

ITEM 5(C) Carbon Intensity and Fossil Fuel Reserve Targets for 2030

Paper type: For approval

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1 Purpose

- 1.1 The purpose of this paper is to seek final **approval** of the carbon accounting methodology and carbon intensity and fossil fuel reserve targets.

2 Background

- 2.1 In February, we brought a paper to the Board with preliminary proposals for setting our 2030 carbon targets and a discussion on scaling climate solutions.
- 2.2 We have also reviewed our carbon accounting methodology and determined that we should shift our approach to reference the Partnership for Carbon Accounting Financials (PCAF). We also considered how we should adjust our carbon targets, in light of adopting PCAF for measurement of our carbon footprint.
- 2.3 In March 2025, the Audit and Risk Committee endorsed our recommendation to adopt revised carbon accounting and target setting methodologies with reference to PCAF for our annual Climate Change Report beginning 2024/25.
- 2.4 We also presented the carbon accounting approach recommendations to the Investment Committee (IC) in March, along with our further analysis and proposals on carbon targets. The current 2025 targets are 40% carbon intensity (actual reduction 64.4% in 2024) and 80% fossil fuel reserves (actual reduction 98.2% in 2024) against a 30 June unadjusted Reference Portfolio each year. The IC tested the importance of shifting to PCAF given the additional resourcing required, particularly in the first year and determined that we should make the shift. On targets, the IC endorsed the 75% reduction in carbon intensity target. The IC discussed increasing the fossil fuel reserves reduction target to 90% but felt that there was optionality in keeping it at 80%. The IC endorsed a shift to a fixed 2019 baseline against an unadjusted Reference Portfolio noting the other Crown Financial Institutions use 2019 as their baseline.
- 2.5 We also discussed the potential for setting climate solution targets with the IC. Based on IC feedback, we have decided to defer further analysis until after the Board have considered the Sustainable Finance Roadmap in June 2025. As such, we are no longer proposing to return to the Board with a discussion on climate solutions in July. Instead, we will reconsider the scope and timeframe of this project after feedback from the Board in June.

3 Analysis

- 3.1 We began reporting on our carbon footprint in 2017 based on a bespoke version of global good practice defined under the Greenhouse Gas (GHG) Protocol.
- 3.2 Consistent standards for accounting including for Scope 3 (financed emissions) have since evolved. Our assurance providers have signalled that they are reluctant to continue providing limited assurance against our current bespoke approach.

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- 3.3 The Crown RI Framework contemplates that we report in a manner consistent with the External Reporting Board (XRB) New Zealand Climate Standards. The Standards recommend that reporting entities use a globally recognised emissions assessment methodology for measuring carbon. PCAF is one such method for measuring financed emissions under the GHG Protocol.
- 3.4 Most comparable investment and financial services entities - including ACC and many global peers - have adopted a PCAF-based method for measurement.
- 3.5 In contrast to our current carbon accounting method, the PCAF-based approach involves:
- (a) attributing GHG emissions and revenue according to enterprise value including cash (EVIC), rather than market capitalisation;
 - (b) reporting Scope 3 emissions of investee companies (i.e. estimated emissions from product/service value chains and/or their financed emissions, where possible);
 - (c) reporting data quality ratings, based on standardised attributes/categories;
 - (d) reporting absolute emissions;
 - (e) reporting sovereign emissions, and;
 - (f) reporting physical long positions (without including synthetic positions).
- 3.6 PCAF is a disclosure approach rather than a target setting methodology. We propose to change the methodology for calculating our targets to align where practicable with our PCAF disclosures. However, we are not proposing to fully align our target setting metric with the data we prepare for PCAF because doing so would introduce undesirable volatility and complexity into our targets. Table 1 provides a breakdown of the proposed changes and the difference between our methodology for calculating disclosures and our targets.

Table 1: Comparison of approach to carbon disclosures and carbon targets¹

	NZSF Disclosures	NZSF Target
(a) attributing GHG emissions and revenue according to enterprise value including cash (EVIC), rather than market capitalisation	Yes	Yes
(b) Scope 3 emissions of investee companies (i.e. estimated emissions from product/service value chains and/or their financed emissions, where possible)	Yes	No
(c) data quality ratings, based on standardized attributes/categories	Yes	No
(d) absolute emissions	Yes	No
(e) reporting sovereign emissions	Yes	No
(f) physical long positions (without including synthetic positions)	Yes But we will also report synthetic positions separately	No We combine synthetic positions into our total footprint.
(g) calculating carbon intensity based on revenue	No	Yes

- 3.7 The proposed PCAF-based approach is more resource intensive for both reporting and target setting than our current approach. This resourcing has been considered by the Investment Committee and the Audit and Risk Committee.

¹ Items (a) through (f) are PCAF requirements, (g) is not covered by PCAF.

- 3.8 We have undertaken analysis to understand the impact of PCAF on our carbon intensity reduction targets and of shifting to a fixed date - June 2019 - to set targets against. Although we cannot be certain of the impact until we have gone through the full carbon footprinting process, initial results suggest that we will achieve at least a 75% reduction in emissions intensity in June 2025, relative to June 2019 unadjusted Reference Portfolio. This reduction is projected to continue to improve through time because of our Paris Aligned Benchmarks. Therefore, we recommend confirming the carbon intensity target as a 75% reduction by 2030 versus our 2019 unadjusted Reference Portfolio.
- 3.9 For our fossil fuel reserve footprint, we are currently achieving a 98% reduction and we expect to achieve an even greater reduction in June 2025, as we have recently exited some of our shale gas investments. We have undertaken some analysis to test how much headroom we might require in targeting a reduction in the potential emissions from fossil fuel reserves owned by the Fund, should we support higher-intensity climate transition investments where there may be some reserve ownership. There is considerable flexibility under a 90% target to absorb this exposure, but we recommend retaining the 80% target for optionality as we learn more about this area.

4 Recommendations

4.1 We recommend that the Board approve:

- (a) adoption of the revised carbon accounting setting methodologies with reference to PCAF for our climate-related disclosures, set out in 3.5 beginning FY2024/25;
- (b) aligning our carbon target methodology with our disclosure methodology, where practical (as set out in Table 1); and
- (c) setting of emissions reductions targets for 2030, to be measured against a fixed baseline unadjusted Reference Portfolio (as at 30 June 2019), comprising:
 - i. reduction in the carbon emissions intensity of the Fund by at least 75%; and
 - ii. reduction in the potential emissions from fossil fuel reserves owned by the Fund by at least 80%.