The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by Canada's largest pension managers and four international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. The international funds examined are AP2 (Sweden), National Employment Savings Trust (Nest) (United Kingdom), NGS Super (Australia) and New York State Common Retirement Fund (NYSCRF) (United States). View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

NGS SUPER

NGS Super is an industry superannuation fund in Australia primarily for those in the community and education sectors, but open to any Australian. It has over 100,000 members.

Assets Under Management (AUM): AU$13.1 billion (June 30, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
NGS Super	B	B–	C	A	B+	B–	B

OVERALL CLIMATE SCORE — B

NGS Super has committed to carbon neutrality by 2030. The fund needs to strengthen its short-term targets and engagement but has already excluded investment in oil and gas exploration and production and has a weak coal exclusion policy. The fund's climate integration could be improved by requiring climate expertise on its Board and linking staff compensation to climate targets. The fund's discussion of how it is approaching its carbon-neutral target, its scenario analysis and its disclosure of investments are excellent.

SCORING DETAILS

Paris-Aligned Target — B–

While NGS Super has set an ambitious target to be carbon-neutral by 2030, it has not spelled out the details for how it will get there. The fund has chosen "carbon neutral" rather than "net zero emissions", with the explanation that "carbon neutral is defined in terms of carbon dioxide (CO2). CO2 is by far the largest contributor to greenhouse gases — in 2018 approximately 81% of the total greenhouse gases emitted were carbon dioxide, hence a 'carbon neutral' goal as opposed to a 'net zero emissions' goal."[1]

NGS Super plans that by 2030 it will hold carbon-neutral investments, carbon-positive investments, and investments with "low or justifiable scope 1 and 2 emissions", with these emissions offset by the fund's carbon-positive investments. Investments in climate solutions should not be used to offset emissions-intensive holdings, which helps to explain NGS' mediocre score in this category. The fund notes that use of purchased carbon offsets "would not be in members' best financial interests, as the cost of those offsets would be deducted from investment returns," but has not ruled out their use (*Carbon neutral by 2030: Member update*).

Interim Targets	C

According to its *2022 TCFD Report*, NGS Super has set a target to reduce its scope 1 and 2 emissions intensity by 35% by 2025, using a 2021 baseline (p.34). By 2025, the fund will have divested of "scope 3 stranded assets" (p.5).

The fund does not have a target for investments in climate solutions or for the proportion of AUM covered by a credible net-zero transition plan.

Climate Urgency	A

NGS Super acknowledges the urgency of the climate crisis, the risks the climate crisis poses to its portfolio and to the financial system as a whole, and its responsibility to use its financial power to influence the trajectory of the climate crisis.

Sample language from NGS Super's *Responsible Investment Policy* (p.5):

"We have entered a decisive decade for humanity, with the warnings about the impact of inaction on climate being evidenced around the world. Economic systems will face major disruption and therefore we need to make a paradigm shift in our economic models to protect our members' retirement savings. The Fund has taken a bold step and in 2021, announced our ambitious target to transition the portfolio to carbon neutral by 2030. The Fund believes that drastic action is required to contribute to change. By using the collective capital of committed NGS members, the Fund will support companies building sustainable, lower carbon businesses, while aiming to improve on current average long-term investment returns for members."

Climate Engagement	B+

NGS Super determines that it will engage with a company if it has "a sound and realistic business plan to transition to the low-carbon economy within a timeframe deemed acceptable to the fund" (*Carbon neutral by 2030: Member update*).

NGS Super states on its website (*NGS Super divests from Woodside, Santos and more*) that it will engage with companies with high scope 1, 2 and 3 emissions to:

- "set science-based targets and commit to meaningful scope 1, 2 and 3 emission reductions
- assess and challenge the plans they have in place to meet the science-based targets
- ensure they have contemplated appropriate adjustments to their business model as we head towards the low-carbon economy."

NGS Super places a limit on its engagement: "Engagement will be key to our transition plan, but where it is clear that a company or asset doesn't have a sound strategy or business plan to transition to the low carbon economy, we will plan to divest these assets over time" (*2030 target: a carbon neutral investment portfolio* [webpage]).

Proxy voting

NGS Super discloses all of its proxy voting decisions in real time and has supported 70% of climate-related shareholder resolutions from 2017 to 2020, according to research from Australian sustainable finance NGO *Market Forces*.[2] The Fund's *Active Ownership and Engagement Policy* states that it delegates its proxy voting to

Glass Lewis and asks the advisory firm to add an "ESG Overlay" to the Glass Lewis guidelines. This ESG overlay does not appear to include specific reference to climate. NGS Super's *2022 TCFD Report* does say, however, that the fund will vote in support of sustainability reporting and disclosure, developing greenhouse gas reduction goals, and policies for guidelines that mitigate climate risks (p.30).

Collaborative engagement

NGS Super is an investor supporter of Climate Action 100+, meaning it is a signatory to the initiative and supports the initiatives' goals, but does not participate directly in engagements with focus companies.

While NGS Super states it participates in collaborative engagements, examples were not provided in the *2020/2021 Annual Report*. According to the September 2022 *Active Ownership and Engagement Policy*, NGS Super will provide members with a summary of engagement activities annually (p.4).

Direction given to external managers

External managers must comply with the Fund's exclusion list (*Active Ownership and Engagement Policy*, p.3) and are "required" to "demonstrate alignment with [NGS Super's] ESG position" (*2022 TCFD Report*, p.8). NGS Super examines carbon intensity per investment manager (p.8). No details are provided as to the specific direction given on climate-related risk.

Additional information

According to the September 2022 *Active Ownership and Engagement Policy*, the Fund "endeavours to investigate and respond" when members provide feedback about ESG issues or proxy voting (p.4).

Climate Integration	B–

Accountable Paris-aligned membership

NYSCRF is a member of the Paris Aligned Investment Initiative (PAII).

Transparency and disclosure of holdings

NGS Super provides twice a year a full list of asset classes and investments in searchable tables and downloadable csv format.

Transparency and disclosure of climate risk

NGS Super has plain language and detailed communication for its members regarding how the fund is conceptualizing and managing climate-related risks. See for example its *Statement on Climate Change* and website posts *2030 super target: a carbon neutral investment portfolio*, *Carbon neutral by 2030: Member update*, and *NGS Super divests from Woodside, Santos and more*.

The fund's discussion of climate scenario analysis in its *2022 TCFD Report* is the most detailed of all TCFD reports examined in this analysis, including 12 pages of discussion and a further five-page Appendix. NGS Super considered its listed assets under six scenarios and its unlisted assets under three scenarios, with a discussion of how each scenario affects different asset classes. It notes transition risks particularly for investments in airports, marine logistics and fossil fuels, with "transition profitability" for renewables. Physical risks assessed by NGS Super include the impacts of water stress, riverine flooding, extreme precipitation, extreme heat, and the amount of energy needed to keep buildings at a livable temperature.

Board climate expertise and/or fossil fuel entanglement

No Board members are identified as having climate expertise.

No Board members appear to currently hold directorships at fossil fuel companies.

Executive and staff compensation and climate

There is no indication that NGS Super ties compensation to climate targets, although NGS Super's *Active Ownership and Engagement Policy* states that each member of the internal investments team has responsible investment/ESG key performance indicator(s) (p.2).

Fossil Fuel Exclusions	B

NGS Super excludes companies that generate more than 30% of their revenue from the distribution, power generation or extraction of thermal coal (*Responsible Investment Policy*, p.4). The 30% threshold is too high, and this exclusion should be strengthened.

NGS Super excludes companies engaged in oil and gas production and exploration, with some caveats: the exclusion applies to listed investments, as defined by the GICS Energy sub-industry, but for unlisted investments, NGS Super makes an internal assessment (*Responsible Investment Policy*, p.4).

NGS Super may apply exemptions to exclusions (p.4). For example, as of August 2022 thermal coal company AGL Energy was exempted from NGS' exclusion policy in order to provide AGL an opportunity to reset its leadership and climate strategy after a failed demerger.[3]

ENDNOTES

1 NGS Super. (2022, August 4). *Super Fund Divests From Major Fossil Fuel Companies On Path To Carbon Neutral*. [Press release]. P.2. www.ngssuper.com.au/files/forms/download/divestment-media-release.pdf.

2 Market Forces. (2022). *NGS Diversified MySuper - Market Forces*. Webpage. Retrieved November 11, 2022 from www.marketforces.org.au/superfunds/ngs-diversified-mysuper/?superfund=NGS%20Super.

3 NGS Super. (2022, August 5). *NGS Super divests from Woodside, Santos and more*. Blog post. www.ngssuper.com.au/articles/sustainability/ngs-divests-major-fossil-fuel-companies. See also NGS Super. (2022, July 8). *AGL's failed demerger plan and what it means*. Blog post. www.ngssuper.com.au/articles/sustainability/agl-demerger-plan.

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- 2020-2021 Annual Report
- 2022 Task Force on Climate-related Financial Disclosures Report

Documents

- Statement on Climate Change (June 2022)
- Active Ownership and Engagement Policy (September 2022)
- Responsible Investment Policy (September 2022)
- Trustee Board (July 1, 2022)

Webpages and press releases

- Diversified - MySuper - Investment Options (website list of holdings)
- NGS Super divests from Woodside, Santos and more (website post August 5, 2022)
- Press release: Super Fund Divests From Major Fossil Fuel Companies On Path To Carbon Neutral (August 4, 2022)
- AGL's failed demerger plan and what it means (website post July 8, 2022)
- Carbon neutral by 2030: Member update (website post May 2, 2022)
- 2030 target: a carbon neutral investment portfolio (website post March 16, 2021)