PENSION FUNDS AND CLIMATE RISK

WHY PENSION FUNDS MUST INVEST RESPONSIBLY FOR CLIMATE RESILIENCE

WHAT IS THE PROBLEM?

Climate change poses a systemic risk to people, the environment and the economy.

Temperature increases above 1.5°C have the potential to change life as we know it in South Africa completely.

The Paris Agreement on climate change recognises that there is an **urgent need for a fast and just transition** to a resilient low-carbon economy that will drive job creation, reduce inequality and build social stability.

But this will not happen without urgent collaborative action from all of us.

In South Africa, our law supports **strong action** by institutional investors like pension funds to tackle climate change and drive **inclusive economic prosperity**.

But pension funds have not yet risen to the challenge: they need to do much more, much faster.

WHY ARE PENSION FUNDS IMPORTANT?

Pension funds are **influential actors** in our financial system. Their decisions have broad impacts on society, and they are **bound by strict duties** and responsibilities to consider the nature of those impacts.

Climate change may pose serious financial risks to pension investments in the short, medium and long term.

At the same time, the transition to a low-carbon economy presents **significant investment opportunities** that can help to mitigate the broader economic risks posed by climate change and boost pension funds' long-term returns.

ClientEarth and Just Share NPC commissioned a legal opinion from Fasken, written by SA's top pension lawyers, which makes it very clear that South African pension fund boards are **legally required to consider climate risks** in making investment decisions.

We've written to pension fund boards across SA setting out the findings of the legal opinion, as well as steps that pension funds must take now to make sure they are complying with their legal duties.

HOW DOES THIS AFFECT YOU?

The savings of millions of South Africans are invested in pension funds which must sustain them in retirement.

Pension fund boards who manage these savings are doing so on behalf of workers, communities and beneficiaries who all have an interest in ensuring:

- That their retirement benefits are not jeopardised by over-reliance on high-carbon investments which pose serious financial risks; and
- That the world they retire into is not dominated by climate catastrophe and social and political instability.

WHAT MUST PENSION FUNDS DO?

At the very least, pension fund boards must:

Ensure that they are "climate competent", i.e. take appropriate advice, analyse and fully understand the climate risks and opportunities in relation to their funds.

Assess the carbon footprint of their fund's portfolio, and identify investments which are vulnerable to climate risk and those which can contribute to a just transition to a low-carbon economy.

Develop a clear climate policy which explains the fund's understanding of climate risk, and how the board identifies and manages it.

Communicate this policy to asset managers and consultants who manage the fund's investments on its behalf, and make sure that they are appropriately mandated and incentivised to implement the policy.

Pursue active stewardship and engagement with companies in high-carbon sectors, including by setting clear voting policies and engagement escalation timelines; and regularly disclose to members how they are managing climate risk.

Develop an investment strategy with clear, measurable targets to remove portfolio carbon risk and leverage low carbon opportunities.

See the full list of recommendations for pension fund boards, and download the legal opinion and letters to pension funds at www.justshare.org.za

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