Bio of Proposing Consultative Committee Member

Dr. Saphira Rekker

Saphira is a Senior Lecturer (Assistant Professor) in Sustainable Finance at The University of Queensland and has a PhD in Climate Finance. Saphira's research focuses on tools to measure and verify the efficacy of decarbonisation commitments by corporations. As part of the Princeton-led Rapid Switch initiative, she leads UQ's Corporate Climate MAP program, which evaluates the alignment of companies and investment portfolios with the Paris Agreement. Saphira is a member of the Technical Working Group of the Science Based Targets initiative for the oil and gas sector, and she has been a significant contributor to the EU climate benchmarking regulation. This regulation sets the minimum standards for EU Paris-Aligned Investment Benchmarks, which require top-tier sustainable investors to reduce their CO2-e emissions by at least 7% on average per year. Less than two years after launch, Paris-Aligned investment products are growing rapidly, with tens of billions invested already. Saphira also has ongoing collaborations with numerous industry partners. Most notably, her latest work on corporate Paris Compliance published in *Nature Communications* led to a 6-week pilot with Norges Bank Investment Management, who manages the world's largest sovereign wealth fund, to apply the methodology to their steel portfolio. Her work has been featured by SBS, ABC (radio) and The Guardian, and gained interest from, amongst others, Macquarie Group, Suncorp, QIC, Ernst & Young, MunichRE, the Science Based Targets initiative and the Transition Pathway Initiative.

Saphira's research is cross-disciplinary, and she has published in high impact journals, *Nature Climate Change* and *Nature Communications*, as well as several other highly ranked academic journals. She is also a regular panellist at conferences and forums such as the European Commission Conferences on Sustainable Finance and the Princeton E-ffiliates Retreat, and her teaching, which includes Australia's first Carbon Literacy course, has been recognised with multiple awards.

Engagement with Unisuper

Notes from Saphira: I would like to commence with acknowledging the steps UniSuper has taken, particularly in the last two years, in reducing its climate-related risks. In particular, UniSuper has continued the sale down of companies expanding fossil fuels and expanded their traffic light system in the 2022 report. I would also like to thank UniSuper for their engagement with me to date (see below). I hoped our conversations would have led to UniSuper's willingness to understand, and most importantly address, the gaps in their climate strategies. However, this has not been the case. Despite our continued engagement I feel it is necessary to put forth these resolutions to ensure that UniSuper is on track to manage its climate risk effectively. Not doing so will expose the fund to short, medium and long-term financial risk.

Date	Event
10/12/2021	**Meeting: UniSuper's Climate Risk Management.** Liz Brunetto (UniSuper, Employer Partnership Manager) and Saphira Rekker (UQ).
19/04/2022	**Meeting: UniSuper/Saphira: Explore setting Science Based Targets for Unisuper Portfolios.** Attendance UniSuper: Sybil Dixon (ESG Manager), Lou Capparelli & Sarah McCarthy (ESG team) and Liz Brunetto (Employer Partnership Manager). This meeting led to an invitation to provide feedback of their climate report on how they could do better.

01/09/2022	**Email Saphira to UniSuper: Letter with Saphira's feedback sent to UniSuper.** This letter has similar suggestions to what are now included as resolutions in this document.
19/09/2022	**Email Saphira to UniSuper: Follow-up email by Saphira to ask response on letter**
27/09/2022	**Email UniSuper to Saphira:** Invite to discuss Saphira's letter with Unisuper's ESG team.
07/10/2022	**Meeting UniSuper/Saphira:** Attendance UniSuper: John Pearce (CIO), Silvana Di Pasquale (ESG Manager), Lou Capparelli, Sarah McCarthy and Fince Putain (ESG team).
18/10/2022	**Email UniSuper to Saphira (on date resolutions were due):** Written response to Saphira's letter dated 01/09/2022.
18/10/2022	**Email Saphira to UniSuper:** This document containing proposed resolutions to the Consultative Committee was due COB, 18/10/2022.

Introduction

The resolutions proposed below are intended to bring UniSuper closer to managing its climate-related risks. Adopting them will make UniSuper a more effective contributor to reducing carbon emissions, in line with what is needed to prevent catastrophic climate change. Particularly for younger members, climate change is the most important issue of our time, as "there is no retirement on a dead planet". Addressing climate change risk adequately makes financial sense. Jonathan Kearns, the Head of Domestic Markets at the Reserve Bank of Australia, recently said 'one thing there is broad agreement on is that there are strong benefits to addressing issues related to climate change sooner rather than later. Delaying action will not only make climate change worse, it will make the implications for society, the economy and the financial system more severe.' The only way to prevent increasingly catastrophic climate impacts is to reduce carbon emissions rapidly. Recent studies have shown that 83% of Australians care about action on climate change; this increases for people in the university sector. If UniSuper shows more leadership in playing its role in mitigating climate change, the fund has the opportunity to satisfy its member base while attracting new members with a unique selling proposition that the fund is genuinely a leader on climate.

The resolutions proposed below are structured around three main areas. All areas play an important role in the fund's exposure to and role in climate risk. Ultimately, the resolutions aim to address both the increasing demands of UniSuper members who want action on climate change, and the need for the fund to accurately manage transition risk by truly aligning themselves with the Paris Agreement.

1. **UniSuper's commitment to the Paris Agreement needs to be supported by clear policies and strategies:** "The totality of our actions will be consistent with the ultimate goals of the Paris Agreement – in particular, we are targeting net-zero emissions at a whole-of-fund and portfolio level by 2050" (page 3). UniSuper does not have a coherent policy and strategy to ensure the fund's investments align with its stated support for the Paris Agreement and goal of net-zero emissions by 2050.

2. **UniSuper's methodology for assessing companies' Paris alignment needs to be vastly improved and based on peer-reviewed methodologies:** The fund does not have any clear, science-based methodology for assessing companies for Paris alignment, despite making claims around the Paris-alignment of portfolio companies.

3. **UniSuper's engagement strategies need significant improvement:** UniSuper has promoted its engagement over divestment to address climate risk, however it is unclear how the fund engages with companies and what changes the fund's engagement has led to, if any.

The proposed resolutions are based on best-practice methodologies currently available, which leading funds have already adopted.

Resolutions are seconded by **Dr. Alda Balhtrop-Lewis.**

Proposed Resolutions

Proposed Commitment #1: The adoption within the next 24 months of short-term, medium-term, and net-zero targets, guided by commitment #2.

Proposed Commitment #2: Evaluating the Paris alignment and exposure to transition risk of companies within its investment portfolio and the portfolio itself using science-based, peer-reviewed or otherwise validated 'best-practice' methodologies. Using these methodologies, the focus should be on performance, not targets. There should be transparency in the company's performance evaluation consistent with various published metrics.

Proposed Commitment #3: Including in the Climate Risks and our Investments report clear visibility of the substance of UniSuper's engagement, how many climate-related resolutions have, or have not, been supported or initiated, the timeline for engagement, the specific engagement steps if expectations are not met, and what engagement has achieved to date.

Explanations

This section contains an explanation for the Proposed Commitments to UniSuper.

Current commitments re resolution #1:

Report 2021:

- UniSuper commits to "seek endorsement of our approach from the Science Based Targets initiative (SBTi) over the next two years" (page 8, UniSuper Climate Risk 2021 report).
- "For our investment options, we benchmark the components that relate to Australian shares against the ASX200, and the global components against the MSCI World." (page 30). On page 40-53, the carbon intensity (Scope 1 & 2 emissions CO_2-e per $100,000 invested) of the option is calculated and compared to the benchmark.

Report 2022:

- "Over the past year, we've reviewed the guidance for asset owners and engaged with SBTi endorsed companies to discuss what we've learnt. We're now assessing how we'll proceed towards the endorsement of our targets." (Page 10, UniSuper Climate Risk 2022 Report).
- "To calculate benchmark carbon intensity for each option, we've estimated the carbon emissions per $100,000 invested solely in companies in the relevant benchmarks that had publicly disclosed their carbon emissions at 30 June 2022. We estimated this by blending a benchmark for Australia exposures (S&P/ASX300) with a benchmark for international exposures (MSCI World)."

Proposed Commitment #1: The adoption within the next 24 months of short-term, medium-term, and net-zero targets, guided by commitment #2.

Explanation #1: UniSuper's current commitments are not based on "science-based, peer-reviewed or otherwise validated 'best-practice' methodologies" as per commitment #2. There are several ways in which UniSuper can set legitimate Paris-aligned targets. I outline two possibilities below, the Science Based Targets initiative and the EU Paris Aligned Benchmarking regulation.

The Science Based Targets initiative is currently the gold standard for setting carbon reduction targets aligned with climate science. The initiative was established by the Carbon Disclosure Project (the global leading platform to disclose carbon emissions), World Wide Fund for Nature (WWF), the UN Global Compact, and the World Resources Institute (WRI), in 2016 following the Paris Agreement. The initiative has grown tremendously over the years, with over 3800 companies having committed to Science Based Targets. It has established Technical Working Groups consisting of governments, investor groups, companies, NGO's and academics for different sectors.

UniSuper states in their April 2021 report that there had been *five years* of consultation taking place on SBTi guidelines for *Financial Institutions*, during which UniSuper did not join the consultation process. UniSuper could have been a leader and joined the consultation process, which would have allowed them to explore the different methodologies for portfolio alignment. Even without joining the consultation, UniSuper could have followed the drafts coming out from the consultation process. In 2021, UniSuper states it will wait another 2 years without committing even though methods are available. A 2-year time frame was already too long in 2021. **Meanwhile, 188 financial institutions have committed to a Science Based Target, including 6 financial institutions in Australia.** Committing is not the same as having an approved target in place. The commitment works as follows: The financial institution commits to set science-based targets by signing this commitment letter, which requires the financial institution to set targets by completing the following steps within a maximum of 24 months: 1. Develop a science-based target aligned with the SBTi criteria for financial institutions; 2. Submit the target to the SBTi for validation; 3. Publish your approved target on the SBTi website. Finally, note that the Science Based Targets initiative is, from a science perspective, a conservative approach, as recently argued in this *Nature Communications* article.

In general, we advocate that to be a leader, UniSuper should be part of any science-based consultation processes from the *start*, instead of stating that "there was little formal consensus and guidance" (page 8, 2021 report), and at least follow the consultation drafts to set targets as soon as possible. Even though some methodologies are not finalised, drafts are available and alternative peer-reviewed methods may be available. In the 2022 Climate Report, UniSuper no longer discloses a timeline on how it will proceed towards endorsements of its target, reducing its ambition relative to 2021.

The EU climate benchmarking regulation outlines what benchmarks can be classified as "EU Climate Transition Benchmark (EU CTB)" or "EU Paris-aligned Benchmark (EU PAB)". Currently, UniSuper measured carbon intensity, but that in itself does not indicate Paris alignment, neither does comparison with a benchmark such as the ASX200 and MSCI World. Whilst a lower carbon intensity may indicate a lower exposure per $ invested, Paris alignment requires an average per annum emission reduction. One of the requirements of the EU regulation is an average of at least 7% per annum reduction of absolute GHG emissions, including self-decarbonisation of 7% (Scope 1 and 2 Greenhouse Gas (GHG) emissions, absolute or intensity[1]).

[1] For a description of Scope 1 and 2 emissions see the Greenhouse Gas Protocol, and for definitions on absolute and intensity see the EU Benchmarking regulation link.

Currently, the data provided by UniSuper is confusing and not meaningful in terms of exposure to a Paris-aligned transition. Take for example the Defined Benefit portfolio:

June 2021: 2.61 tCO_2-e/$100 000 invested

June 2022: 2.36 tCO_2-e/$100 000 invested

At face value it seems UniSuper has reduced its carbon intensity by 9.6%, however, the small print reads that in June 2021, the carbon footprint represented the scope 1 and 2 emissions of 72.7% of companies of this option, whilst in 2022 this number dropped to 63.5%. If these numbers are representative of the portfolio as a whole, then the effective carbon footprint of 100% of the portfolio would be 3.59 tCO_2-e in June 2021, and 3.72 tCO_2-e, thus in actual fact increasing the carbon intensity by 3.6%. This means UniSuper has *increased* its carbon intensity and is far from Paris Aligned.

What leaders are doing: Leading funds have gone well beyond the average 7% reduction required by the EU regulation to be classified as Paris Aligned. For example, Forsten AP-fonden had a 63% reduction in tCO_2e/SEKm from 2019 to 2020 and the New Zealand Superannuation Fund achieved a 47.1% reduction between 2016 and 2021 (p.46, NZSF, 2021).

Current commitment re resolution #2:

Report 2021: UniSuper has developed a "traffic light" system to assess the Paris-alignment of companies. The expectation is that these companies will commit to either:

- net-zero operational emissions before 2050
- endorsed science-based targets (SBTi), or
- at least a 45% emissions reduction by 2030.

The "traffic light" system is then as follows:

- A green light means the company meets our expectations for Paris-aligned targets.
- An amber light means the company has set some targets or is likely to meet our expectations by the end of 2021.
- A red light means the company hasn't set any targets and isn't likely to meet our expectations by the end of 2021.

In regards to fossil fuels: "We're implementing an effective fund cap on our exposure to fossil fuels. We'll incorporate this limit into our Risk Appetite Statement and disclose it in next year's edition of *Climate Risk and our investments."*

Report 2022: UniSuper has revised their traffic light system in 2022, by dividing the company commitments into **three categories**; "Net-zero commitments", "Interim targets" and "Action plan".
Net-zero commitments: Paris-aligned operational target committing to net zero by 2050.

- Green - Net-zero target by 2050 or earlier.
- Amber - Public commitment to set target in the next year.
- Red - No target.

Interim targets: Companies should have an interim target which is appropriate, accountable and ambitious. Targets should take into account the company's emissions profile and focus on high-emitting parts of the business

- Green - 2030 target—an ambitious, sector-appropriate target.

- Amber - Interim target that addresses the majority of emissions but is not sufficiently ambitious, or a public commitment to set target.
- Red - No interim target.

Action Plan: Companies should understand sector-specific challenges and opportunities. Clear plan to achieve Scope 1 and 2 interim targets. Focus on high-emitting and easy-to-abate parts of the supply chain. Understanding reliance on offsets to achieve targets. Broader targets for: renewable energy; electrification of processes; energy efficiency opportunities to reduce overall energy needs; reducing fugitive (especially methane) and other emissions.

- Green - Strategy has been published which outlines actions to address emissions reduction, in alignment with targets.
- Amber - Strong actions taken, but no overarching strategy towards targets.
- Red - Minimal action and no clear strategy.

In regards to Fossil Fuels: Board responsibility: "Approving a fund-wide cap on fossil fuel exposure (monitoring above 5%; 7% hard cap)." (Page 11, Unisuper 2022 Climate Risk report)

Proposed Commitment #2: Evaluating the Paris alignment and exposure to transition risk of companies within its investment portfolio and the portfolio itself using science-based, peer-reviewed or otherwise validated 'best-practice' methodologies. The focus should be on performance, not targets. There should be transparency in the company's performance evaluation consistent with various published metrics.

Explanation #2: UniSuper's methods of assessing companies' Paris-alignment have raised particular concerns from its academic membership base. Some members have even raised the prospect of legal risk around misleading claims and concerns that UniSuper is not adequately assessing its exposure to climate risk. The traffic light system is entirely self-constructed by UniSuper and lacks scientific rigour. Even though it uses "SBTi pathways where available, and others including Transition Pathway Initiative methodologies, Climate Works scenarios, and other industry specific pathways" (letter to Saphira on 18/10/2022) to assess targets, it is not transparent how these pathways are used and companies are evaluated.

The main concern however, is with the evaluation of a company's *target*, rather than a company's *performance*. It is the actual emission reduction performance that counts; the annual emissions and cumulative emissions since a certain base year determines whether a company can be classified as Paris Aligned. In other words, Paris Compliant annual and cumulative emission reduction pathways need to be determined for each company and assessed for their alignment with a cumulative Paris Compliant budget.

Performance, examples:

- Company has met their Science Based Targets since committing through the SBTi *annually* (can use MSCI data for this).
- Transition Pathway Initiative information where available.
- For oil and gas see Dietz et al. (2021).
- Using "a strict-science based approach" by Rekker et al., (2022) or other academic/peer-reviewed literature.

IF targets are used in addition to performance measures, here are important points to consider:
Operational emissions only: The traffic light system focuses on operational emissions (scope 1 and 2) only. Ignoring a company's scope 3 emissions [emissions produced when product, eg for a fossil fuel company gas or LNG is actually burnt or used] is ignoring an important element of financial exposure to climate risk. This is particularly important in the case of fossil fuel companies, where operational emissions only make up around 20% of total emissions while the emissions embodied in the sold products represent 80%. In the case of Santos for example, >85% of the company's 2021 emissions were Scope 3 (page 8 of IEEFA analysis) and its plans to open up new oil and gas fields are incompatible with Paris-aligned scenarios according to the IEA net zero by 2050 report.

Offsets: in most cases relying on offsets does not reduce global emissions (See SBTi guidelines for an explanation, hence why SBTi does not allow the use of offsets to meet targets). In addition, offsets expose the company to financial risk through transition risk factors. If the company does not actually reduce their emissions, they are exposed to legal and regulatory risk, technology risk, litigation risk, market risk and reputation risk. In addition, relying on offsets is risky given an expected increase in cost due to increasing demand.

Long term targets: Net zero by 2050 is far from eligible to claim Paris Alignment (in fact, net-zero is not even in the Paris Agreement, the temperature limit is, which is a function of cumulative emissions). The emissions trajectory in the short and medium term determines whether Paris goals can still be met. The SBTi only accepts targets that include a short-term target between 5-10 years.

In summary:

- Targets should not rely on offsets
- Targets should be based on endorsed Science Based Targets (through the SBTi), which include short term targets at the minimum (bear in mind that even SBTi has been critiqued by Rekker et al. (2022) for not being strictly science-based and allowing companies with more emissions than would be consistent with a Paris aligned carbon budget)
- Targets should include scope 3 emissions if material

UniSuper has only one climate-related investment exclusion, which applies to companies generating more than 10% of revenue from thermal coal. It has no restriction on companies expanding metallurgical coal, oil or gas, the production and use of all of which must decline if the global community is to meet Paris goals. UniSuper's current fossil fuel cap is 7%. This cap allows UniSuper to increase current investment of companies expanding fossil fuels to around two and a half times its current investments. This is out of line with commitments to align with the Paris Agreement goals of limiting global warming to 1.5°C.

Current commitment re resolution #3:

Report 2021: UniSuper's Climate Report says, "Engaging with our portfolio companies is our primary strategy for addressing climate-related risks. UniSuper's escalation strategy includes:

- supporting shareholder resolutions to encourage greater climate action
- voting against company directors or remuneration reports
- divestment – especially where a lack of action represents a material risk to us and there is no viable decarbonisation pathway." (p. 36)

Report 2022: The engagement strategy in 2022 does not seem to have changed compared to 2021. "Our options for escalation include:

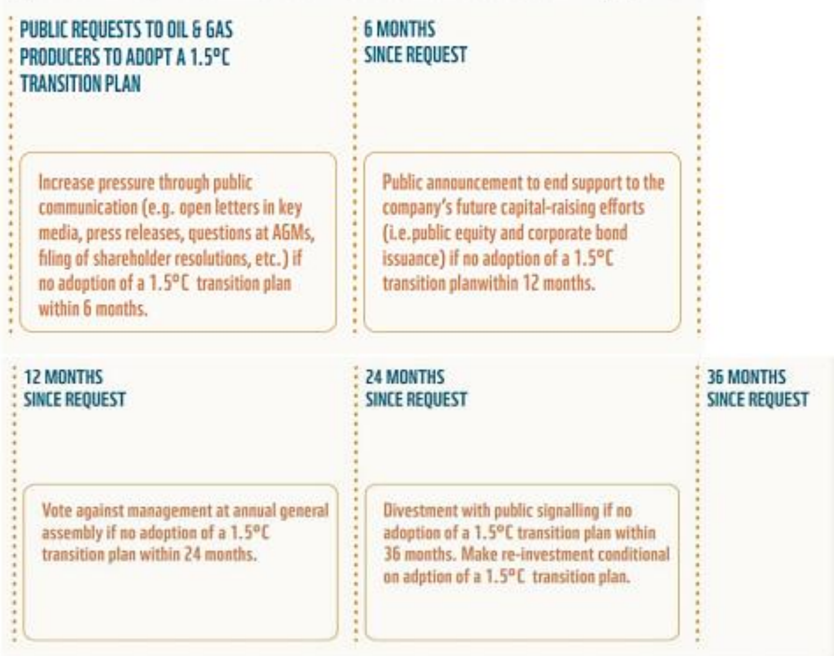
- supporting shareholder resolutions to encourage greater climate action.
- voting against 'Say on Climate' resolutions, company directors or remuneration reports.
- divestment—especially where a lack of action is of concern to us and there is no viable decarbonisation pathway." (p. 17)

Proposed Commitment #3: Including in the Climate Risks and our Investments report clear visibility of the substance of UniSuper's engagement, how many climate-related resolutions have, or have not, been supported or initiated, the timeline for engagement, the specific engagement steps if expectations are not met, and what engagement has achieved to date.

Explanation #3:
There is no clear visibility of the substance of UniSuper's engagement. What is the timeline for engagement? What are the specific engagement steps if expectations are not met? What has engagement achieved to date? Whilst UniSuper discloses its voting in a separate document, the number of climate-resolutions that were (not) supported are important to be disclosed in their climate risk report, as well as any resolutions it has proposed.

The SBTi states that "Financial institutions should develop an engagement strategy to achieve alignment of their portfolio companies' business models with the Paris Agreement—through the adoption and publication of time-bound 1.5°C transition plans" (page 103 -104, SBTi, 2022) which should be composed of: commitments to align with the Paris Agreement, capital management plans, disclosure along the Task-force for Climate-related Financial Disclosure (TCFD) recommendations publicly, commitment to review and ratchet targets and transition plans, and public commitments to support policies that aim to reduce emissions consistent with the Paris Agreement. In addition, "Financial Institutions should have an escalation process in place for when engagement does not lead to significant results within set time frames (6, 12, 24, 36 months)." An example is provided below:

Figure 7.1. Escalation Process in Case of Unsuccessful Engagement



Note: AGM = Annual general meeting.
Source: WWF 2019.

Summary

The latest IPCC report clearly states that there needs to be "immediate, rapid and large-scale reductions in greenhouse gas emissions" if global warming levels of 1.5°C or even 2°C are to be avoided (IPCC, 2022). Increases in risks of sea level rise, heat and humidity, storms, ocean acidification, food and water security, and biodiversity loss have tremendous financial implications. There is widespread agreement from scientists and financial institutions that climate risk exposes institutions to short, medium and long-term financial risk. Currently UniSuper does not have a coherent policy to align the fund to the goals of the Paris Agreement of keeping warming to well-below 2, let alone 1.5, degrees. The fund does not have a clear science-based methodology for assessing companies for their Paris Alignment and it is unclear how UniSuper engages with companies and what engagement has led to. By adopting the proposed resolutions UniSuper can decrease its climate related risk, become an effective contributor to reducing carbon emissions, in line with what is needed to prevent irreversible and increasingly catastrophic climate change.

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