

SUBMISSION

The Australasian Centre for Corporate Responsibility (ACCR) welcomes the opportunity to provide input to the review of the ethical framework governing the Government Pension Fund Global (GPF) ('the Fund'). ACCR is a not-for-profit organisation that supports investors globally to take effective action to mitigate portfolio and systemic risks of climate change.

We agree that the time is right for a review. Since the ethical framework was first developed, both the nature of global risk and the expectations placed on long-term investors have changed significantly. In particular, climate risk is now widely understood to be a system-wide financial risk with material portfolio implications that are already becoming evident.

In our view, the central question for this review is:

Is the current approach, which is focused on index tracking and supplemented primarily by ethical exclusions, still compatible with the Fund's long-term fiduciary duty under conditions of material climate system risk?

Ensuring that the framework allows the Fund to both manage and meaningfully reduce systemic climate risk will be critical to protecting long-term portfolio value for future generations.

1. The world has changed – and so has the nature of risk

The committee should assess whether the current framework remains fit for purpose, given the systemic risks the Fund is subject to, and with reference to the NBIM's own systemic risk analysis.

Climate risk is not marginal. It is systemic and foreseeable. NBIM's own analysis estimates that physical climate risk could reduce the value of its US equity portfolio by around 19% under current policy scenarios, with even higher losses in more severe cases¹.

These are not risks from which investors can diversify away. They are economy-wide risks that affect the entire reference index.

The Fund's existing ethical governance and investment framework was not designed for risks of this nature. It was primarily constructed to address company-level violations of ethical norms. Systemic climate risk presents a different challenge: when the market itself is misaligned with long-term stability, tracking that market closely may entrench exposure rather than manage it.

2. Index tracking, escalation credibility and fiduciary duty

The committee should ensure the framework enables the proper management of foreseeable, long-term risk, including by providing for:

- targeted deviations in sectors with concentrated systemic exposure;
- clear, time-bound and credible escalation pathways, where a company or sector's activities increase systemic climate risk; and
- alignment between NBIM's systemic risk analysis and its portfolio construction constraints.

¹ [NBIM Climate and nature disclosures 2024](#)

A key question for the committee to consider is whether the current mandate provides sufficient flexibility for targeted deviation where systemic risk is concentrated, particularly in sectors whose business models are misaligned with global climate goals.

In high-emitting sectors, where risk is systemic, material and well-evidenced, a management approach which only involves large-scale index tracking may be inadequate to manage foreseeable, long-term risk.

If NBIM is of the view that markets are not adequately pricing systemic climate risk, strict adherence to a market-cap-weighted reference index will embed long-term mispricing in the portfolio. In such circumstances, transparent and risk-justified deviation from the index could be understood as prudent risk management.

In addition, a strict index-tracking mandate may undercut NBIM's ability to engage in effective stewardship and credible escalation. Escalation without consequences is unlikely to drive meaningful corporate behavioural change. If companies believe the Fund is structurally unable—or highly unlikely—to materially reduce exposure due to index constraints, the effectiveness of engagement is weakened.

At 1.5% ownership of global equities, NBIM cannot be a passive bystander to systemic risk. The ethical framework should ensure that the Fund's investment structure does not inadvertently dilute the force of its ownership voice.

3. Approaches to highly exposed sectors

The committee should carefully consider whether maintaining large index-aligned exposures to sectors that have struggled to create long-term value while simultaneously increasing systemic climate risk – such as the oil and gas sector – is consistent with the Fund's fiduciary duty. The financial case for maintaining large structural exposure to some sectors is increasingly questionable.

Over the past 15 years the oil and gas sector has underperformed every other sector in the MSCI index.²

There are many reasons for this underperformance. Conventional exploration has become five times more expensive and takes roughly twice as long to develop as it did three decades ago. These higher costs and delays have not always been adequately reflected in executive capital allocation decisions, resulting in persistent value destruction across the sector.³

4. A framework to support the mitigation of systemic risk

The committee should consider if the Fund's stewardship practices are enabling it to fulfil the duties it owes to beneficiaries, including by responding to the systemic, material threat to long-term portfolio value posed by climate change.

NBIM's modelling of physical and transition risks is among the most advanced in the asset owner community. However, current engagement practices, largely centred on targets and disclosure, are not delivering real-world emissions outcomes proportionate to the scale of the risk.

The committee should ask directly:

- Has engagement altered capital allocation decisions at heavy-emitting or systemically risky companies?
- Has engagement constrained fossil fuel expansion?
- If not, why does the framework accept process improvements in place of measurable outcomes?

² ACCR, December 2025, 'When growth no longer pays: rethinking value for the oil and gas sector', [link](#)

³ ACCR, December 2025, 'When growth no longer pays: rethinking value for the oil and gas sector', [link](#)

We consider the Fund’s fiduciary duty requires reducing the likelihood and severity of climate impacts for future generations – not just managing financial exposure after impacts occur.

Stewardship practices should therefore evolve to reflect the need to mitigate systemic climate risk. The challenge – and opportunity – is to reframe climate mitigation as integral to NBIM’s financial and fiduciary mandate.

In our view, effective stewardship should include:

- **Clear expectations** (for example, no new fossil fuel expansion or long-dated upstream investment inconsistent with transition pathways)
- **Defined escalation pathways** (including voting, board accountability and ultimately exclusion)
- **Time-bound assessment** tied to observable outcomes.

There is also an opportunity for the ethical framework to enable a more ambitious approach to stewardship in systemically important sectors by:

- establishing differentiated escalation pathways for sectors whose activities pose systemic risk to the broader economy and financial system
- considering the use of specialised external managers with active, high-conviction mandates where appropriate.

A passive investment structure does not require passive ownership behaviour. If index exposure is maintained in sectors generating systemic climate risk, the ethical framework must ensure that ownership influence is deployed with sufficient force to protect long-term value.

5. How this might be reflected in the Ethical Guidelines

ACCR does not take a position on where the implementation of updated principles capable of handling systemic climate should be located within government, the ethics council, or the fund.

One option would be to broaden the criteria used to identify companies for ownership activities — not only based on products or conduct, but also on the likely forward emissions contribution of a company.

Companies identified as systemically significant emitters could then be subject to strengthened stewardship expectations, including the escalation mechanisms outlined above.

Consideration could also be given to investments and companies capable of delivering significant emissions reductions going forward. Encouraging investment that materially reduces future climate risk could strengthen both portfolio resilience and long-term value creation⁴.

6. Broadening the scope beyond equities

There is an immediate opportunity for NBIM to phase out corporate bond investments that finance or facilitate the development of new fossil fuel projects and infrastructure.

⁴ Wildner, Andreas and Dolmans, Maurits, Sustainable Fiduciary Duties for Investors -- How fiduciary duties can be a key to escape the climate prisoner’s dilemma (September 19, 2024). Draft discussion paper for the NZLA Secretariat September 18, 2024 (updated April 2025), [link](#)

Withdrawal of direct financing can materially influence company behaviour, the cost of capital for fossil fuel expansion, and real-economy emissions outcomes in a more direct and powerful way than divesting listed equities.

The University of Cambridge has developed the first global corporate bond index covering fossil fuel producers, utilities, insurers and financiers. The index includes weightings and exclusions based on companies' actual activities rather than blanket sector classifications, creating incentives for behavioural change.⁵

As NBIM considers how to align fixed-income investments with its broader climate risk framework, engagement with this initiative may be useful.



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⁵ University of Cambridge, April 2025, Cambridge research: First global bond index to address fossil fuel expansion, [link](#)