.5 Does your fund consider that climate change risk presents an intergenerational equity issue?

	%
Yes	94%
No	6%

Q2.5a If you answered "yes" to the previous question, what approaches would you consider adopting to address the intergenerational equity issue?

	%
Target-date member investment choices	-
Life-cycle member investment choices	24%
Other (please specify)	53%
We would not seek to address this issue	24%

The intergenerational equity issue relates to the fact that members of different age groups will have various risk thresholds, extending to their threshold for climate change risks.

Compared to previous years, the response to Q2.5 reflects a very strong belief amongst superannuation funds that climate change presents an intergenerational issue. However, as shown in the second table (Q2.5a), one-quarter of funds will not be addressing this issue. Life-cycle member investment choices were the most popular form of potential solution although other funds are actively working towards integrating a climate change hedge into investment strategy. A large proportion of respondents had not yet decided how to address the issue.

Q2.6 What is the highest level of governance at which climate change has been discussed?

	%
Board of Trustees	61%
Executive team	11%
Management	11%
Team/division	6%
Has not been discussed	11%

Q2.7 Has your Board of Trustees ever considered a climate change-related resolution?

	%
Yes	22%
No	78%

These two new questions are designed to gauge at which level within Australian superannuation funds climate change issues have been given consideration. Whilst we would hope such a systemic, whole of business risk would have been considered by the boards of ALL superannuation funds in Australia we will watch how this response changes over the coming 12 months and encourage more discussion at board level.

Q2.8 What barriers exist within funds that prevent them from developing climate change capability?

	%
Focus on short-term objectives	11%
Lack of knowledge of climate change science	17%
Other (please specify)	50%
We do not think barriers exist	22%

Q2.9 Following on from question 2.8, how will these barriers be overcome?

	%
Education	39%
Regulation	28%
Other (please specify)	22%
Not applicable - we do not think barriers exist	11%

Approximately 80% of funds felt there were barriers to developing climate change capability with lack of knowledge of climate science receiving the highest response rate. Other barriers that funds listed include lack of (government) policy, difficulty in getting climate risk-related

information from investee companies, lack of resourcing, lack of competitive pressure and implemented consulting. (It is interesting to note that once the funds were presented with possible barriers the proportion of funds that asserted there are no barriers dropped.) Education and regulation are viewed as the key drivers to develop climate change capability.

Q2.10 *What barriers exist within funds that prevent them from making climate change-related investments?*

	%
<i>Lack of investment research to demonstrate feasibility</i>	33%
<i>Lack of appropriate investments</i>	11%
<i>Other (please specify)</i>	39%
<i>We do not think barriers exist</i>	17%

Q2.11 *Following on from question 2.10, how will these barriers be overcome?*

	%
<i>Climate change-related policy from government</i>	50%
<i>Improved liquidity in climate change-related investments</i>	6%
<i>Other (please specify)</i>	22%
<i>Not applicable - we do not think barriers exist</i>	22%

Fewer funds felt there were barriers preventing them from making climate change related investments than developing climate change capability with lack of investment research to demonstrate feasibility the main barrier. Other barriers listed included reluctance to pick winners, lack of acceptance by the community, lack of appropriate investments and implemented consulting. One of the more telling responses was:

“All these points apply, plus a lack of will on behalf of some funds to disturb their current investment approach that is benefitting from strong short term returns from high carbon intensive investments that are not paying for the full price of their polluting activities.”

Like the previous pair of questions, climate policy was viewed as the best method of removing barriers to investment, by a considerable margin. This is a little surprising given the majority of funds will already be exposed to climate change policies, particularly through investments in Europe. The other ways that were proposed to remove barriers included improved climate change investment research, observed success of climate change investments and clarity of climate change regulation (both government and industry regulators).

(In contrast to the previous pair of questions, once the funds were presented with possible barriers the proportion of funds that asserted there are no barriers increased.)

Q2.12 *How do short-term ratings affect the fund's ability to develop climate change-related capability?*

	%
No affect	67%
Slight affect	11%
Moderate affect	17%
High affect	6%

A slightly nuanced version of Q2.8, two-thirds of respondents didn't think short-term ratings affected their ability to develop climate change capability.

3.3. Asset allocation and asset consultants

Q3.1 *Do you make a specific allocation for climate change related investments? Climate change investments include (but are not limited to) investments in renewable energy, mitigation and adaptation assets (such as flood barriers, energy efficiency projects), carbon-optimised managed funds, green bonds and carbon commodities.*

	%
Yes, at the overall portfolio level (please specify overall portfolio level in AU\$ million)	17%
Yes, at an overall portfolio level AND within specific asset classes (please specify overall portfolio level in AU\$ million)	-
Yes, within specific asset classes	-
No	83%

There has been a slight increase in the proportion of funds with positive response and a move towards having an allocation at the portfolio level. Those that have allocations at the portfolio level had allocations between 2% and 6% of total funds under management. Although showing positive signs of progress, this still falls significantly short of the 40% allocation to climate sensitive assets as advocated in the recently released Mercer report⁵ (*Climate Change Scenarios – Implications for Strategic Asset Allocation*).

Q3.2 *Does your fund employ an external asset consultant?*

	%
Yes	100%
No	-

⁵ <http://www.mercer.com/climatechange>

Q3.3 Does your asset consulting mandate (or, Investment Policy Statement, if no external asset consultant is employed) make any specific reference to climate change capability or issues?

	%
Yes	39%
No	61%

All participating funds employ an asset consultant and over a third of those funds include specific reference to climate change capability or issues in the asset consulting agreement. This is a substantial increase on last year when only 7% of responding funds did so.

Q3.4 Does your asset consultant agreement (or, Investment Policy Statement, if no external asset consultant is employed) reflect any of the following? (More than one option may be selected)

	%
Climate change related allocations	6%
Proven climate change skills capability	11%
Integration of climate change research	22%
Mandatory integration of climate change research and data	6%
Allocations to low carbon investments	6%
Climate change factors in manager rating	11%
Carbon optimisation	-
Reference to your climate change policy	17%
Longer investment horizons	28%
Greater mandate length	-
Retained bonuses/clawbacks/options for long-term return (please specify)	6%
Mandatory signatory of initiatives such as UNPRI, EAI or GRI	11%
Other (please specify)	6%
None of the above	44%

There has been a marked improvement in the proportion of funds integrating climate change-related considerations in their asset consultant agreements (56%, up from 41%). Integration of climate change research continues to be a common response with approximately the same proportion of funds selecting this option again this year. There has been a marked increase in those funds with longer term horizons (up from 3% last year). These results conflict slightly with those in the previous question, as a greater proportion of funds have identified elements in their asset consulting agreement that we consider to be consistent with managing climate change related risks and opportunities.

Q3.5 To what extent do you consider climate change-related capabilities/performance when appointing an asset consultant?

	%
Not at all	50%
0 to 10% of asset consultant rating	39%
10% to 20% of asset consultant rating	11%
20% or more of asset consultant rating	-
Not applicable - no asset consultant is employed	-

A new question for this year, it will be interesting to see how these responses change over the next 12 months, particularly in the wake of the Mercer report⁶ on climate change in February 2011. Whilst throughout the survey there appears to be a heavy reliance on asset consultants for climate change capability and advice, only half of the respondents actually consider these capabilities when appointing an asset consultant.

Q3.6 How does your asset consultant (or, investment executives, if no asset consultant is employed) factor climate change issues into their short listing process of investment managers?

	%
Analysis of investment manager's climate change policy and capability	33%
Other (please specify)	28%
Not at all	39%

There has, however, been a very significant increase in the proportion of funds whose asset consultant factor climate change issues into investment manager selection (61%, up from 28%). The other responses provided by funds were mostly about the consideration of environmental, social and governance (ESG) issues in manager selection.

Q3.7 What evidence has your asset consultant (or, investment executives, if no asset consultant is employed) provided with respect to their climate change capability?

	%
Climate change policy	-
Climate-related research specifically integrated into investment strategy and investment manager selection	44%
Other (please specify)	28%
None	28%

Whilst no asset consultants appear to have a climate change policy in place yet there is a distinct leadership drive in this area of advice/service that will potentially raise the bar for all

⁶ <http://www.mercer.com/climatechange>

asset consultants to develop climate change capability. Indeed this competition may be fuelled by the funds themselves who are clearly looking to rely at least partially on their asset consultant for climate change capability in the future.

3.4. Identification of climate change risks at the asset/ manager/ fund levels

Q4.1 *Has your fund formally recognised the impact that climate change will have on your investment portfolio?*

	%
Yes	35%
No	65%

Just over a third of funds have formally recognised the impact that climate change will have on their investments. However, as is shown in results throughout this report, this is not always being translated into action with few funds currently measuring and managing climate-related issues. The fact that two-thirds of funds haven't begun to assess the impact of climate change on their investment portfolio is concerning in an environment where the convergence of climate science and regulation appears to inevitable.

Q4.2 *Which of the following risk characteristics does climate change best conform to under your fund's risk policies (i.e. Risk Management Policy and Risk Management Strategy) definitions?*

Likelihood	%
Low	44%
Medium	28%
High	11%

Q4.3 *Which of the following risk characteristics does climate change best conform to under your fund's risk policies (i.e. Risk Management Policy and Risk Management Strategy) definitions?*

Impact	%
Low	50%
Medium	28%
High	11%

Points were awarded for the assessment of "likelihood" only, not impact. This is due to the high level of consensus from the peer-reviewed scientific community about the likelihood of climate change and the broad range of mitigating activities that superfunds can undertake leading to varying degrees of impact mitigation. The perceived impact of climate change is more open to opinion (hence the reason for no points being allocated for this question) as

funds may well have in place hedging strategies designed to limit the impact of climate change.

In contrast to last year when a clear majority of funds identified the impact and likelihood of climate change as medium or high, this year half of funds have identified the impact and likelihood as low. The response breakdown regarding the likelihood of climate change is almost the polar opposite of that given by the Intergovernmental Panel on Climate Change (IPCC) which concluded for the first time in 2007 that global warming is 'unequivocal' and placed a confidence level of over 90% that global warming is caused by human actions.

N.B. not all funds responded to Q4.2 and Q4.3.

Q4.4 *Do you believe that systemic risks like climate change are currently being priced in asset valuations properly?*

	%
Yes	11%
No	83%

The vast majority of surveyed funds believe systemic risks like climate change are not currently being priced in asset valuations. With few funds having some sort of climate change risk hedging strategy in place this doesn't bode well for the future value of millions of Australians' retirement incomes.

N.B. not all funds responded to this question.

Q4.5 *Within what time period do you believe a global climate change agreement and/or a global price on carbon based on a peak carbon concentration of 450ppm will be introduced?*

	%
0 to 2 years	12%
2 to 4 years	18%
4 to 6 years	18%
6 to 8 years	29%
8 to 10 years	6%
10+ years	-
None of the above	18%

Q4.6 *Within what time period do you believe a global climate change agreement and/or a global price on carbon based on a peak carbon concentration of 350ppm will be introduced?*

	%
0 to 2 years	6%
2 to 4 years	18%
4 to 6 years	6%
6 to 8 years	12%
8 to 10 years	12%
10+ years	18%
None of the above	29%

Over 80% of the surveyed funds thought a global policy to limit atmospheric carbon concentrations to 450ppm would be introduced in the next 10 years, with two-thirds of surveyed funds believing policy would be introduced in the next two to eight years. Funds were less bullish about a policy based on concentrations of 350ppm being introduced which probably makes sense in light of current concentrations estimated to already be in excess of 350ppm.

That the majority of funds believe global carbon regulation will be in place within the next eight years and still don't have a policy or hedging strategy on climate change related risks is of concern.

N.B. not all funds responded to Q4.5 and Q4.6.

Q4.7 *Do you or your advisors have a formal plan or process to assess systemic risks?*

	%
Yes	39%
No	56%

Surprisingly, after the sub-prime collapse, just a little over one-third of surveyed funds (or their advisors) have a formal plan or process in place to assess systemic risks. In Q4.4 the vast majority of funds (83%) said they didn't believe systemic risks like climate change were being priced into asset valuations. However, only a third have a plan to assess these kinds of risks.

N.B. not all funds responded to this question.

Q4.8 What were the scope 1 and 2 emissions of your held investments at 30 June 2010 in each asset class? Please specify in million tCO₂-e.

	%
<i>They were:</i>	
<i>Australian equities:</i> Scope 1 ____; Scope 2: ____;	
<i>International equities:</i> Scope 1 ____; Scope 2: ____;	
<i>Property:</i> Scope 1 ____; Scope 2: ____;	
<i>Infrastructure:</i> Scope 1 ____; Scope 2: ____;	
<i>Hedge funds:</i> Scope 1 ____; Scope 2: ____;	
<i>Fixed income:</i> Scope 1 ____; Scope 2: ____;	
<i>Private equity:</i> Scope 1 ____; Scope 2: ____;	
<i>Cash:</i> Scope 1 ____; Scope 2: ____;	
<i>Other (please specify):</i> Scope 1 ____; Scope 2: ____	17%
<i>Not known</i>	83%

Q4.9 What are the reductions in scope 1 and 2 emissions of your held investments during the 12 months to 30 June 2010 in each asset class? Please specify in million tCO₂-e.

	%
<i>They were:</i>	
<i>Australian equities:</i> Scope 1 ____; Scope 2: ____;	
<i>International equities:</i> Scope 1 ____; Scope 2: ____;	
<i>Property:</i> Scope 1 ____; Scope 2: ____;	
<i>Infrastructure:</i> Scope 1 ____; Scope 2: ____;	
<i>Hedge funds:</i> Scope 1 ____; Scope 2: ____;	
<i>Fixed income:</i> Scope 1 ____; Scope 2: ____;	
<i>Private equity:</i> Scope 1 ____; Scope 2: ____;	
<i>Cash:</i> Scope 1 ____; Scope 2: ____;	
<i>Other (please specify):</i> Scope 1 ____; Scope 2: ____	17%
<i>Not known</i>	83%

Approximately twice the proportion of funds were able to report on their scope 1 and 2 emissions this year, however, no funds is yet able to do this across all asset classes. The same amount of funds were also able to report on the emissions reductions in the past year, an encouraging sign that the level of emissions is starting to be measured. An increase in emissions in Australian equities was noted by one of the surveyed funds, a decrease in the emissions in international equities by another.

Q4.10 What measures are you taking to improve the collection and accuracy of data relating to climate change risks to your portfolio?

	%
Working directly with fund managers to provide data	22%
Working directly with asset consultants to provide data	22%
Working directly with research companies	17%
Working with other third party advisors	11%
Building/developing internal information data systems	6%
Integrating third party information data systems	11%
Other (please specify)	17%
None	44%

In an improvement on last year, a little over half of the respondents are taking steps to improving the collection and accuracy of climate change data (56%, down from 34%). That is, almost half of surveyed funds are taking *no action* to improve their climate change data. One of the “other” measures included undertaking additional internal research.

Q4.11 Does your fund or your fund’s external service providers (e.g. investment managers, asset consultants, etc) have methods in place to calculate your portfolio-level carbon liabilities at a variety of carbon prices?

	%
Yes	17%
No	83%

Although still low at only 17%, we are pleasantly surprised that a greater proportion of funds (or their advisors) now have methods in place to calculate carbon liabilities at a variety of carbon prices. Last year no funds had this capability so this is a good improvement in an area that is very difficult to master.

Q4.12 What amount (AU\$ million) of your total portfolio was invested in high climate impact sector assets (e.g. fossil fuel, high emitters and those sectors identified as “greenhouse intensive” by the CDP) at 30 June 2010?

	%
<i>The value was</i>	
Australian equities: _____ AU\$ million	
International equities: _____ AU\$ million	
Property: _____ AU\$ million	
Infrastructure: _____ AU\$ million	
Hedge funds: _____ AU\$ million	
Fixed income: _____ AU\$ million	
Private equity: _____ AU\$ million	
Cash: _____ AU\$ million	
Other (please specify): _____ AU\$ million	17%
All classes are equally affected by _____%	-
Unknown	83%

A low, but growing, proportion of funds are able to report on their exposure to high climate impact investments within some asset classes. Of those funds that responded, exposures were provided for the Australian equities and infrastructure asset classes. Without knowing their exposure to high risk sectors, formulating a hedging strategy is difficult and generally imprecise.

Q4.13 What are the total company balance sheet fossil fuel reserves for companies held within your equities portfolio at 30 June 2010?

	%
<i>They were::</i>	
Coal: _____ metric tonnes;	-
Gas: _____ cubic metres;	-
Oil: _____ barrels;	-
Not known	100%

Q4.14 What are the total company balance sheet fossil fuel reserves for companies held within your debt and fixed income portfolio at 30 June 2010?

	%
<i>They were:</i>	
Coal: _____ metric tonnes;	-
Gas: _____ cubic metres;	-
Oil: _____ barrels;	-
Not known	100%

Recent reports by Nature indicated that there are currently sufficient proven fossil fuel reserves to comfortably exceed a 450ppm target, assuming existing technology trends. As

such, there is strong argument that exploration assets may be the first to be devalued in the event of rapid regulation of emissions. None of the participating funds were able to report on the fossil fuel exposure of either their equities or fixed income/debt portfolio. With the majority of funds in response to Q4.5 anticipating regulation to limit emissions to 450ppm within the next 8 years, this lack of awareness of exposure to assets which are anticipated to be hugely re-valued could prove to be problematic.

Q4.15 Do you (or your investment managers) consider climate change related factors when investing in real estate?

	%
Yes	72%
No	28%
Not applicable, we do not investment in real estate	-

Q4.15a If you answered yes to Q4.15, what factors do you consider? Please select all that apply.

	%
Energy use/management	85%
Water use/management	85%
Waste use/management	85%
Green Building Council of Australia "green star" accreditation	92%
National Australian Built Environment Rating System accreditation	69%
Other (please specify)	15%
Not applicable, we do not consider climate change related factors	28%
Not applicable, we do not invest in real estate	-

There are some very positive results with respect to funds' investments in property/real estate assets. Almost three-quarters of funds consider climate change factors when investing in real estate. Indeed, according to the McKinsey marginal abatement cost curve, improvements to the energy efficiency of buildings is one of the low-hanging fruit in the marginal abatement cost curve – indeed, the net “cost” of improving the energy efficiency of buildings is actually negative, i.e. a financial benefit.⁷

N.B. not all funds responded to this question.

⁷ “Pathways to a Low-Carbon Economy: Version 2 of the Global Greenhouse Gas Abatement Cost Curve” report by McKinsey & Company, 2009

Q4.16 Do you (or your investment managers) report on the environmental performance of the real estate investments?

	%
Yes	61%
No	39%
Not applicable, we do not investment in real estate	-

Reflecting the increased visibility of energy usage, water usage and other property efficiency measures, almost two-thirds of funds that invest in property provide or are provided with reports on environmental performance.

Q4.17 Do you conduct climate change exposure analysis on your fixed income portfolio?

	%
Yes	-
No	100%

Like last year no funds are currently undertaking any form of climate change analysis on their fixed income investments. Fixed income typically comprises around 30% of a superfund's investment portfolio and is spread across both government and corporate debt. Whilst it is easy to see that some sectors like tourism, agriculture and property will be directly impacted by the physical impacts of climate change, we suspect funds haven't been considering the financing of these activities and how the financiers will be impacted. This is in stark contrast to European funds who have used screening in fixed income portfolios as a way to hedge climate change and other ESG risks.

Q4.18 Does your trustee Board perceive a time when super funds will consider legal action against investee companies who suffer major foreseeable climate change impacts (either physical or policy impacts)?

	%
Yes	17%
No	83%

The past year saw the first legal action by a pension fund against an investee company for poor management of environment-related risks. The New York and Ohio state pension funds were the lead plaintiffs in shareholder litigation against BP for investment losses suffered as a result of the Gulf oil spill in 2010. We pose this question to see if funds foresaw similar actions in Australia surrounding climate change related risks. Currently, only 17% of funds envisage a time when such action would take place. We continue to be disappointed at the lack of accountability investee companies appear to have to their investors. With more than half of the survey's respondents being participants in one or ore of ACSI, PRI and CDP we are surprised to see such a low level of active ownership.

3.5. Reporting of climate change issues and assets

Q5.1 What is the total value of investments in low carbon assets in your fund in the following areas (across all asset classes)? Please select all that apply and state the amount in AU\$ million.

	%
Renewable energy assets ⁸	28%
Other low carbon assets across all asset classes ⁹	6%
Clean-tech	11%
Adaptation assets (e.g. flood barriers, seawalls etc)	-
Offset assets (e.g. forestation, sinks)	11%
Low carbon financial products	6%
Other (Please specify)	11%
None	-
Not known	67%

Two-thirds of respondents do not know if they are invested in climate change related investments. This is an improvement on last year's 99%, however.

Whilst still in the minority, there has been a marked increase in the proportion of funds who are able to identify their investments in low-carbon assets (33%, up from 12% last year). Similar to last year renewable energy assets were most readily identified. Other investments identified included listed international equity clean tech portfolios and private equity exposure to clean technologies. Like last year, we suspect a greater proportion of funds have exposure to low-carbon assets but do not have the data readily available to identify them (as identified in the responses to Q5.2, below).

Q5.2 Following on from question 5.1, by how much (as a % of total fund assets) has the allocation to these investments increased in the 12 months to 30 June 2010?

	%
Decrease of 10% or more	-
Decrease of 5% to 10%	-
Decrease of 0 to 5%	6%
No change	33%
Increase of 0 to 5%	11%
Increase of 5% to 10%	-
Increase of 10% or more	6%
Not applicable - no low-carbon assets held	39%

⁸ Defined by the National Greenhouse and Energy Reporting Act as 0.2 tonnesCO₂-e/MWh or less

⁹ including all services, low carbon capital assets within equities, other low carbon infrastructure e.g. transportation, property etc

There is a trend towards the allocation to low-carbon assets increasing although this is pretty marginal with most funds reporting little or no change.

N.B. Not all funds responded to this question.

Q5.3 *Are you able to report the geographic or jurisdictional distribution of all your climate change related assets across all asset classes?*

	%
Yes	28%
No	72%

Another big improvement on last year, with 28% (up from 9%) of funds able to report on the geographical or jurisdictional distribution of their climate change related assets.

Q5.4 *Are you able to report the technological range of various renewable energy infrastructure and cleantech assets across all asset classes?*

	%
Yes	33%
No	67%

Similar to the previous question, a greater proportion of funds were able to report on the technological range of their assets (33%, up from 16% last year).

3.6. Portfolio-level climate change management

Q6.1 *Do you have a strategy for measuring and managing portfolio-level climate change risks?*

	%
Yes (please specify)	11%
No	89%

There continues to be only a small proportion of funds that are able to measure and manage climate change risks at the portfolio level. These responses partially conflict with those given the Q4.7, suggesting that some funds may not view climate change as a systemic risk.

Q6.2 Have you considered the impact of portfolio-wide climate change data on the information systems relating to your underlying investments?

	%
Yes, we have implemented one of the following:	
Internal systems	-
Third party systems	-
Other (please specify)	6%
No	94%

Consistent with the responses to the previous question, only a small proportion of funds have started to consider the impact of integrating climate change data in investment management information systems. These responses are largely unchanged from last year with 94% of funds again having not considered the data implications.

Q6.3 Do you use a third party company for portfolio-level climate change data/research or instruct any adviser to do so?

	%
Yes (please specify)	17%
No	83%

Almost unchanged from last year, 17% of funds use or instruct an adviser to use portfolio-level climate change data. Some of the third parties listed were Mercer, Trucost, Regnan and RiskMetrics (now owned by MSCI).

Q6.4 What methods of climate change-related portfolio-level risk mitigation do you undertake? Please select all that apply.

	%
Hedging of fossil fuel investments via counter investments in renewable/cleantech	17%
Hedging via purchase of put options or short orders	-
Thematic investment strategy	17%
Positive inclusion criteria (or negative screens) on all investments	6%
Positive inclusion criteria (or negative screens) on selected investment options	11%
Overlay strategy	-
Optimisation of whole portfolio for climate change risk minimisation	-
Other (please specify)	6%
None	72%

Compared to last year a larger proportion of funds undertake some form of climate change risk mitigation (28%, up from 16%). There are a growing number of “leading” funds in this area but they are still in the minority with the majority of funds not mitigating climate change-related risks in their portfolios.

Q6.5 *What portfolio-wide risks relating to climate change do you calculate? (More than one option may be selected)*

	%
<i>Aggregation of climate change data such as emissions footprint/third party carbon ratings to portfolio level</i>	6%
<i>Physical impact risk</i>	-
<i>Fossil fuel exposure</i>	-
<i>Other (please specify)</i>	-
<i>None</i>	94%

Reflecting the responses to Q6.2, only a small proportion of funds calculate portfolio-wide climate change risk. Interestingly, 6% of funds calculate portfolio-wide risks yet a greater proportion (28%) are hedging the risk suggesting some funds are currently satisfied with estimating the impacts and risks to be hedged rather than being overly precise.

Q6.6 *When considering direct investment in climate change mitigation assets, which of the following discounting methods do you think is the most appropriate?*

	%
<i>Traditional/standard flat-rate discounting practices</i>	11%
<i>Lower discount rate than traditional/standard practice</i>	-
<i>Higher discount rate than traditional/standard practice</i>	-
<i>A staggered discount rate: high in the short-term, low in the long-term</i>	6%
<i>Other (please specify)</i>	11%
<i>Not known/no opinion</i>	72%

Short-termism in markets exists largely due to the influence of discounted cash flow techniques. There is little evidence that these techniques serve investors' long-term interests when dealing with systemic risks, as the ultimate price for manifestations of these risks is long-term but high impact and therefore not one that is easily managed by traditional accounting based valuation techniques. We ask this question as, for these assets, the majority of the benefits are received in the future and are therefore discounted into obscurity by traditional flat-rate discounting methods.

Similar to last year's survey, few funds appear to have given much consideration to, or engaged on, the use of discount rates in the context of climate change mitigation assets.

Q6.7 *In relation to the carbon intensity of your default Australian equities portfolio, is your portfolio above, below or in line with your benchmark index (e.g. the S&P/ASX 200)?*

	%
<i>Under (i.e. less carbon intensive than your benchmark)</i>	-
<i>Over (i.e. more carbon intensive than your benchmark)</i>	11%
<i>Neutral (i.e. in line with your benchmark)</i>	11%
<i>Not known</i>	78%

A slightly greater proportion of funds this year were able to report on the relative carbon intensity of their Australian equities portfolio (22%, up from 16%).

Q6.8 *In relation to the carbon intensity of your default international equities portfolio, is your portfolio above, below or in line with your benchmark index (e.g. the MSCI World)?*

	%
<i>Under (i.e. less carbon intensive than your benchmark)</i>	11%
<i>Over (i.e. more carbon intensive than your benchmark)</i>	-
<i>Neutral (i.e. in line with your benchmark)</i>	6%
<i>Not known</i>	83%

There was a larger jump in the proportion of funds able to report on the relative carbon intensity of their international equities portfolio this year (17%, up from 3%).

Q6.9 *If you are a master trust, or manager of managers, do you provide clients with any portfolio-level tools around climate change risk/management?*

	%
<i>Yes (please specify)</i>	-
<i>No</i>	6%
<i>Not applicable – not a master trust</i>	94%

Like last year, none of the surveyed master trusts currently provide investors with any tools to manage their climate change-related risks.

3.7. Management of investment/fund managers

Q7.1 Do your current investment manager agreements incorporate climate change issues?

	%
Yes, they have specific guidance on climate change	11%
Yes, they refer to our climate change policy	6%
No, we operate an overlay on their investments	6%
No	78%

A small but rapidly growing proportion of funds have climate change issues incorporated into their investment management agreements (17%, up from 3%), the proportion of funds with specific guidance growing the most (11%, up from 0%).

Q7.2 Do your investment manager agreements reflect any of the following? (More than one option may be selected)

	%
Mandatory integration of climate change research and data	6%
Allocations to low carbon investments	-
Carbon optimisation	-
Reference to your climate change policy	11%
Greater mandate length	-
Longer investment horizons	28%
Retained bonuses/clawbacks/options for long term-return (please specify)	11%
Mandatory signatory of initiatives such as UNPRI, EAI or GRI	-
Other (please specify)	17%
None of the above	44%

Similar to the evolution of asset consulting agreements, a greater proportion of funds this year reported including elements in their investment management agreements that were consistent with better management of climate change risks and opportunities. The use of longer investment horizons grew the most (28%, up from 3%) and was the most common evidence of this in contrast to last year where being a mandatory signatory of initiatives was the most common response (0%, down from 13%).

Q7.3 To what extent do you consider climate change-related capabilities/performance when appointing an investment manager?

	%
Not at all	39%
0 to 10% of investment manager rating	44%
10% to 20% of investment manager rating	11%
20% or more of investment manager rating	6%

Comparing these responses to those to Q3.5, we can see that climate change-related capabilities is considered by the funds to be more important when appointing investment managers than when selecting an asset consultant.

Q7.4 How many climate change investment mandates do you currently have?

	%
0	61%
1	11%
2	6%
3	6%
4 or more	17%

Q7.5 Do you plan to appoint an investment manager to manage a climate change-related mandate within the next 12 months?

	%
Yes (please specify approximate mandate size in AU\$ million)	17%
No	83%

Similar to Q5.2, these two new questions are designed to gain insight into the trajectory of the value of climate change investments. Almost one of every five respondents is currently planning to appoint a manager to manage a climate change-related mandate within the next 12 months.

Q7.6 Please indicate in which asset classes climate change issues are being incorporated by your investment managers as part of their defined investment process. (More than one option may be selected)

	%
<i>Australian equities</i>	50%
<i>International equities</i>	50%
<i>Property</i>	72%
<i>Infrastructure</i>	50%
<i>Hedge funds</i>	6%
<i>Fixed income</i>	11%
<i>Private equity</i>	33%
<i>Cash</i>	-
<i>Other (please specify)</i>	22%
<i>None of the above</i>	22%

There has been a marked increase in the incorporation of climate change issues in all asset classes this year compared to last year with a very significant jump seen in property (72%, up from 28%). Only 22% of funds (down from 41%) don't incorporate climate change issues in any asset classes.

Q7.7 What review processes have you implemented for your investment managers with respect to their climate change capability?

	%
<i>Regular reports from our investment managers</i>	22%
<i>Other (please specify)</i>	39%
<i>None</i>	39%

There has been an increase in the proportion of funds that receive reports from their investment managers dealing specifically with climate change capability. Only 39% (down from 94% last year) of funds have no form of review/reporting process on this skill area, a huge decrease.

3.8. Active ownership and collaborative initiatives

Q8.1 Do you have an engagement policy which describes how you engage with investee companies?

	%
<i>Yes</i>	44%
<i>No</i>	56%

A slight increase on last year, almost half of responding funds have an engagement policy (up from 34%).

Q8.2 Does your engagement policy include how you engage with investee companies around climate change issues?

	%
Yes	28%
No	17%
Not applicable - no engagement policy	56%

Q8.3 Is your engagement policy public?

	%
Yes	28%
No	17%
Not applicable - no engagement policy	56%

Of those funds that have an engagement policy, two-thirds address climate change issues specifically (whereas none did last year)> Two-thirds of respondents have also made their engagement policy public.

Q8.4 For the year ending 30 June 2010, how did you engage with investee companies around climate change issues? (More than one option may be selected)

	%
Filing/supporting shareholder resolutions	22%
Collaborative engagement (e.g. with an association/another investor)	56%
Proxy voting	33%
Direct engagement conducted privately	17%
Direct engagement conducted publicly	6%
Other (please specify)	6%
No engagement undertaken	39%

There was an increase in the proportion of funds that undertook engagement during the year (61%, up from 47%). Collaborative engagement continues to be the most popular engagement approach and experiences the largest increase (up from 34%). There were increases in all other prescribed areas: filing/supporting shareholder resolutions (up from 6%), proxy voting (up from 19%) and direct engagement (up from 6%).

Q8.5 *In relation to what climate change related issues did you engage with investee companies on for the year ended 30 June 2010? (More than one option may be selected)*

	%
<i>A company's lack of, or poor execution of, an emissions reduction strategy</i>	22%
<i>A company's lack of participation in, or need to improve their response for, the CDP</i>	33%
<i>A company's use of unrealistic carbon price, oil price or other market variables when making capital investment decisions</i>	-
<i>A company using their influence to lobby government against climate policy designed to limit global warming to 2C</i>	11%
<i>A company's lack of climate change (or environment) related incentives in remuneration policy of executives</i>	6%
<i>Other (please specify)</i>	33%
<i>No engagement undertaken</i>	44%

A slightly greater proportion of respondents engaged with investee companies over climate change related issues in the year to 30 June 2010 (56%, up from 37%). The CDP was again the most common issue for engagement (up from 19%); engagement over emissions reduction strategies also increased (up from 9%). Other issues included views and preparation for an Australian emissions trading scheme or carbon price and poor climate [risk] management, as well as commending companies on existing ESG practices.

Q8.6 *In relation to what climate change related issues would you consider engaging with investee companies? (More than one option may be selected)*

	%
<i>A company's lack of, or poor execution of, an emissions reduction strategy</i>	28%
<i>A company's lack of participation in, or need to improve their response for, the CDP</i>	33%
<i>A company's use of unrealistic carbon price, oil price or other market variables when making capital investment decisions</i>	28%
<i>A company using their influence to lobby government against climate policy designed to limit global warming to 2C</i>	6%
<i>A company's lack of climate change (or environment) related incentives in remuneration policy of executives</i>	17%
<i>Other (please specify)</i>	33%
<i>None, we would not consider engaging with investee companies on climate change related issues</i>	33%

A greater proportion of funds are willing to consider engagement on climate issues than those that actually DID engage on these issues in the past year with the CDP, emissions reduction strategies and capital investment decisions the most popular issues selected. Other potential engagement issues included a company's preparation for an Australian emissions trading scheme and a company's poor, or lack of, ESG reporting.

Q8.7 *Do you have a proxy voting policy?*

	%
<i>Yes – tailored to our own specifications</i>	39%
<i>Yes – to vote in line with the investee company’s management</i>	-
<i>Yes – to vote in line with the investment manager’s own proxy voting policy</i>	22%
<i>Yes – other (please specify)</i>	17%
<i>No</i>	22%

Just under 40% of surveyed funds have proxy voting policies that are tailored to their own requirements, with a significant proportion (22%) choosing to vote in line with the investment manager’s proxy voting policy. A number of funds used the recommendations of the Australian Council of Super Investors as their proxy voting guide. The proportion of respondents with no proxy voting policy was the same as last year.

Q8.8 *Does your proxy voting policy include direction on climate change issues?*

	%
<i>Yes</i>	17%
<i>No</i>	61%
<i>Not applicable – no proxy voting policy</i>	22%

Q8.9 *Is your proxy voting policy public?*

	%
<i>Yes</i>	33%
<i>No</i>	44%
<i>Not applicable – no proxy voting policy</i>	22%

Of those funds that have a proxy voting policy, one-fifth address climate change issues specifically (up from 8%), but a much greater proportion (two-fifths) has made their proxy voting policy public (43%, up from 28%).

Q8.10 *Have you or your proxy voting provider ever supported any shareholder resolutions related to climate change?*

	%
<i>Yes (please specify)</i>	11%
<i>No</i>	89%

The responses to this question are broadly in line with those of the last two years’ surveys; however, we may see an increase in the proportion of those that have supported shareholder resolutions following the launch in 2010 of the Climate Advocacy Fund

(managed by Australian Ethical). The Climate Advocacy Fund is an Australian equity managed fund that focuses on engagement and shareholder resolutions with investee companies in order to improve the level of climate change risks management (<http://www.climateadvocacyfund.com.au/>).

Q8.11 Over what issues will you support a future climate change related shareholder resolution?

	%
A company's lack of, or poor execution of, an emissions reduction strategy	33%
A company's lack of participation in, or need to improve their response for, the CDP	28%
A company's use of unrealistic carbon price, oil price or other market variables when making capital investment decisions	22%
A company using their influence to lobby government against climate policy designed to limit global warming to 2C	22%
A company's lack of climate change (or environment) related incentives in remuneration policy of executives	28%
Other (please specify)	44%
None, we would not consider supporting a climate change related shareholder resolution	17%

There has been a slight increase in the willingness of funds to consider supporting a climate change-related shareholder resolution (83%, up from 78%). In particular, in regard to execution of emissions reductions strategies (up from 22%). In the other issues listed, one fund stated they have "...voted against the re-election of Directors at certain 'climate risk intensive' companies because they have not demonstrated that they are taking climate change risks seriously at Board level".

Q8.12 Do you have any of the following evidence regarding your influence on investee companies? (More than one option may be selected)

	%
Evidence of improvement in investee company climate change performance due to your engagement	-
Evidence of a climate change-related shareholder resolution that was adopted	-
Evidence of a climate change-related shareholder resolution that was withdrawn after successful negotiation with the investee company	-
Substantial media coverage of the resolution or our support	-
Other (please specify)	17%
None	83%

There has been a slight increase in the proportion of funds that have evidence of their influence on investee companies (17%, up from 12%). Both ACSI and Regnan were listed as providing evidence of influence.

Q8.13 *Have you requested reporting on the climate change-related performance of investee companies?*

	%
<i>Yes, directly</i>	-
<i>Yes, via collaborative initiatives (such as CDP)</i>	44%
<i>Yes, via investment managers</i>	-
<i>Yes, other (please specify)</i>	11%
<i>No</i>	55%

These responses are more positive than the previous year with a marked increase in the use of the CDP to request climate change-related reporting (44%, up from 28%). ACSI was mentioned as an alternative method of receiving reports by some funds.

Q8.14 *Would you be willing to consider large-scale investment opportunities in infrastructure to help limit Australia's climate risk and maximise opportunity?*

	%
<i>Yes, with other funds and government</i>	44%
<i>Yes, with other funds</i>	39%
<i>Yes, with government</i>	6%
<i>No</i>	11%

There has been an increase in the willingness of funds to consider large-scale investment opportunities in low-carbon infrastructure with almost 90% of funds willing to do so. Since the survey's inception three years ago the willingness of the surveyed funds to talk to government regarding large scale investment opportunities has continued to decrease whilst the willingness to consider these same opportunities with other funds has continued to increase.

Q8.15 What structural or cultural barriers do you think exist that prevent funds acting collectively to fund uniquely large scale renewable energy investments or portfolios? (More than one option may be selected)

	%
Competition between project managers/infrastructure development companies	17%
Competition between funds	17%
Debt availability	6%
Never been done before on the scale required	17%
Lack of certainty around climate policy (domestic and/or international)	78%
Lack of appropriate investment opportunities	61%
Other (please specify)	11%
Not known	6%
None, we do not think barriers exist	-

Two themes that emerged in earlier sections of the survey responses are echoed here with a staggering 78% of funds citing lack of certainty around climate policy as a barrier to large-scale renewable energy investments, followed closely by a perception of a lack of investment opportunities.

Q8.16 What can government do to help remove some of the barriers that prevent large scale renewable energy investments or portfolios? (More than one option may be selected)

	%
Altering public purchasing policy to support investment in particular areas	35%
Favourable commercial terms (e.g. price floor)	53%
Capital protection	24%
Liquidity facilities	35%
Tax benefits	47%
Obsolescence support	-
Other (please specify)	24%
Not known	24%
Not applicable - we do not think barriers exist	-

A new question this year to see what, if any, barriers the government can assist in removing to better foster large-scale renewable investment. All “other” options listed were regarding clarity around climate policy.

N.B. Not all funds responded to this question.

Q8.17 Please select all of the collaborative engagement initiatives and/or industry associations you participate in. (More than one option may be selected)

	%
Carbon Disclosure Project (CDP)	61%
Principles for Responsible Investment (PRI)	56%
Extractive Industries Transparency Initiative (EITI)	-
Enhanced Analytics Initiative (EAI)	6%
Institutional Investors Group on Climate Change (IIGCC)	11%
International Corporate Governance Network (ICGN)	11%
Investor Group on Climate Change, Australia/New Zealand (IGCC)	39%
Australian Council of Super Investors (ACSI)	56%
Regnan	28%
Interfaith Center on Corporate Responsibility (ICCR)	-
ESG Research Australia (ESG RA)	39%
United Nations Environmental Program Finance Initiative (UNEPFI)	11%
Other (please specify)	6%
None	11%

The proportion of funds that participated in one or more of the initiatives listed above has increased from 69% to 89% over the year. The biggest increase was participation in the CDP (up from 25%) and ESG RA (up from 16%). Over half of funds participate in one or all of CDP, PRI and ACSI.

Q8.18 Have you engaged in dialogue, lobbying or initiatives pertaining to government policy and/or industry regulations (i.e. stock exchanges, accounting standards) related to climate change issues?

	%
Yes (please specify)	39%
No	61%

There has been an increase this year in the proportion of funds that have engaged in the discussion regarding climate change policy and regulations (39%, up from 22%).

3.9. Climate change skills, training and education

Q9.1 Do you have internal capacity and capability for dealing with climate change issues (i.e. within your fund's operations)? (More than one option may be selected)

	%
Yes, we have dedicated climate change specialists on staff	6%
Yes, we have ESG staff	28%
Yes, we hire external consultants	17%
Yes, we conduct staff training	11%
Yes, other (please specify)	11%
No	39%

There has been a marked increase in the proportion of funds with some sort of internal climate change capability (61%, up from 47%) with an increase in all response types especially internal staff-related initiatives such as having a climate change specialist (up from 0% last year) and conducting staff training (also up from 0% last year).

Q9.2 Do you plan to increase your capacity and capability for dealing with climate change issues? (More than one option may be selected)

	%
Yes, through hiring staff	-
Yes, through fund managers	28%
Yes, through asset consultants	39%
Yes, through hiring external consultants	6%
Yes, through developing existing staff	39%
Yes, other (please specify)	6%
No, our existing capacity and capability is adequate	6%
No	33%

The proportion of funds that are not planning on increasing their climate change capacity/capability has remained steady at around 40%. However, of those funds, only a small proportion believes their existing capacity is adequate, possibly hinting at a lack of resources available to build capability. The increasing strong reliance on asset consultants (39%, up from 25%) is an echo of responses to other questions in the survey and underscores the important role asset consultants have in this area. The biggest area of change was in the proportion of funds planning on increasing capability through their fund managers (28%, up from 3%).

Q9.3 *In relation to your internal investment management team, do you provide climate change training for your non-climate change-specialist investment management staff? (More than one option may be selected)*

	%
<i>We have a climate change specialist in the investment team</i>	6%
<i>We provide climate change training for the fund CEO</i>	6%
<i>We provide climate change training for the fund CIO</i>	6%
<i>We provide climate change training for other fund investment executives</i>	6%
<i>We provide climate change training for fund trustees</i>	17%
<i>Other (please specify)</i>	33%
<i>No</i>	50%

The proportion of funds providing climate change training has increased significantly (50%, up from 22%) although the distribution between responses has remained relatively unchanged and even with the exception of an increase in the proportion that provide climate change training to trustees (17%, up from 9%). Other areas of training include ESG-related conferences for investment staff.

A small proportion of funds did not have an internal investment team and are excluded from the response table.

3.10. Member engagement

Q10.1 *Have you communicated to your members about how climate change issues impact upon their superannuation?*

	%
Yes	28%
No	72%

This is quite a positive result given the relatively short period of time superannuation funds have had to investigate the impact of climate change issues on their members' investments. That almost one-third of funds have communicated to their members how these issues impact upon their superannuation is a very positive move.

Q10.2 *Have you disclosed (to members, authorities, etc) how climate change issues are integrated into your investment processes?*

	%
Yes	50%
No	50%

Half of the respondents have disclosed how climate change issues are integrated in investment processes, a significant jump from last year (up from 26%).

Q10.3 *What member feedback, if any, do you receive about concern over climate change?*

	%
<i>None</i>	39%
<i>Occasional</i>	61%
<i>Regular</i>	-

There has been a very significant increase in the proportion of funds receiving occasional feedback (up from 35%), highlighting the increase awareness and concern members have of climate change, particularly in relation to the risk it poses to their retirement income.

Q10.4 *Do you see a branding opportunity and/or competitive advantage in building climate change capability? (More than one option may be selected)*

	%
<i>Yes, by ensuring members realise our pro-active stance on climate change issues</i>	17%
<i>Yes, by ensuring members realise our climate change capability</i>	-
<i>Yes, through types of investments made (e.g. renewable energy investments)</i>	-
<i>Yes, through other investments (please specify)</i>	-
<i>Yes, through participation in collaborative initiatives</i>	17%
<i>Yes, through ESG awareness</i>	22%
<i>Yes, through other (please specify)</i>	11%
<i>No</i>	33%

Similar to last year, two-thirds of funds see a branding opportunity or competitive advantage in building climate change capability. ESG awareness continues to be seen as the main type of opportunity.

3.11. Internal company climate change management

Q11.1 Which of the following measures do you take as a fund to limit your own net emissions EXCLUDING held investments? (More than one option may be selected)

	%
Carbon reduction programmes	39%
Green building practice	72%
Offsets	17%
Staff education programmes	39%
Greenpower	6%
Other (please specify)	28%
No measures taken	22%

The proportion of respondents that take steps to limit their own greenhouse gas emissions was broadly in line with last year (78%, up from 75%). Adopting green building practices continues to be the most common approach and experienced a significant increase this year (72%, up from 50%). The proportion of funds taking part in carbon reduction programmes also increased (39%, up from 22%). Some of the other measures include creating a sustainability committee, a purchasing policy that encourages energy efficient equipment purchases and hybrid staff vehicles.

Q11.2 What are the scope 1 and 2 emissions of your own fund operations, excluding held investments (in tonnes CO₂-e)?

	%
They are: _____ tonnes CO ₂ -e for scope 1, and _____ tonnes CO ₂ -e for scope 2	- -
Not known	100%

Q11.3 By what amount have the scope 1 and 2 emissions of your own fund operations, excluding held investments (in tonnes CO₂-e) reduced in the past 12 months?

	%
They are: _____ tonnes CO ₂ -e for scope 1, and _____ tonnes CO ₂ -e for scope 2	- -
Not known	100%

No funds were able to report on their scope 1 or 2 emissions figures or the change in these emissions during the year although one fund noted that they would be looking to calculate this in the coming year. This is a slightly weaker response than in last year's survey.

Where to from here?

Policy uncertainty – both domestically and abroad – is evidently a major barrier for many funds when it comes to building climate change capability and/or making allocations to low-carbon investments. However, as BHP Billiton Chief Executive Officer Marius Kloppers declared, climate policy is “inevitable” and we are concerned at the lack of preparation by super funds for this change which they themselves also appear to be anticipating.

To this end The Climate Institute will continue to engage in the climate policy debate in Australia, and globally, pushing for carbon regulation that both reduces pollution and drives investment into the low-carbon economy.

In addition, following the launch of The Climate Institute’s *Climate Change Best Practice Methodology* last year (<http://www.climateinstitute.org.au/business/methodology>) we will continue to engage with superfunds to help them prepare for the impacts of carbon regulation and the broader implications of investing in a changing climate.

Tied in with this we will continue our dialogue with the Australian Stock Exchange (ASX) and Australian Prudential Regulation Authority (APRA) regarding the improved disclosure of climate change risks by both investee companies and asset owners themselves.

The Climate Institute will continue to work with Australian Ethical Investment on the *Climate Advocacy Fund* (<http://www.climateadvocacyfund.com.au/>) on their active ownership strategies including engagement with investee companies and formulation of shareholder resolutions with the aim of improving corporate behaviour, financial performance and sustainability.

There is a significant drive towards greater disclosure of climate change practice and risk management by superfunds. The annual disclosure initiative launched in early 2011 by the world’s investor groups – the European Institutional Investors Group on Climate Change (IIGCC), the North American Investor Network on Climate Risk (INCR) and Australia/New Zealand Investor Group on Climate Change (IGCC) – on climate change is to be applauded as yet another sign of progress in this area.

However, we believe no disclosure is complete without material data relating to emissions intensity across a portfolio, fossil fuel exposures, low carbon investment levels and a description of the portfolio-level hedging strategy. Perhaps most importantly, it is critical that a market for climate change capability and performance is developed and so public ranking and rating is required.

The Australian Asset Owners Disclosure Project is now part of a broader, global project and this initiative will continue on each year in Australia and overseas until fund disclosure around climate change risk management improves.