

# INVESTING FOR AUSTRALIA

Clarifying climate risk expectations of the Future Fund

## AT A GLANCE



### What is this report about?

*Investing for Australia* is a report from the Centre for Policy Development's Sustainable Economy Program. It follows previous reports on the management of climate risk in public authorities.

The report assesses the Future Fund's climate risk management using publicly available information.

It uses established tools and compares the Future Fund's climate risk approach to practices at other institutional investors, including other sovereign wealth funds.

#### What is the Future Fund?

The Future Fund is Australia's main sovereign wealth fund (SWF). It invests on behalf of taxpayers. It gets capital from budget surpluses, and from the sale of Telstra. In 2022 the Future Fund had nearly a quarter of a trillion dollars under management.

#### Who oversees the Future Fund?

The Future Fund is overseen by a board and it is broadly directed by an Investment Mandate and a Statement of Expectations issued by the Finance Minister.

#### What does the Future Fund do?

The Future Fund is required to maximise long-term returns relative to risk, and to adhere to international investment industry best practice.

#### What is climate risk?

- Investors and company directors manage risk and opportunity, including risks and opportunities relating to climate change
- Climate change creates risks for investors and fund managers. Things like:
  - Physical risks from weather impacts
  - Devaluing of emissions-intensive investments
  - Investees facing regulatory action over their climate impacts

#### What does "best practice" look like?

- Investors use standard frameworks and practices to discover, disclose and address climate risk
- Private funds managers and SWFs in other nations manage climate risk using these practices
- Tools like the ICAP Expectations Ladder measure investor progress on climate

### How is the Future Fund going on climate risk?

A review of the Fund's publicly known activities using the ICAP Expectations ladder - an established industry tool, shows partial early stage practice

| Focus Area           | Tier 4<br>(Beginner) | Tier 3<br>(Intermediate) | Tier 2<br>(Advanced) | Tier 1<br>(Standard Setter) |
|----------------------|----------------------|--------------------------|----------------------|-----------------------------|
| Investment           | Orange               | Red                      | Red                  | Red                         |
| Corporate Engagement | Red                  | Red                      | Red                  | Red                         |
| Investor Disclosure  | Orange               | Red                      | Red                  | Red                         |
| Governance           | Orange               | Red                      | Red                  | Red                         |

Red - No evidence of action; Orange - Partially enacting; Green - Enacting; Scores are averaged across all components of the focus area at the appropriate tier to reach a single measurement.

Read *Investing for Australia* at [cpd.org.au](http://cpd.org.au)



#### Why does this matter?

- The Future Fund invests public money. Climate risk in its investments rests with all Australians
- The Future Fund is required to observe international best practice for institutional investors, including in how it manages risk
- Disclosure is part of climate risk management. Climate risk disclosure is an established practice for the majority of private fund managers
- The Taskforce on Climate-Related Financial Disclosure (TCFD) framework may become mandatory for other market participants in Australia

#### What should we do?

*Investing for Australia* recommends Parliament:

- Request published climate risk disclosure using global standards and emerging frameworks
- Ensure the Future Fund is covered by any new laws governing climate risk disclosure in Australia
- Set up an independent review by a panel of experienced investment professionals.
- This review should consider whether the Future Fund Investment Mandate or Letter of Expectations should change so the Fund's climate risk response is in line with industry best practice