Climate-Related Disclosure Report 2023

TCFD 23

Prepared in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure The report has not been externally assured nor verified.

Introduction

New Zealand has committed to taking urgent action on greenhouse gas (**GHG**) mitigation and climate change adaptation in accordance with the Paris Agreement. That commits the Government to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" and Nationally Determined Contributions and the Climate Change Response (**Zero Carbon**) Amendment Act 2019. The Carbon Neutral Government Programme (**CNGP**) requires New Zealand public sector agencies to measure, report on and reduce their GHG emissions and to offset any they do not reduce from 2025.

NPF Commitments

In line with a Letter of Expectations from the Minister of Finance, the Board of Trustees of the National Provident Fund (**Board or NPF**) has committed to the Crown Responsible Investment Framework for Crown Financial Institutions (CFI)[1]. The Framework includes supporting a lower carbon future by having a net zero emissions[2] investment portfolio by 2050. While NPF is not a CFI, there is an expectation that it will work closely with the CFIs, given the Crown guarantees afforded to its members by legislation.

The Framework includes three pillars:

- Measure
- Reduce
- Influence.

[1] CFIs include Guardians of New Zealand Superannuation; Accident Compensation Corporation and Government Superannuation Fund Authority

[2] NPF defines scope 1, 2, and 3 GHG emissions using the following definitions from MSCI:

- Scope 1 GHG emissions are those directly occurring "from sources that are owned or controlled by the institution, including: on-campus stationary combustion of fossil fuels; mobile combustion of fossil fuels by institution owned/controlled vehicles; and "fugitive" emissions. Fugitive emissions result from intentional or unintentional releases of GHGs, including the leakage of hydrofluorocarbons (**HFC**s) from refrigeration and air conditioning equipment as well as the release of CH4 from institution-owned farm animals."
- Scope 2 emissions are "indirect emissions generated in the production of electricity consumed by the institution."
- Scope 3 emissions are all the other indirect emissions that are "a consequence of the activities of the institution but occur from sources not owned or controlled by the institution" such as commuting, waste disposal; embodied emissions from extraction, production, and transportation of purchased goods; outsourced activities; contractor-owned vehicles; and line loss from electricity transmission and distribution".

Under the **’Measure’** pillar, all CFIs agreed to measure exposure to GHG emissions. To provide transparency around this, all CFIs also agreed to report in alignment with the global Task Force on Climate-related Financial Disclosures (**TCFD**) recommendations and the External Reporting Board’s (**XRB**’s) climate-related disclosure standard (CS1) for our 2024 financial year reporting[3].

Under the **’Reduce’** pillar, all CFIs are committed to having carbon neutral total investment portfolios by 2050, setting 50 percent reduction in carbon emission intensity targets for 2025, and refreshed targets for subsequent periods. All CFIs have agreed to actively seek investments that help the transition to a low-carbon economy.

Under the **’Influence’** pillar, all CFIs have launched an initiative to engage with companies on climate change in 2023[4]. We seek to work more closely with investee companies, specifically those listed on the NZX, to understand their climate risks and opportunities. Our engagement with New Zealand companies will seek to support companies to prepare for the transition, alongside other objectives listed in our public climate change position statement. Each CFI must also use their position as significant investors to engage with global companies on developing transition strategies, leveraging collaboration and third-party engagement providers.

This report is the second that NPF has made and is consistent with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. It describes NPF’s approach to climate-related risks and opportunities for both its investment portfolio and organisational business operations. It addresses four areas of climate-related disclosure:

1. Governance
2. Strategy
3. Risk management
4. Metrics and targets.

This report aligns with NPF’s Annual Report, year-end 31 March 2023. The report has not been externally assured nor verified. From 2024, NPF intends to align its reporting to Climate-Related Disclosure CS1.

[3] Note: NPF is not a Climate Reporting Entity as defined in the Financial Markets Conduct Act 2013
[4] CFI Climate Change Position Statement May 2023: https://www.npf.co.nz/how-we-invest/investment-publications/

1) Governance

The National Provident Fund Restructuring Act 1990 (**Act**), NPF's governing legislation, requires the Board to invest the Schemes on a prudent, commercial basis and act in the best interest of the members while having regard to the risk to the Crown of the guarantee of member entitlements. It must also have regard to the solvency of the schemes and the level of employer subsidy required. As well as its governing Act, NPF's governance is embedded in its Statement of Investment Policies, Standards and Procedures (**SIPSP**).

Disclosure
• **Describe the Board's oversight of climate- related risks and opportunities**
Investments
• Board has approved the investment beliefs that underpin the investment strategy. They include the beliefs that the environmental, social and governance characteristics of commercial enterprises (including their inputs, processes, and outputs) have a bearing on the financial performance of their issued securities, and human activity is driving climate change which creates commercial opportunities and threats for the issuers of public securities. • Board receives an annual letter of expectations from the Minister of Finance, which aims to ensure the Board's consistency with Government policies. Accountability of climate-related risks and opportunities is among those expectations. • Board has committed to the Crown Responsible Investment Framework. • Board has approved, and keeps under review, investment strategy and setting of climate change objectives in strategy and governance documents, such as the SIPSP. • Board reviews responsible investment policies annually, including climate change response policies. • Board has approved carbon reduction targets for the investment portfolio pursuant to the 'measure' and 'reduce' pillars of the Crown Responsible Investment Framework and receives quarterly updates on progress. • Board receives quarterly 'Responsible Investment/ESG' updates that include commentary about climate-related risks and opportunities in relation to the investment portfolio. • Board approves all external investment manager appointments having regard to each manager's investment mandate and capability to add value, including how they address climate-related risks and opportunities. • Board works in consultation with CFIs so that responses to Government's climate change-related expectations are consistent.

Business Operations
• Board monitors the organisation's operational GHG emissions annually. • Board will benchmark emissions against peers as data and standards become available. • Board sets gross emissions reduction targets and longer-term reduction plans. • Board has approved plans to reduce the organisation's emissions. • Board will approve any offset of remaining gross operational emissions from 2025 to achieve carbon neutrality.
Disclosure
• **Describe management's role in assessing and managing climate-related risks and opportunities**
Investments
• Management[5] monitors and presents climate metrics and research to the Board including implications of climate-related factors for security valuation, risk, return and capital allocation. • Management monitors and consults with external active investment managers to survey the market of climate opportunity investments. External advice is incorporated, where required, when investigating and identifying potential climate-related managers to include in the investment portfolio. • Management recommends investment strategy and implements the approved programme, including external mandates and manager appointments to achieve performance objectives, including carbon emissions exposure targets. • Management expects the external active investment managers to integrate material climate-related factors in their investment decision-making. These investment managers report on climate-related factors as part of their regular reporting on ESG matters. • Management maintains assessments of incumbent and prospective investment managers, including their integration of ESG and climate-related risks and opportunities in their investment processes. • Management evaluates opportunities for investment in climate solutions. • Management consults with CFIs on any joint collaborative engagements with companies. • Management maintains a current list of excluded companies, advises external investment managers accordingly and monitors the impact of exclusions on investment performance. • Management monitors proxy voting of external investment managers.

[5] Management is the staff of Annuitas Management Limited (AML), a joint venture company established by the Government Superannuation Fund Authority and The Board of Trustees of the National Provident Fund to provide staff who act in management and secretariat roles on behalf of both entities.

Business Operations
• Management measures and reports the organisation's operational GHG emissions annually.[6] • Management will obtain independent verification of emissions measurements in accordance with climate-related disclosure standard as applicable. • Management will implement plans to reduce the organisation's operational GHG emissions.

[6] Management is the staff of Annuitas Management Limited (AML), a joint venture company established by the Government Superannuation Fund Authority and The Board of Trustees of the National Provident Fund to provide staff who act in management and secretariat roles on behalf of both entities.

2) Strategy

NPF is part of the Net Zero Asset Owners Alliance (**NZAOA**)/ Paris Aligned Asset Owners (**PAAO**). This is a member-led initiative of institutional investors committed to transitioning their investment portfolios in alignment with the goals of the Paris Agreement and signed the global investor statement to Governments on the climate crisis in 2022, which delivers a strong call for governments to raise their climate ambition and implement robust decarbonisation policy.

Disclosure
• **Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term**
Investments
• Significant risks arise in the short term (<5 years) and medium term (5-10 years) for the value of companies in which NPF invests that are reliant on carbon-intensive activities. These 'transition' risks include the risk of increasing taxes or regulation of carbon emissions and changing patterns of global consumption towards alternative energy sources. • Physical risks also arise in the longer term (>10 years) for companies whose assets and profits are exposed to the effects of higher temperatures, extreme weather, and sea level rise if emissions continue to lift mean temperatures. • Transition risks affect the value of companies in NPF's investment portfolio in the short, medium, and long term. • Physical risks also affect the value of companies in NPF's investment portfolio in the short, medium, and long term. • Many opportunities for profitable investment will arise in the medium and long term from the large-scale investment required to electrify transport, industry, and home heating, build low-carbon electricity production and carbon sequestration plants. • Investment opportunities may be exploited by existing companies adapting their business models or new companies requiring new capital. • NPF will also consider investment in strategies specifically targeting solutions to climate risks, such as alternative technologies and carbon capture. NPF expects those solutions to be developed in part by companies in the existing public equity market.
Business Operations
• NPF's operations include a share of 15 staff and one office with the Government Superannuation Fund Authority. • Main sources of emissions are staff and Board travel and electricity usage. • There is an opportunity to reduce the organisation's emissions by reducing travel of both the Board and staff by increased use of online meetings and staff working from home.

Disclosure
• **Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning**
Investments
• NPF's investment strategy incorporates setting benchmarks consistent with decarbonisation objectives and selecting external investment managers that price and manage portfolio securities on behalf of NPF. Climate-related risks and opportunities are material factors that impact the valuation of portfolio securities and are expected to be integrated into the investment process of active investment managers. They are considered in evaluations of investment opportunities and external investment managers. • Management has mandated some investment managers to limit the carbon intensity of their portfolios in a way that does not materially adversely impact investment performance. Other investment managers are naturally 'low-carbon' because their investment style is focused on quality growth opportunities, which are generally oriented toward services or new technologies that have relatively low carbon intensity. • The active managers' investment performance relative to the broad market, and that of the total Fund, will be affected by how well they integrate climate risks and opportunities into their investment processes. • A target has been set by NPF to reduce the carbon intensity of NPF's public equity investment portfolio by 50% by 2025 when a new target will be set for 2030 to align with the NZ Government's commitments. NPF will monitor the investment managers' contribution to achieving these reductions and, if necessary, will consider alternative managers, derivative overlays, or low carbon index approaches to reach the targets.
Business Operations
• Climate-related effects have a modest and manageable effect on the organisation's ability to carry out its business mission and activities.
Disclosure
• **Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario**
Investments
• We expect our active investment managers to be able to identify opportunities and manage risks under various broad climate transition scenarios. • We aim to ensure the carbon intensity of the total portfolio reduces gradually in line with agreed targets in line with the goals of the Paris Agreement and the Net Zero Asset Owners Alliance, of which we are signatories. • Temperature-aligned scenarios will be produced for NPF investment portfolios, in line with CS1, in 2024.
Business Operations
• Business operations will be more heavily impacted by lower temperature scenarios as these imply higher actual carbon emissions prices and either or both larger reductions in travel and electricity usage or more expensive offsets.

3) Risk Management

Disclosure
• **Describe the organisation's processes for identifying and assessing climate-related risks**
Investments
• Management and the Board monitor the exposure of the public equity portfolio and its market benchmark to carbon emissions and climate-related risks and opportunities of the underlying companies. This is primarily done through assessing portfolio carbon analytics reports and CVaR reports through a third-party ESG data provider. • Management monitors individual investment managers' portfolios in the same way. External investment managers share their own relevant climate related reports with Management that include climate-related risks. • NPF uses third-party data to identify climate-related risks of the companies in the investment portfolio, supported by third-party engagement providers who provide stewardship on our behalf to achieve decarbonisation pathways.
Business Operations
• Management measure and monitor the organisation's operational GHG emissions as part of the annual financial reporting processes. • Comparable data will become available for use as more organisations start publishing emissions reports.
Disclosure
• **Describe the organisation's processes for managing climate-related risks**
Investments
• The primary process for managing climate-related risks is through the active investment managers who integrate ESG factors into stock selection, in line with their commitment to the PRI. • NPF requires its public equity investment managers, with segregated mandates, to apply carbon reduction constraints, to limit carbon intensity exposure relative to the broad market. • NPF assesses and considers funds integrating climate risks, opportunities and a warmer planet into investment decisions offered by current public equity managers. • NPF targets a reduction of total portfolio carbon intensity at least in line with the current commitment to be net zero by 2050, consistent with Government policies, and has committed to a 50% reduction in carbon intensity of the public equity portfolio by 2025, compared to the baseline year of 2019. • The external investment managers are encouraged to engage with investee companies to promote disclosure in line with global standards and develop plans for a lower-carbon future. • NPF engages with companies on financially material climate, and other ESG, factors globally through a specialist service provider. • NPF also engages collaboratively with peer organisations such as CFIs in New Zealand and global initiatives such as NZAOA.

Business Operations
- Given that transport and electricity usage drive NPF's organisational GHG emissions profile, the Board and Management will consider opportunities to substitute in person meetings that necessitate travel for online meetings and encourage more efficient commuting for staff coupled with some working from home and reduced office space.   - Beyond the above point, offsets may be required.
Disclosure
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management
Investments
- The processes for managing climate-related investment risk are distinct from the processes for limiting the carbon intensity of operations.   - The processes for managing climate-related investment risks are integrated into NPF's investment beliefs, how investment objectives are set, benchmarking risk and performance, how the target portfolio is developed, how investment managers are selected and monitored and how performance is reported.
Business Operations
- NPF is committed to reducing operational emissions. This is continually monitored and reviewed.   - Emissions are considered as part of purchasing and budgeting decisions. Management is currently developing systems to improve our documentation regarding this decision making.

4) Metrics and Targets

Disclosure
• **Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process**
Investments
• Management measures and monitors the public equity investment managers' portfolios' exposure to a range of carbon metrics and climate solutions measures. The primary metric is carbon intensity relative to the broad market. Management also measures clean technology solutions as defined by the data provider. • Exposures to GHG emissions and climate solutions are reported to the Board at least twice annually.
Business Operations
• The Board has committed to meeting targets for the business operations that align with the targets set for New Zealand public sector entities in the Carbon Neutral Government Programme (CNGP). • Management has gathered emissions data from April 2019 to June 2022. The Board will continue to measure and report publicly its emissions annually and will adopt a base year quantified using an average of two or more years once activities stabilise. • Benchmarking the Board's emissions against similar organisations is currently not possible due to the lack of readily accessible reported data from similar organisations. It is expected that as the CNGP develops we will have access to benchmarking data in future years.
Disclosure
• **Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks**
Investments
• NPF measures and discloses scope 1 and scope 2 GHG emissions for all investments in the public equity portfolio, and scope 3 emissions of investments in fossil fuel producers only. The 4 Global industry classification standard (GICS) sub-industries that are included in scope 3 emissions are Oil and Gas Exploration and Production, Coal and Consumable fuels, Diversified Metals and Mining, and Integrated Oil and Gas. Although NPF doesn't exclude fossil fuel producers from the portfolio, Management does measure their downstream emissions and include them in the targets for reduced emissions exposure. The charts on page 12 show these metrics over time. • NPF plans to extend the measurement of the portfolio's GHG emissions to other asset classes as well as equities. Currently only public equities are measured and reported. NPF's focus is on carbon intensity, i.e., emissions per dollar of revenue.

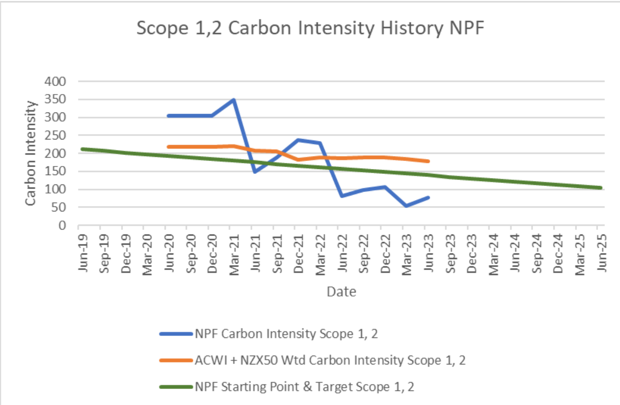
Business Operations
• Management measures scope 1, scope 2 and scope 3 emissions as reported in table 2. This is reported annually to the Board. • As an indication of potential cost, the Board's 2023 total operational GHG emissions of 8.823 tonnes of CO2 equivalent would cost approximately $1,200 to offset at domestic carbon credit prices from Toitu Envirocare as of June 2023.
Disclosure
• **Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets**
Investments
• NPF has set a target to reduce the carbon intensity of the public equity portfolio by 50% in 2025 compared to June 2019 and for the total portfolio to be net zero by 2050. Asset classes included in the total portfolio are global and domestic public equities, and global fixed interest. There is also a target in place to consistently reach lower carbon intensity than the broad market index. The targeted reductions of portfolio carbon intensity are in line with the current commitment by New Zealand to reach net zero emissions by 2050. This is also consistent with the Paris Agreement to which New Zealand has committed. These goals determine a target level that limits the global average temperature to 1.5 degrees of global warming. • Investment risks are considered by the active equity investment managers in their stock selection processes. NPF requires these managers to take material climate considerations into account when ranking stocks and building portfolios. Although NPF has not yet set a quantitative target, it will invest in climate solutions that contribute to achieving the Paris Agreement goals and meet its investment performance criteria. NPF expects that an initial investment in climate solutions will be at least 1% of the total Fund (approximately NZD 20m). As of 31 March, NPF had 37.4% of its public equities invested in companies that derive revenue from clean technology solutions, as defined by MSCI ESG.
Business Operations
• NPF has not yet set quantitative targets for the organisational emissions, other than to manage and reduce emissions consistent with achieving our business mission.

Investment portfolio carbon metrics

The following charts are based on third-party analysis of company data, some of which is estimated rather than actual because not all companies report their emissions information. NPF does not accept responsibility for errors and omissions in third-party data.

The first chart shows carbon intensity including scope 1 and 2 GHG emissions. The second chart shows carbon intensity including scope 1 and 2 GHG emissions plus scope 3 GHG emissions of fossil fuel producers. In each chart, the blue line represents NPF's target to reduce the carbon intensity of the global public equities' portfolio by 50% by 2025. It is based on the market index level of carbon intensity at June 2019 as the starting point, then decreasing carbon intensity evenly each month until a 50% reduction is met by June 2025. The market index used is a blend of the MSCI ACWI and NZX50. The red line represents the carbon intensity of the NPF global and NZ public equities' portfolio. The orange line represents the carbon intensity of the actual market index at each measurement period. The actual market index is weighted according to NPF's actual allocation to global and NZ equities at the respective dates.

NPF's carbon exposure in global public equities is as follows:



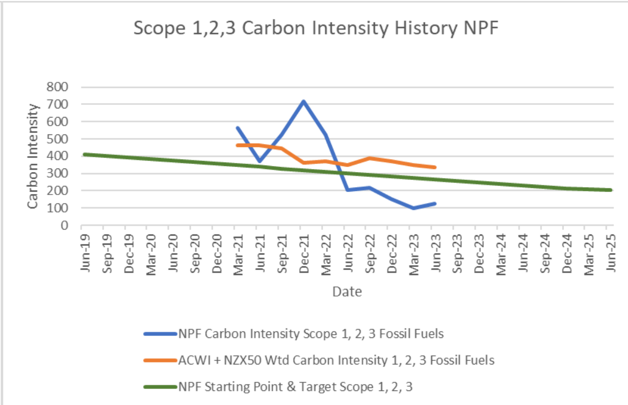


Table 1: NPF global public equities carbon intensity

The table below shows the carbon intensity of NPF's global public equities and NZ portfolio and the market index. The change in figures over time highlights the inconsistent nature of decarbonisation. Percentage (%) of market means NPF figures as a percentage of the market index figures. Data below is influenced by a number of factors including active managers' investment decisions and improving data quality.

NPF	31 March 2021	31 Mar 2022	31 Mar 2023
Carbon intensity (scope 1 and 2) of NPF global public equities *tonnes CO2e/$m sales*	348	229	53
Carbon intensity (scope 1 and 2) of market index	220	187	185
% of market	158	122	28
Carbon intensity (scope 1, 2, 3) of NPF global public equities *tonnes CO2e/$m sales*	568	523	97
Carbon intensity (scope 1, 2, 3) of market index	465	370	350
% of market	122	141	27%

Table 2: NPF Business Operation's emissions metrics

The following table and charts show the emissions profile of NPF's business operations as distinct from the investment portfolio. The data quantifies GHG emissions that can be attributed to NPF's operations in the year ending 31 March 2023.

Due to the impacts that COVID-19 has had on work and travel, the data is not an accurate representation of NPF's typical emissions. NPF will continue to measure and report its emissions on an annual basis and will adopt a base year quantified using an average of two or more years once activities stabilise.

The figures below have been prepared in accordance with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol)*. The standard covers the accounting and reporting of seven greenhouse gases covered by the Kyoto Protocol – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3).

Business Organisation 2023 GHG Emissions Inventory Summary

	TOTAL Tonnes Carbon Dioxide Equivalent tCO2-e	% of Total tCO2-e	Carbon Dioxide (tCO_2)	Methane (tCO_2-e)	Nitrous Oxide (tCO_2-e)
Scope 1 Direct GHG emissions from sources owned or controlled by the organisation.	0.007	0.08	0.007	-	-
Scope 2 Indirect GHG emissions from the generation of purchased energy that the organisation uses.	2.143	24.28	2.089	0.050	0.004
Scope 3 Other indirect GHG emissions occurring because of the activities of the organisation but generated from sources that it does not own or control (eg, air travel).	6.674	75.64	5.456	0.449	0.566
Grand Total	**8.823**	**100.00**	**7.552**	**0.498**	**0.570**