MSCI

TRANSCRIPT

MSCI COP2 Conversations

Featuring:

Lucas Kengmana, Senior Investment Strategist, New Zealand Superannuation Fund

Brendan Baker, Climate Specialist, ESG Research, MSCI

Brendan Baker (00:15):

Hi everyone and welcome back to another session on Cop 26 Conversations in Asia Pacific where we discuss some of the ins and outs of climate change from an investor lens by talking to some of our clients in the APAC region.

Today I'm really pleased to be sitting down with Lucas Kengmana, a senior Investment Strategist at the New Zealand Super Fund, who has been very involved in the topic of climate change at the Fund. So before we jump into what you're seeing in New Zealand, the Fund, and COP26, Lucas, could you provide a quick overview of who you are, and how you managed to find yourself working on climate change at the New Zealand Super fund?

Lucas Kengmana (00:51):

Yeah, so most of my career has been focused on climate change, but I've come through it from a range of different roles. My first climate change job was actually as a research assistant looking at global justice in the international climate change negotiation. I then use that experience to help at Oxfam in their advocacy at the Copenhagen COP. I then worked on setting up the forestry aspects of the New Zealand Emissions Trading Scheme. Since then, I've tried my hand at starting a business – led the climate change strategy at New Zealand's largest emitter Fonterra and worked at the Climate Change Commission. Most recently I moved to the New Zealand Super Fund where I'm a senior investment strategist in the Responsible Investment team and I split my time here, looking at climate change and broader ESG issues.

Brendan Baker (01:43):

Thanks Lucas. Now before we look at what New Zealand Super Fund is doing, I'd like to hear your thoughts on the New Zealand market as a whole. Often Australia and New Zealand are bunched together, but they're quite different from an industry and regulatory perspective. One example is TCFD becoming mandatory in New Zealand in 2023 for certain corporates and investors. Could you talk to what you are seeing in New Zealand, and perhaps walk us through what is happening from a TCFD perspective?

Lucas Kengmana (02:13):

Yes. I guess in some ways, New Zealand's challenges are actually quite unique for a developed country. 50% of our gross emissions come from agriculture products and we export most of these. And we're based in the middle of the Pacific, so our grid is a bit of an energy island. At the same time, it's a long and narrow country, which means that our transport, energy demand is higher than usual, and it can be, at times, a bit more tricky to electrify it. In saying that we also have some key advantages, one of which is our electricity. 80% of our electricity comes from renewable sources, and we have some of the fastest growing forest in the world and plenty of land to plant them on.

So, you know what that means is New Zealand has been heavily focused on the land base sectors. Forestry has been in the Emissions Trading Scheme from the very beginning, and we are likely to be the first country to introduce agriculture into the New Zealand Emission Trading Scheme from 2025.

The New Zealand government is in the process of passing a bill, which will require listed companies with a market cap of over 16 million or more and financial institutions with under 1 billion assets under management to report against the standard which will be based on the TCFD. This is hugely significant because it means that every large corporate is going to have to think deeply about their exposure to climate change and how they're going to respond to it. And investors will have the information we need to make more informed investment decisions on a company's climate change disclosure.

So investors are going to have to report against 11 disclosure requirements in broad categories. The first is governance – so you know who makes decisions about climate change, and how are they made. The second is strategy – so how are they going to respond to climate change, and a range of climate change scenarios. The third is risk management, and how are they thinking about the risks that climate changes is bringing to their fund. And the fourth is metrics and targets, and there may be a range of metrics, but one that is almost certain is a fund’s carbon footprint, so how much emissions are in their portfolio.

Brendan Baker (04:42):

Awesome. That was great Lucas. Thanks for such a good lay of the land. What would be great as well, is to hear how all this impacts New Zealand Super Fund’s climate change strategies and decision making. Are you able to provide some color on what New Zealand has done on the climate front, and where it's going?

Lucas Kengmana (04:59):

Yeah, we are the sovereign wealth fund for New Zealand. That means we were created to manage the money that the government put aside to pay for a future generation’s pensions. As such, we have a long-term time horizon and known liquidity profile.

And this allows us to take a long-term view about our investments. Back in 2016 we became convinced that the financial markets were ignoring the risks of climate change. That meant certain companies were facing a real risk of incurring significant losses and we weren't being paid anymore to hold them.

So, we decided to reduce our climate change exposure, we did this by introducing a climate change strategy where we measured our carbon footprint and exposure to fossil fuel reserves and set targets to reduce them. We asked our investment professionals to assess the risk of any investment they are considering making. And we give them climate scenarios to help them do this. We engaged with our assets and external managers to ask them to ensure that they are thinking about how they will respond to climate change and we searched for companies and strategies that can profit from helping the world curb and adjust to climate change.

We were really proud of the targets that we've set and the reductions we managed to achieve in terms of reducing carbon. And we've done that mostly through our passive portfolio where we've set up a bespoke methodology that allows us to both reduce fossil fuel exposure and exposure to carbon intensity or reduce our carbon intensity via funds. We've then gone on and asked our equity managers to implement similar targets.

So, there're three things we're working on right now, the first one is making sure that our climate change strategies are aligned with the Paris Agreement. It's clear that the cost of inaction on climate change far outweighs the cost of action so it's in everyone's interest, including ours as an investment fund that we ensure that we are doing what we can to support ambitious action.

The second thing is ensuring that broader ESG issues are being considered alongside climate change. We can't only focus on climate change because it's going to make it even more critical to consider other environmental and social issues when making investment decisions and I guess, a key example of this would be biodiversity and inequity issue.

And then finally, there's just a huge amount of new climate data being created so we're just working hard to try and stay on top of all of it and assess what it means for our approach.

Brendan Baker (07:46)

Fantastic Lucas, NZ Super has been a leader in a lot of these matters for some time, so it's great to hear that you are continuing to push that envelope even further.

To a final, but important section of this session, a core part of why we're chatting is the fact that COP26 is in fact only around the corner, and there's a lot of hope that we see even more ambition and real action coming out of this conference. Do you at New Zealand Super Fund have anything you would like to see come out of COP26?

Lucas Kengmana (08:09)

Look there are four things that the New Zealand Super Fund would like to see come out of. The first is to increase global ambition. It's clear that the cost of inaction on climate change outweighs the cost of action so it's in everyone's interest to take action. Unfortunately, as the recent IPCC report found, global action to date is far from sufficient.

The second is to create a global market for carbon by developing Article Six. It is critical that all feasible emissions reductions occur as quickly as possible and having a solid global system will help ensure that these reductions can be funded.

Third is to commit to stable long term climate settings. It's difficult to deploy capital without having a degree of certainty about where the country is heading to long-term.

Countries should address this by appointing independent committees to advise on the long-term settings of national carbon budgets and emissions reduction plans.

And the fourth is to require companies to disclose their climate risks to allow investors to better understand and price, the climate risks in their investment.

Brendan Baker (09:23)

All of those sounds incredibly sensible, so I'll join you in those hopes. Look, thanks so much for joining me Lucas, this has been really great, and best of luck with all the climate change developments and ambitions at NZ Super. Cheers.

Lucas Kengmana: (09:35)

Well, thank you very much.

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit **www.msci.com**.
