

CARBON TRANSP- ARENCY REPORT 2020

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GLOS- SARY

CLIMATE TERMS

TCO2 EQUIVALENT

Different activities and companies emit many different greenhouse gasses, which each have slightly different climate impacts (aka global warming potential). So that scientists and businesses can understand their climate impacts, these emissions all get translated to a basic unit, which is how much carbon dioxide it would take to create an equivalent climate impact. The basic unit of climate impact is called tonnes of carbon dioxide equivalent (or tCO₂e). It is calculated using the metric tonne.

GREENHOUSE GASSES

These are the different types of gasses that trap heat from the sun in the atmosphere and contribute to global warming.

CARBON FOOTPRINT

The total amount of greenhouse gas emissions a company creates as part of its activities is called its carbon footprint. Companies have a carbon footprint but so do individuals and so does Australia. It is a way of saying, “this particular entity or thing is responsible for creating this amount of climate impact”, which is important to understand when we think about how best to take action to stop global warming.

CLIMATE TERMS (CONTINUED)

SCOPE 1 EMISSIONS

These are the greenhouse gas emissions that are a direct result of a company's core business activities. For example, the emissions from burning fuel to power trucks for a transport company or the emissions a coal fired plant produces when it burns coal to produce electricity.

SCOPE 2 EMISSIONS

These are the greenhouse gas emissions that a company indirectly produces as part of achieving its core business activities (eg. the emissions associated with the power used to run a company office). Importantly, the company has a direct relationship with the entity generating those emissions, and some control over choosing which provider they use. For example, if a company chooses to source their power from the local energy grid, and that energy grid is powered by coal, then the emissions from that coal are counted as Scope 2 emissions for the company using the grid.

SCOPE 3 EMISSIONS

These are the greenhouse gas emissions that a company cannot directly control in their supply chain (such as the emissions generated by transporting office supplies) or the emissions from the products or services they sell after the transfer of ownership. This is particularly important for coal miners and other fossil fuel extractors, because if they sell their product to a power plant this is where the emissions from fossil fuels show up in their reporting. As an example, a coal mining company has a much smaller carbon impact when looking at only its Scope 1 and 2 emissions, which are the emissions involved in extracting the coal from the ground. However, when the coal miner sells the coal to a power station, the burning of that coal has a very large carbon impact. Scope 3 emissions capture the downstream carbon impacts of the coal.

CLIMATE INVESTING TERMS

FINANCED EMISSIONS

Financed emissions are a way of calculating the carbon footprint of an investment. However much of a company you own, you are responsible for the same portion of its climate impact. So, if you own 5% of a company, you also own 5% of its emissions. When we look at investment portfolios, like your super, all the different components of the ownership get added together and weighted by how much you invest in those companies. The financed emissions are the emissions you are responsible for through your investments.

CARBON AVOIDANCE

Carbon avoidance is a way of thinking about how your decisions impact the amount of carbon you are financing or are responsible for. Just like choosing to drive a hybrid car changes your carbon footprint, so do the choices you make with your finances. When you choose to invest in low carbon portfolios, you are avoiding the carbon you would be financing if you invested in another portfolio. Usually, carbon avoidance is shown as the difference between the financed emissions of your investment portfolio compared to a benchmark portfolio.

CARBON ABATEMENT

Carbon abatement looks at the impact of sourcing low carbon energy (such as through renewable technology like a solar farm) instead of what you would normally get through traditional energy sources. Think about the difference between a solar farm and the standard energy grid using dirty power. The solar farm generates carbon-free electricity. The grid is largely supplied by carbon intensive electricity. The carbon abatement is equal to the amount of carbon intensity the solar farm has displaced from the energy grid. Just like you finance the emissions of a company when you own a part of it, you also finance the abatement of companies that are providing solutions to the climate crisis.

CARBON NEUTRALITY

Carbon neutrality is achieved when the carbon that is emitted by an entity is mitigated (or cancelled out) by absorbing carbon from the atmosphere in carbon sinks (either naturally in trees or artificially). However, when financed emissions are considered in the investment context it is also possible to reach carbon neutrality through carbon abatement. This requires emissions made by one sector or group of entities to be balanced out by reducing them elsewhere, usually by giving preference to renewable energy and low carbon technologies. When we talk about Future Super's portfolio performance, we follow the second method in our calculations.

CLIMATE INVESTING TERMS (CONTINUED)

DIVESTMENT

At its most simple, divesting is the opposite of investing. If you divest of fossil fuel companies, it means you have sold your ownership of fossil fuel companies. Divestment is especially powerful when it's part of a wider movement, because it does two important things: First, it draws a lot of negative attention to a company or activity, which can hurt its reputation or social licence to operate; and second, It makes it more expensive for a company to access the money it needs to keep doing its harmful activity, because the people willing to lend it or invest in that activity expect a better return for their investment

ETHICAL SCREENS

Ethical screens are a set of rules against which we analyse the ethical performance of potential investments. These rules can either be negative (negative screens) or positive (positive screens) in nature. Negative screens are rules that require us to exclude holdings if they engage in certain harmful activities. Positive screens, on the other hand, are rules that give preference to holdings if they engage in certain preferable activities. Our ethical screens for each asset class are available on our website.

PORTFOLIO

When we refer to our portfolio, we are talking about all the investments that Future Super ('the Fund' or 'our Fund') has made with our members' retirement funds. The portfolio is comprised of investments in Australian and international shares, fixed income, 'alternatives' and cash. Some of our fixed interest and alternative investments are also considered impact investments, that include companies generating renewable energy or working toward climate solutions

For more information about how the terms that appear in the Glossary are used in this report refer to the Methodology section on page 19.

THE CURRENT CLIMATE

The year 2020 needs no introduction. But if we had to sum it up, we'd say this: there were silver linings within our collapsing global systems and ecosystems.

In Australia, the biodiversity we strive to protect every day was decimated, with WWF Australia reporting over 3 billion animals were impacted by the bushfires last year¹. The combined health and economic crises due to COVID-19 affected 1 in 7 people in Australia², creating immediate financial insecurity and serious setbacks to long-term retirement plans. One in eight people applied for early access to their superannuation due to pandemic restrictions, which will impact their retirement savings for decades to come².

In this context, it is easy to lose hope. But we're not in the business of can't. Our purpose is to build a prosperous future, free from climate change and inequality. So - silver linings!

Global heightened awareness around the fragility of our world and climate highlighted the importance of taking action now to protect it. Scores of global and national enterprises made commitments to shift to net zero carbon emissions by 2050 and consumers increasingly began voting with their wallets. Decision makers in finance and governments are holding companies accountable to act on climate change immediately. From Blackrock divesting from

coal in its active funds, to Denmark banning all future licensing rounds for oil and gas exploration in the North Sea, announcing the end of Danish fossil fuel production by 2050 - the changes taking place show global consumer demand³.

Closer to home, some of the largest superannuation funds in Australia have responded to the pressure of their members walking out the door with commitments to reduce investment in fossil fuels. We saw this concern for the climate reflected in our own fund, with people joining Future Super in record numbers (the number of Future Super members more than doubled in 2020)³.

This report provides transparency on Future Super's current net carbon footprint. In the context of the commitments corporate Australia has made in the past 12 months to reduce its carbon footprint, often with a long-term time horizon, we hope to show leadership and accountability in this area.

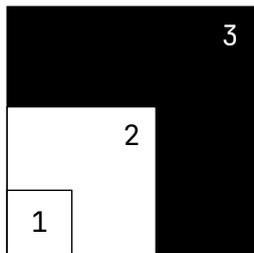
(1) WWF, 2020. (2) ABS, 2020. (3) Sheikh, 2021.

THE CHALLENGE WITH CARBON REPORTING

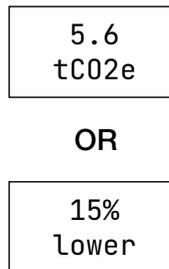
There is no consistent approach or standardised metric to reporting on an investment fund's net carbon footprint – leading to distorted data, confusion and the 'too-hard' basket.

THE CHALLENGE WITH CARBON REPORTING

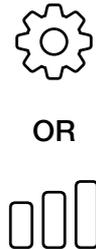
Some organisations report on Scope 1 & 2, others report on 1, 2 & 3



Some report in absolute terms, others in relative terms



Some report on their operations, others on portfolios



Inconsistent reporting on Scope means that some organisations exclude Scope 3 emissions. This is a substantial contributor to carbon footprint.

As an example, a coal mining company has a much smaller carbon impact when looking at only its Scope 1 and 2 emissions, which are the emissions involved in extracting the coal from the ground. However, when the coal miner sells the coal to a power station, the burning of that coal has a very large carbon impact. Scope 3 emissions capture this downstream carbon impacts of the coal.

Reporting in relative terms makes it hard to understand what the actual emissions are and therefore the impact that the company is having – 15% lower than what? Than last year? Than a benchmark? How far is this from your target? How far is this from net neutral?

This style of reporting raises more questions than it answers and can result in confusion and distortion of results.

While some companies only have operational carbon footprints to report on, others such as banks, insurance, asset managers and super funds, significantly contribute to emissions through investments.

These companies should report on both before claiming to be carbon neutral to avoid misleading consumers.

Reporting on carbon throughout the superannuation industry is infrequent and not standardised. In order for the industry to measure progress over time and report clearly to consumers, adoption of a standardised, transparent and understandable method of mea-

surement is required. This report outlines the methodology we have used to calculate our net carbon footprint to provide our members with this transparency and understanding.

**CALCULATING
OUR
PORTFOLIO'S NET
CARBON
FOOTPRINT**

CALCULATING OUR PORTFOLIO'S NET CARBON FOOTPRINT

Future Super's portfolio has a net negative carbon footprint

Net carbon position (2020, tCO2e)

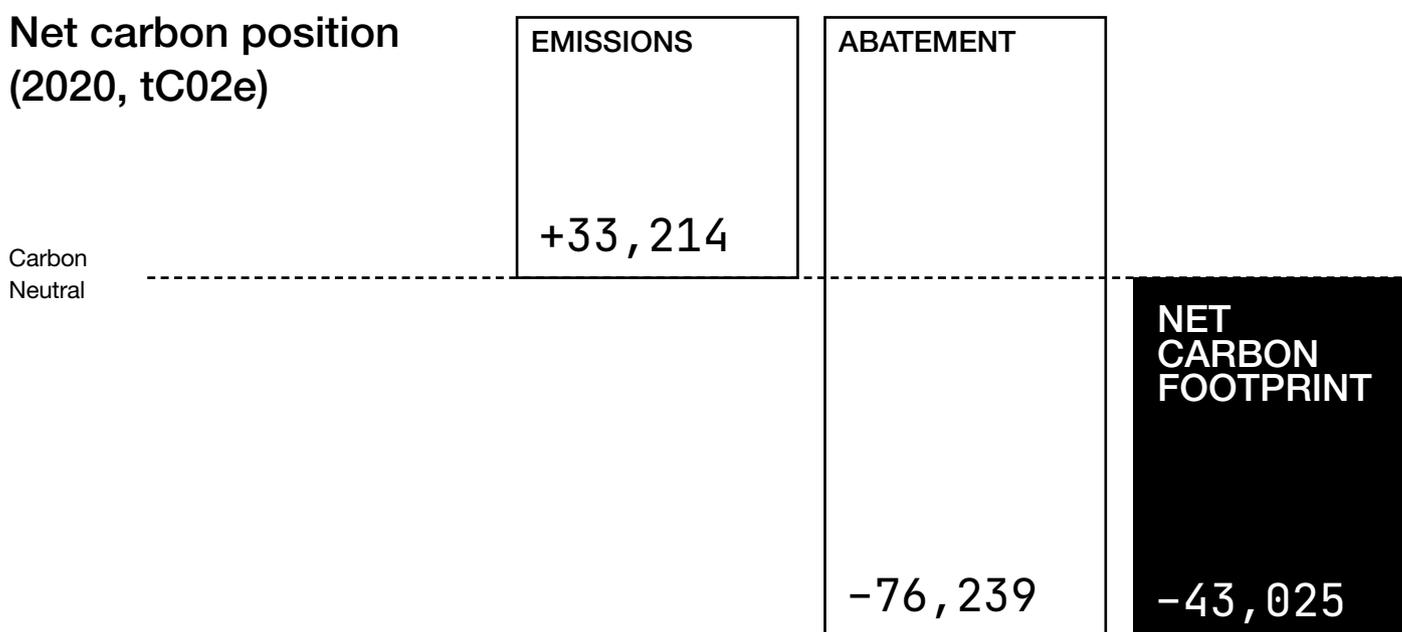


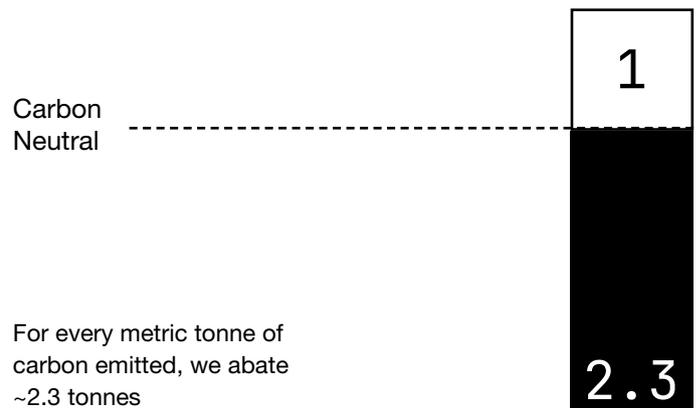
Figure 1: Net carbon footprint of the Future Super fund portfolio, calculated using the emissions and abatement data of the portfolio for calendar year 2020⁴, ⁵, ⁶ (refer to Methodology & assumptions section for how data has been used)

Note: Figure 1 does not include the emissions associated with the operational activities of Future Super.

(4) Trucost, Emissions data, 2019. (5) Future Super, Abatement data, 2020. (6) Future Super Investment Services, 2020

CALCULATING OUR PORTFOLIO'S NET CARBON FOOTPRINT (CONTINUED)

That means that our investments avoid more carbon than they emit.



As a super fund that invests for impact, it is important to our members that we invest their money in assets that will contribute to a fairer, more sustainable world for them to retire into. We take this responsibility seriously, which means doing more than the bare minimum. All of Future Super’s investment options are 100% divested from fossil fuels, as well as weapons, gambling and tobacco companies. In addition, our Renewables Plus Growth and Balanced Impact investment options are also invested in climate solutions, including renewable energy.

Our 2020 portfolio is net carbon negative, which means it abates more carbon than it emits (see the glossary for what abatement means in the context of this report). The emissions of our portfolio include the carbon emitted by the companies we invest in, including their operations and supply chains, while the abatement of our portfolio refers to the clean energy that displaces carbon intensive

energy from the grid through our renewable energy investments. Note that abatement is not the same as mitigation, where carbon is literally removed through carbon sinks. We choose to report our position taking into account the abatement financed by the investments in our portfolio to provide transparency to our members on the carbon impact of their super, and to encourage the industry to provide visibility of its net carbon position as well.

In order to move towards net zero, a clear standard must be set. Our portfolio reports on Scope 1, 2 and 3 emissions – that is, on emissions that are both directly and indirectly caused by the companies we invest in and are associated with their supply chains. By abating these emissions, we are ensuring that our almost \$1 billion in funds under management is actively contributing to a safe and prosperous future. For details on our calculation approach, refer to the Methodology section on page 19.

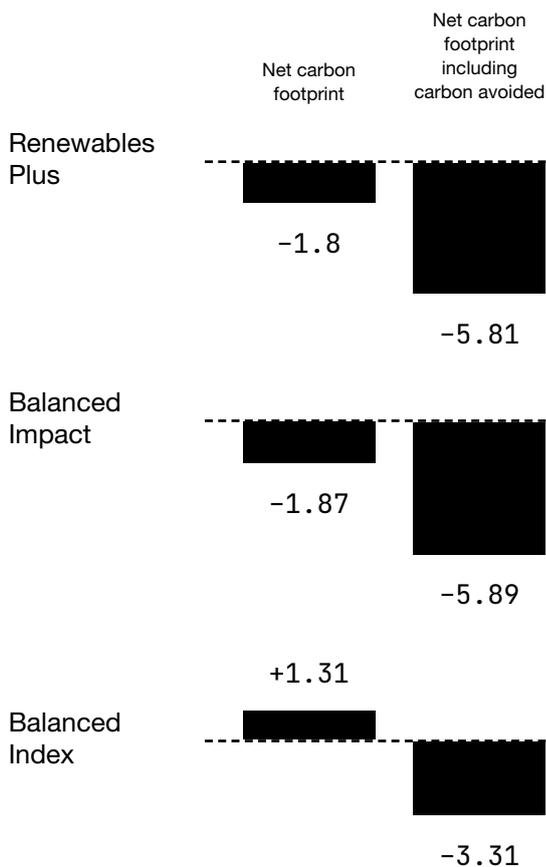
THE IMPACT OF AN INDIVID- UAL

Switching to Future Super from a fund without ethical screens could reduce an individual's carbon footprint by up to ~5.9 tCO₂e per year

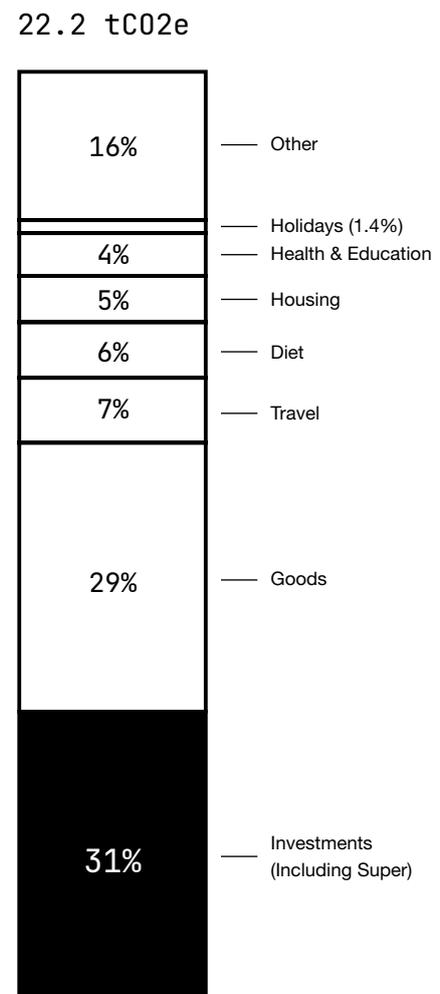
An individual’s investments on average comprise 31% of their carbon footprint – for many people shifting to a carbon neutral fund could be the single largest contribution to the environment they make.

THE IMPACT OF AN INDIVIDUAL

Future Super’s net carbon position by investment option (compared to benchmark funds) (2020, tCO2e)



Average Australian carbon footprint composition (%)



Note: these calculations are based on an average financial Future Super member’s balance of \$32,631 as at 31 Dec 2020; average footprint is taken from the ABS, and composition from Anthesis calculator and the Australian Victorian government (see references)

THE IMPACT OF AN INDIVIDUAL (CONTINUED)

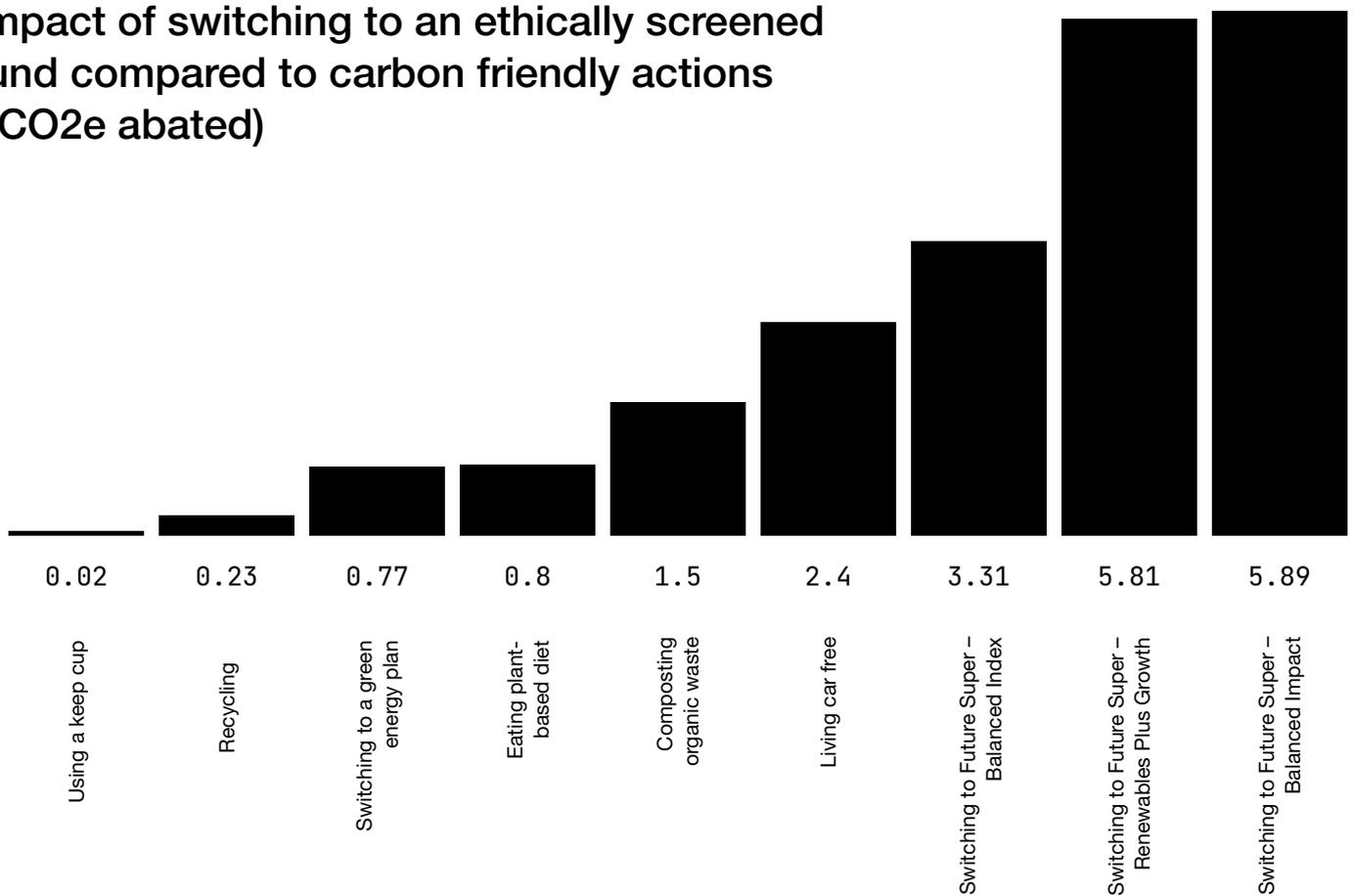
The average person living in Australia contributes approximately 22.2 tCO₂e per year to the atmosphere. Almost one third of this relates to their investments, which includes super. Assuming the average person invests their super in the benchmark fund (the benchmark is obtained using an aggregate of portfolios that aren't ethically screened), the average person's super contributes approximately 4tCO₂e per annum (18% of their total footprint).

An average Future Super member's superannuation account has a net carbon position of -0.8tCO₂e per year (this is an average of the 'net carbon footprint' of each of our investment options— see first column in the graphs above). By moving to an ethically screened portfolio, an individual could increase their carbon avoided by up to -5.9tCO₂e per year (assuming the individual switches an amount equivalent to the average financial Future Super member's account balance of \$32,631 from the relevant benchmark fund into the Future Super Balanced Impact investment option - see second column in the graphs above. Refer to Methodology & assumptions section for further detail).

... switching super could be more effective than using a keep cup or living car free

THE IMPACT OF AN INDIVIDUAL (CONTINUED)

Impact of switching to an ethically screened fund compared to carbon friendly actions (tCO2e abated)



Note: these figures are annual and based on the average financial Future Super member's account balance of \$32,631 as at 31 December 2020, switching their account balance from the relevant benchmark fund.

The carbon footprint is a device invented by mining companies to shift the onus onto individuals to reduce their emissions, when in reality the largest emitters are businesses⁽⁸⁾. While there are many adjustments that individuals can make to their lifestyles to become more environmentally friendly, one of the most powerful ways to create lasting change is by joining the divestment movement to deny fossil fuel companies access to money they need to continue operating. One way to do that is by switching your super.

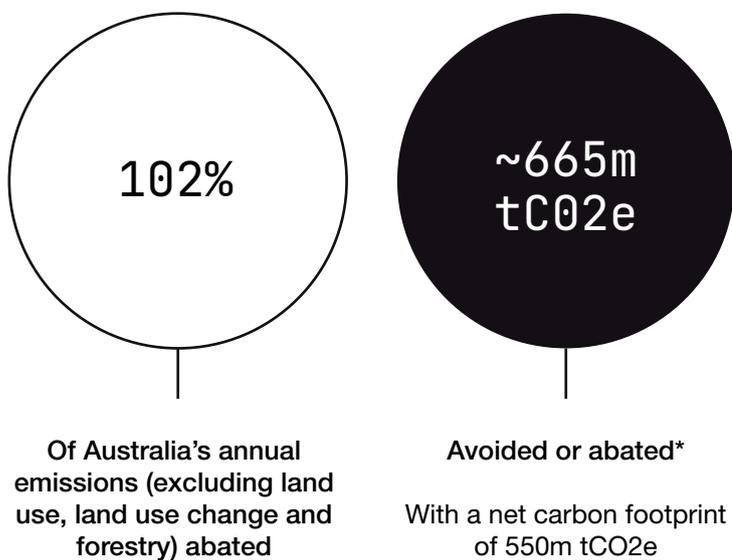
(8) Kaufman, 2020

THE RIPPLE EFFECT

Imagine what the impact would be if the \$3t that Australians have invested in their super was divested from fossil fuels?

THE RIPPLE EFFECT

The annual impact could be...



If all \$3 trillion of Australia's super was invested with equivalent ethical screens to those used by Future Super, the world would be halfway to the carbon reduction needed to meet the Paris Agreement target of warming less than 1.5-2 degrees (1-2bn tCO₂e per year)

Note: this is based on the assumption that \$3 trillion of Australian super money is currently invested in benchmark funds and could be switched to funds with equivalent ethical screens to those used by Future Super.

***for context, 2.6b tCO₂e was avoided around the world during 2020 due to the COVID-19 lockdowns*

Not every individual in Australia has a personal share portfolio, but the vast majority of working people in Australia have superannuation. Super can give those people a voice and an opportunity to democratise the decisions of corporate Australia. Australia's superannuation reached over \$3 trillion in March 2021, which is over 60 times the size of the Bill & Melinda Gates Foundation. If even 7.7% of Australia's \$3 trillion of super was invested in renewables, we could fund Australia's transition to renewable energy by 2030⁷. For example, if the entire pool of super were divested from benchmark funds and invested into our Renewables Plus Growth portfolio, this could contribute to the equivalent of almost half of the world's carbon emissions reduction target. When investment

changes happen at scale, we can change the flows of capital to support a transition away from fossil fuel reliance and into industries that build a sustainable energy grid for the future. While the carbon footprint is an individual measurement, the collective action of divestment targets the biggest emitters and accelerates the development of the renewable energy sector. Reporting on carbon at a fund or organisational level provides transparency and an anchor to take the first steps towards a sustainable future.

(7) UTS, Future Super & 350.org, 2016

METHOD- OLOGY & ASSUMP- TIONS

METHODOLOGY & ASSUMPTIONS

This section is intended to provide visibility on the approach taken to calculating our portfolio’s net carbon position and the impact of switching from a benchmark fund. Note that the carbon footprint refers to our portfolio only, and the emissions of our operations will be reported separately later this year. Our calculations have been reviewed by an independent auditor, ISS.

KEY CALCULATIONS

1. OUR PORTFOLIO’S NET CARBON POSITION

Our portfolio’s net carbon position is calculated using the following formula:



INPUTS:

Financed emissions

This data was gathered by using Trucost to track the carbon that was emitted across Scope 1, 2 and 3 by the companies that we invest in over the 2019 calendar year (latest available data). We allocated carbon proportionately to our investment portfolio over that period and the weightings of our portfolio. Note: we have assumed that the fixed income asset class has similar emissions to our domestic equity asset class. In reality, we expect that fixed income would actually have a smaller level of emissions as a substantial component of our fixed income asset class is allocated to green bonds, however we are also invested in some resource heavy state bonds, so this is the best proxy.

Financed abatement

This data was gathered by asking the companies that we invest in through our alternatives investments to track and provide data on the carbon that they abate through renewable energy generation throughout the 2020 calendar year. This was apportioned to our share of investment and applied based on the alternatives weighting in our portfolio.

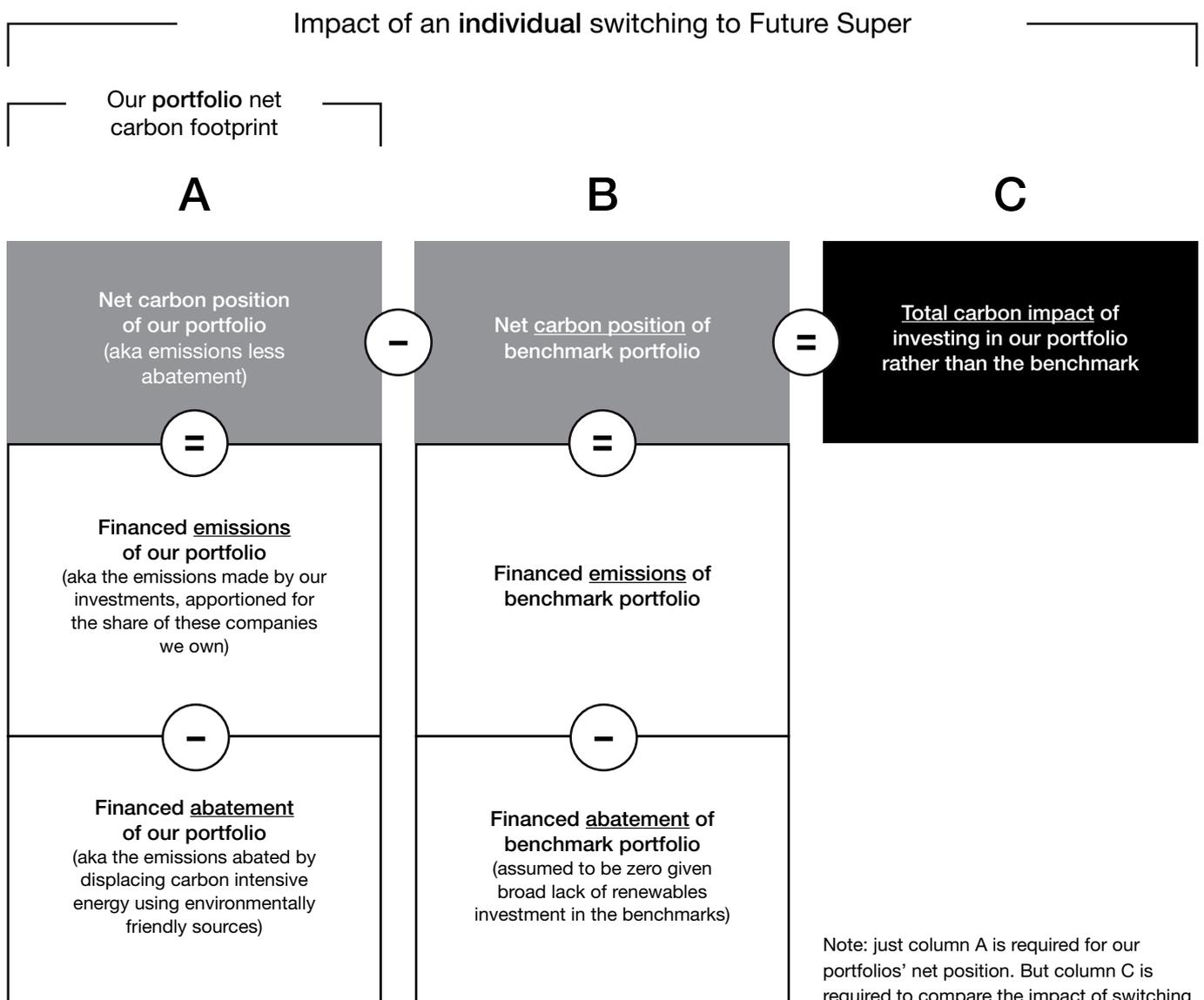
OUTPUTS:

This calculation provides a view of the net carbon footprint of our whole portfolio, as well as by investment option (Renewables Plus Growth, Balanced Impact, Balanced Index)

METHODOLOGY & ASSUMPTIONS (CONTINUED)

2. THE INDIVIDUAL IMPACT OF SWITCHING SUPER FUNDS

An individual's net carbon position and the impact of switching funds can be calculated using the following formula:



METHODOLOGY & ASSUMPTIONS (CONTINUED)

INPUTS:

A) Financed emissions of our portfolio: the data used is the same as for our portfolio's net carbon position calculation. Financed emissions are allocated proportionately to the weightings of our portfolio and the value of our investment over that period. It's then adjusted for the average balance of a Future Super member during the period.

B) Financed abatement of our portfolio: the data used is the same as for our portfolio's net carbon position calculation. Financed abatement is applied based on the alternatives weighting in our portfolio and allocated proportionately to our share of investment in companies. It's then adjusted for the average balance of a Future Super member during the period.

C) Financed emissions of benchmark portfolio: this data is gathered through Trucost by finding the average carbon emissions (per dollar invested) of a comparable portfolio without ethical screens. This establishes a benchmark (e.g. for our domestic shares, we compare it to the average emissions per dollar invested of the ASX300), which is adjusted for the average balance of a Future Super member during the period.

D) Financed abatement of benchmark portfolio: this is assumed to be zero given the broad lack of renewables investment in the benchmark portfolios used.

OUTPUTS:

This calculation provides a view of the net impact of an individual switching from a standard super fund without an ethical screen (aka a benchmark fund) to a Future Super investment option, by calculating the emissions of the Future Super investment option (minus the emissions abated through Future Super's renewable investments), less the emissions avoided by not investing in the benchmark fund.

Note: the average balance of a financial member of Future Super was used for these calculations (\$32,631) however often a balance of \$50,000 is used when comparing funds. This choice was made to reflect the average difference it would make to switch to Future Super for a member with an account balance similar to the average Future Super member.

EQUIVALENCIES

We have used a series of sources (see reference list below) to create 'equivalencies', or statistics that we use to compare our carbon footprint and emissions abatements which will make it real for our members and improve understanding of our impact.

These calculations have been based on the metric tonnes of carbon dioxide equivalent (tCO₂e) emissions that can be saved by taking action (e.g. see page 16).

REFER- ENCES

Below are the key data sources that were used to inform the information provided in this report.

GENERAL

1. BUSHFIRE IMPACT ON WILDLIFE	WWF, 2020, New WWF report: 3 billion animals impacted by Australia's bushfire crisis
2. FINANCIAL IMPACT OF COVID-19 IN AUSTRALIA	ABS, 2020, Household Impacts of COVID-19 Survey
3. GLOBAL SHIFTS IN CARBON COMMITMENTS	Simon Sheikh, 2021, Member Update speech
4. EMISSIONS DATA	Extracted from Trucost for 2019, captured emissions and weightings of Future Super's investments as well as average emissions of indices including ASX300, MSCI All World (excluding Australia) and S&P A-REIT
5. ABATEMENT DATA	A template was shared by Future Super with each of its Alternative investments to complete their carbon intensity, emissions and abatement for 2020
6. FUTURE SUPER'S PORTFOLIO COMPOSITION	Provided by Future Super Investment Services as at 31 December 2020
7. SUPER % REQUIRED TO TRANSITION TO 100% RENEWABLE ENERGY BY 2030	UTS, Future Super & 350.org, 2016, Supercharging Australia's clean energy transition
8. CREATION OF THE 'CARBON FOOTPRINT'	Kaufman, 2020, The carbon footprint sham

REFERENCES (CONTINUED)

EQUIVALENCIES

AVERAGE AUSTRALIAN CARBON FOOTPRINT COMPOSITION

Anthesis, 2018, Carbon calculator
Victorian Government, Australian Greenhouse Calculator (epa.vic.gov.au)

USING A KEEP CUP

Keep Cup, 2021, Impact Calculator

SWITCHING TO A GREEN ENERGY PLAN

Powershop, 2021, Carbon calculator. kWh to CO₂ emissions calculator

EATING A PLANT-BASED DIET

Wynes & Nicholas, 2017, The climate mitigation gap: education and government recommendations miss the most effective individual actions - IOPscience

COMPOSTING ORGANIC WASTE

Victorian Government, Australian Greenhouse Calculator (epa.vic.gov.au)

AUSTRALIA'S \$ INVESTED IN SUPERANNUATION

ABS, 2020, Managed Funds, Australia, December 2020

AUSTRALIA'S CARBON FOOTPRINT

ABC News, 2019, Australia's carbon emissions continue to rise despite Government assurances about climate change policy

GLOBAL CARBON REDUCTION REQUIREMENTS

Quere et al, 2021, Fossil CO₂ emissions in the post-COVID-19 era - Nature Climate Change

GATES FOUNDATION SIZE

Bill & Melinda Gates Foundation, 2020, Foundation Fact Sheet

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