Case study

Moving to low carbon benchmarks

TCorp's Investment team is committed to integrating climate change into how we build sustainable and resilient portfolios, delivering important ESG goals without sacrificing portfolio returns.

TCorp believes that ESG issues like climate change can have real impacts on investment risks and returns and are integral factors to be considered in our quest to build sustainable and resilient portfolios.

In line with the NSW Government's aspiration to transition to a low carbon, net zero future, TCorp has examined the carbon footprint of our portfolios. We have evaluated how well they could be expected to perform as the world moves away from carbon intensive fossil fuels, and towards a clean energy economy.

Approach

A reduction in exposure to companies with higher carbon emissions is a key component of TCorp's approach to managing climate risk in the Developed Market Equities part of our investment portfolios.

We have focused on reducing our investments in companies that demonstrate the highest levels of carbon emission, have the most carbon intensive business models, and the lowest potential to transition to a clean energy future. With a goal of reducing the portfolio's overall carbon footprint, we are also positioning it to deliver strong returns in the transition to a low carbon global energy system. To achieve this, we took a 3-step approach:

1. TCorp's Developed Market Equities portfolio represents our largest contributor of portfolio carbon emissions, total portfolio risk and largest single portfolio sleeve by capital (approximately $25bn as at 30 June 2022). We considered this was the most appropriate and impactful starting point for reducing the total portfolio's carbon footprint and climate transition risk.
2. After shortlisting 4 options for utilising different benchmarks, TCorp decided to use the MSCI World Low Carbon Leaders Index. In comparison with the broader MSCI World Index, this index aims to achieve at least a 50% reduction in carbon footprint, through the exclusion of, or reduction in, weightings of the most carbon emissions intensive companies, while still maintaining the broad market exposure and risk profile to all developed market countries and sectors.
3. After implementing this index as the performance benchmark for underlying managers, TCorp has been able to leverage these insights to identify where our investment manager partners continue to hold emissions intensive companies, and to engage with them to understand how they are using their influence to encourage those organisations to reduce emissions and transition to a low carbon future.

Outcomes

As a result of this work, we estimate TCorp's Developed Market Equities portfolio:

- Has reduced carbon intensity by 30-35%
- Has reduced exposure to fossil fuel reserves by 30-35%
- Is better positioned to deliver sustainable returns aligned with a low carbon energy transition. Over the course of the first year of implementation, the portfolio has delivered returns in line with the broader market, but with markedly lower carbon emissions and climate risk. We have been able to deliver some important ESG goals without sacrificing portfolio returns.

Alongside a reduction in our portfolio's carbon footprint, TCorp also integrates climate risks through a combination of other functions including active ownership (direct engagement with our investee companies), external manager due diligence, and climate change scenario testing.

About TCorp

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A$101 billion of assets under management, TCorp is a top 10 Australian investment manager and is the central borrowing authority of the state of NSW, with a balance sheet of A$124 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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