Financial Management (Ethical Investment) Bill, 2010)

Presentation to Standing Committee
on
Public Accounts

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DEFINITIONS

Screening: restricting the investable universe.
Negative and Positive values and norms.

ESG: Environment, social and governance

Engagement: A process of dialogue with companies seeking to improve ESG performance with a view to improving returns.

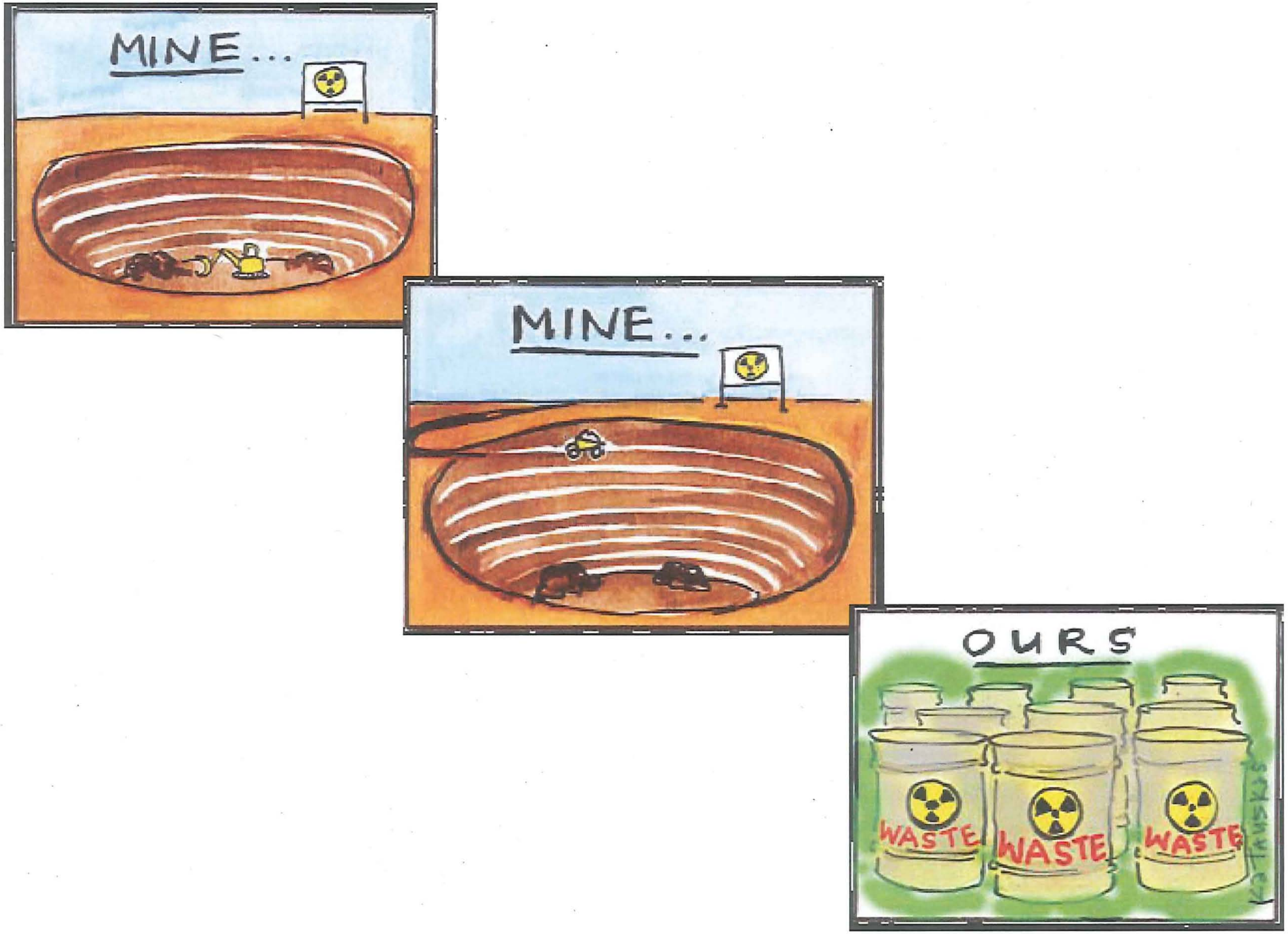
Shareholder Advocacy: Engagement plus filing and supporting resolutions with a view to improve ESG performance

Integration: Explicit inclusion of ESG risk into traditional financial analysis.

Sustainable and Responsible Investment (SRI)

Ethical Investment	Responsible Investment
• Screening portfolios -Values based -Norms based •Community finance •Shareholder advocacy	•Engagement •Integration

	EAST INDIA COMPANY	GLOBAL WARMING
1. Exploitation of Legal Externality	< 1813 Monopoly on opium sale to China	<1988 In 1988 NGOs urge action
2. Growing Social Concern about issue	1813 – 1857 Opium wars	1988 - 2008 1992 Rio 1997 Kyoto
3. Externality internalised by law/price signal	1857 Nationalised	20?? Carbon emissions priced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Who Does What?

Ethical/socially responsible investment:

- Retail investors;
- Foundations, not for profits, religious bodies;
- Government bodies,
- e.g. the Norwegian Government Pension Fund Global guidelines are based on a combination of engagement and ethical exclusion involving both values and norms based screening
- e.g. US state governments advocacy;

Responsible investment:

Undertaken by traditional institutional investors where mandate is risk return focussed e.g. vanilla private sector super fund

ACT Situation

1. s 58(2) ACT (Self-Govt) Act 1988
   "The public money of the Territory may be invested as provided by enactment."

   s 22(1)
   "…make laws for the peace, order and good government of the territory."

2. ACT Treasury:

   – chooses to be a Responsible Investor
   – With support of executive

3. ACT Parliament:

   – Could choose to be a Socially Responsible/Ethical investor so its investment activities are consistent with other ACT laws
   – Has no private sector trustee like obligations.

Comment on current situation

ACT Treasury as a responsible investor

- Has gone further than any other Australian state;
- Outsources "secretive" engagement which to my mind, is an inappropriate use of public monies.
- Delegates voting rights to external investment managers and doesn't disclose voting – again inappropriate use of public monies.

Q: How Could the ACT be a Socially Responsible/Ethical Investor?

Answer 1: By passing the proposed screening Bill;

- Unlikely international returns would be effected if all proposed criteria adopted;

- Similarly in regards Australian shares, with the exception of criteria 7 "Mining processing or sale of coal or extraction of oil" the number of companies that are screened out of the ASX 200 is not so large that the territories returns would be affected;

- There's voluminous literature on the impact on screening on returns, the general conclusion is there is no risk of adverse impact provided the screening isn't excessive. Often positive

Answer 2: Shareholder Advocacy

- Prevalence varies across countries according to local company law;
- Healthy aspect of US corporate democracy for 40 years;
- Recent interest in UK and France, shareholder resolutions on Tar Sands to BP, Shell and Total;
- Not well known in Australia – Australian Ethical's Climate Advocacy Fund lodged first 4 resolutions on climate change disclosure and performance with ASX companies last year;

By definition no adverse impact on returns.

ICCR

(Interfaith Centre on Corporate Responsibility)

- resolution central in US;
- All religious bodies, some state governments, asset managers, foundations, etc;
- Broad spectrum of resolutions e.g. global warming, child slavery, worker safety, political contributions to global warming denier bodies.

If on particular issues there isn't widespread support for screening tackle the issue by provisions dealing with ACT involvement in shareholder advocacy on this issue. For example 2 US states recently sponsored resolutions on worker safety issues at a large US company. The ACT Government should support such resolutions and publicly report on such support.

Example of Pattern of ICCR Activity in regards Travel and Tourism Providers involvement in Child Trafficking

ACT has Human Rights Act recognising rights of children. ACT shareholder advocacy could support that intent.

1. Investigate activity and develop/support codes to assist management to educate staff to signs of children being trafficked. Started 2005.
2. Encourage large listed US companies to adopt code.
3. Focus on companies with poor performance in this area.
4. Engage with those companies to improve performance;
5. In 2011, first resolutions to laggard companies to adopt code e.g. forthcoming resolutions to Delta Airlines and Carnival Corporation.
6. Will the ACT support these resolutions?

Code Protecting Children
Carnival Corporation, Inc.

WHEREAS: We believe corporations operating in countries with repressive governments, weak rule of law, endemic corruption, child exploitation, or poor labor standards face serious risks to their reputations and share values if they are seen as responsible for, or complicit in, human rights violations.

Each year more than two million children are exploited in the global commercial sex trade, some as young as five years old. The average age is 14. Child sex tourism (CST) is the practice of foreigners sexually exploiting children in another country. It is an organized multi-million dollar industry that includes tour guides, websites and brothel maps.

Problem countries include Cambodia, Thailand, Costa Rica, Mexico, Dominican Republic, Brazil, India and others. At least 32 countries have extraterritorial laws that allow the prosecution of their citizens for CST crimes committed abroad, including the U.S.

Carnival describes itself as a global cruise company and one of the largest vacation companies in the world. It conducts cruises to ports in some problematic countries where tourism areas may be a source for aggravated demand for child prostitution, and is therefore exposed to potential risks to its reputation.

In 2003, ECPAT, the World Tourism Organization initiated project funded by the United Nations Children's Fund, created a "Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism" [The Code, (http://www.thecode.org/)], applying to suppliers of tourism services worldwide.

Parts of the travel and tourism industry are addressing CST. In 1996, the International Hotel & Restaurant Association (IH&RA), recognizing that child sex abusers may attempt to use hotels as locations to commit their crimes, passed a resolution condemning sexual exploitation of children and urging that members consider measures, including signing The Code, to prevent use of their premises for commercial sexual exploitation of children. IH&RA members signing The Code include Carlson Hotels, Accor Hotels and Air France.

The Code includes all the critical elements for establishing a company-wide policy with proposed language, includes resources like an operations manual to train personnel, requires procedures to enforce such policies including monitoring and reporting, and has suggested agreement language for supplier and licensee contracts.

We believe a company associated with incidents of CST Tourism could suffer substantial negative impacts to its reputation and adverse publicity. We believe commercial advantages may accrue to our company by adopting an effective policy addressing the commercial sexual exploitation of children.

RESOLVED: The shareholders request the Board of Directors adopt a human rights policy that includes prohibiting the sexual exploitation of minors, and to prepare a report by December 2011 to be made available to shareholders concerning the implementation of this policy, prepared at reasonable cost and omitting proprietary information.

Supporting Statement: We believe our company's basic policies should be comprehensive, transparent, verifiable and address the provisions contained The Code cited above. They should also provide training of all company employees and educate customers on the policy. Your support for this resolution will encourage our company to address this important subject of child sex tourism.