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The Committee Secretary,
Standing Committee on Public Accounts,
Legislative Assembly for the ACT,
GPO Box 1020,
CANBERRA ACT 2601

4 February 2011

RE: Inquiry into the exposure draft of the Financial Management (Ethical Investment) Legislation Amendment Bill 2010

Dear Committee Secretary

My organisation CAER is one of the leading Environmental, Social and Governance (ESG) research firms in Australasia, providing research to a range of institutional investors on over 300 companies in this region.

We are the local research partner for EIRIS – Experts in Responsible Investment Services, a UK-based organisation that has been providing ESG research services for over 25 years.

I should also declare that CAER and EIRIS are service providers to the ACT Department of Treasury to assist them with implementing their responsibilities as signatories to the UN Principles for Responsible Investment (UN PRI).

There are two broad points that I would like to make to the Committee, partly in response to some of the commentary that has been taking place with reference to the proposed Bill.

Firstly, I have observed that in some discussion re the UN PRI, becoming a signatory has been associated with specific responsible investment practices, namely the avoiding of named companies, ie 'negative screening'. It should be made clear that the UN PRI is a statement of principles that is deliberately non-prescriptive in terms of the responsible investment methodologies used by signatories.

Different approaches to responsible investment including negative screening, positive screening, best-of-sector, engagement and a range of others. It is not the case that becoming a UN PRI signatory means that an investor should begin screening companies out of their investible universe. This is certainly one of the approaches taken by signatories, but it is by no means the only valid approach, with other approaches used by asset owners with an outsourced funds management model including things like engagement and voting on shareholder resolutions, for instance.

Secondly, to the best of my knowledge the ACT Department of Treasury is the first Australian government instrumentality to acknowledge the importance of ESG criteria in the investment process by becoming a signatory to the UN PRI. By becoming a signatory, the Treasury has not only emphasised the importance of ESG criteria, it has also indirectly influenced its service providers, the outsourced fund managers, who are keenly aware of the service requirements of their clients. The significance of this power of influence should not be understated.

Best regards

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