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THE LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

GOVERNMENT SUBMISSION TO STANDING COMMITTEE ON PUBLIC ACCOUNTS

INQUIRY INTO THE EXPOSURE DRAFT OF THE FINANCIAL MANAGEMENT (ETHICAL INVESTMENT) LEGISLATION AMENDMENT BILL 2010

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Contents

Executive Summary

- The Department of Treasury (Treasury) currently manages approximately $3.3 billion in financial assets on behalf of the Government. These funds include $2.2 billion in superannuation financial assets, held within the Superannuation Provision Account, and $1.1 billion in general government financial assets, held within the Territory Banking Account.

- The main objectives in relation to the investment and management of these financial assets by Treasury are to earn the Territory a competitive financial return, based on prudent financial and portfolio management principles, with an investment structure that is low cost, efficient to manage, and effective in deriving market-based returns.

- Including investment revenues for the current financial year to 31 December 2010, as well as earnings for the past financial year, the Territory's financial investment assets have contributed approximately $0.5 billion in investment revenues for the Territory.

- The Government has a duty to act in the best interests of the ACT community, requiring that the pursuit of the investment objectives be undertaken with prudence (diversification and appropriate risk-taking) and professionalism.

- It is strongly acknowledged by the Government that there is a growing demand from investors who require not only that their investments be profitable but that they also meet certain non-financial criteria, investment decisions made in relation to the pursuit of wealth are balanced and guided by a sense of responsibility in terms of environmental, social, or ethical concerns.

- The term 'responsible investment' currently includes a broad range of different investment practices and strategies that fund managers, and investors, can use when evaluating the environmental, social, governance or ethical practices of organisations in which to invest. These methods include ethical prohibition and prioritisations, best-of-sector, thematic investing, and environmental, social and corporate governance (ESG) integration and active ownership practices. Responsible investment practice can seek to combine elements of each of these different approaches to create a customised investment solution that is acceptable to the investor.

- According to the recently published Responsible Investment Association Australasia's 2010 Benchmark Report as at June 2010 all types of mainstream managed investment portfolios in Australia totalled approximately $926.8 billion. Of this amount, investment portfolios applying ethical prohibitions and prioritisation screens accounted for $10.4 billion, or approximately 1.1 per cent, with annual growth in assets of $1.4 billion. Best-of-sector and thematic investment strategies accounted for another $5.4 billion, or 0.6 per cent, with an annual decrease in assets of $155 million. ESG integration and active ownership investment practices accounted for approximately $74.8 billion, or 8.1 per cent, with annual growth in assets of $14.9 billion.

- The Government has established an investment framework that incorporates the key objectives of the United Nations Principles for Responsible Investment (PRI) and best-practice investment portfolio management principles and has made significant progress in implementing the PRI since becoming a signatory on 1 July 2008.

- The Government's current responsible investment activities are being implemented through ESG integration and active ownership policies, which is the largest sector of the responsible investment market. This sector is expected to grow significantly over time through adoption of these activities by the mainstream investment community as more investment managers and asset owners become signatories to the PRI. As the responsible investment market continues to mature, the Government is watching developments closely; the ability to apply a range of responsible investment strategies to the Territory's investment practices into the future is possible and encouraging, without compromising investment returns.

- The Government supports and encourages dialogue in relation to responsible investment strategies with consideration of further enhancements to Territory investment practices to be made by way of amendments to current investment policies and investment management guidelines.

- The Government does not support the exposure draft *Financial Management (Ethical Investment) Legislation Bill 2010*.

- Many of the investment limitation and obligation guidelines proposed in the Bill are not capable of precise legal definition which makes the implementation and subsequent compliance difficult to achieve with any degree of confidence or certainty. Without such certainty it is not appropriate to enact legislation.

- The proposed Bill raises significant concerns in relation to the potential increase in investment portfolio concentration risk, increased portfolio return volatility, a bias toward smaller companies and certain industries, long term investment capacity constraints, substantial one-off transaction costs in order to re-organise the financial assets, and the potential increase to ongoing investment management costs for the Territory's financial assets, if adopted.

- Moving or transitioning significant financial assets can be a very costly exercise and there must be a strong financial business case to support such a significant restructure of the investment portfolio assets. These costs are estimated to be in the order of $3.5 million to $4.7 million. Ongoing annual management costs could increase substantially, in the order of up to $11 million per annum, if the Territory was required to implement an appropriate ethical investment structure to attempt to meet the requirements of the Bill.

- The Government would support the consideration of the application of a negative screen (investment prohibition) to a limited number of industries being applied to the actively-managed share portfolios only, the application of a positive screen (investment prioritisation) with an allocation of the Territory's private equity program to target investment in environmental technologies, and the appointment of additional or future equity investment managers that are specialists in responsible investing strategies.

Government Recommendations

Recommendation 1

- The Government does not support the Exposure Draft *Financial Management (Ethical Investment) Legislation Amendment Bill 2010*.

Recommendation 2

- The Government supports the current progressive investment framework for implementation of the Territory's commitment to the Principles for Responsible Investment.

Recommendation 3

- The Government supports and encourages dialogue in relation to responsible investment strategies with consideration of further enhancements to Territory investment practices to be made by way of amendments to current investment policies and investment management guidelines.

Section 1: Introduction

1.1 Terms of Reference for the Inquiry

The ACT Greens presented an Exposure Draft Bill, the *Financial Management (Ethical Investment) Legislation Amendment Bill 2010* ("Bill") to the Legislative Assembly on Wednesday, 22 September 2010.

The Bill purports to have the purpose of identifying and prohibiting the investment of government money in industries or activities that do not reflect the views and values of the community and to promote investments that deliver financial benefits as well as long term social and environmental benefits.

On Wednesday, 22 September 2010, the Bill was referred to the Standing Committee on Public Accounts for inquiry and report. The Inquiry's terms of reference are the exposure draft of the Bill along with the explanatory statement.

The Standing Committee on Public Accounts has invited submissions, from interested organisations and individuals, to its inquiry into the exposure draft of the *Financial Management (Ethical Investment) Legislation Amendment Bill 2010.*

In responding to the above requirements, the Government has prepared this Submission to the Standing Committee on Public Accounts Inquiry into the Exposure Draft of the *Financial Management (Ethical Investment) Legislation Amendment Bill 2010*.

1.2 Data in the Report

In preparing this Submission, the unaudited financial investment balances and allocations of the Superannuation Provision Account (SPA) and the Territory Banking Account (TBA) as at 31 December 2010 have been used as the basis for all modelling.

Section 2: Summary and Purpose of Territory Investments

ACT Government Position

- Treasury currently manages approximately $3.3 billion in financial assets on behalf of the Government.
- The main objectives in relation to the investment and management of these financial assets by Treasury are to earn the Territory a competitive financial return, based on prudent financial and portfolio management principles, with an investment structure that is low cost, efficient to manage, and effective in deriving market-based returns.
- The overall purpose of allocating funds for investment is to derive external, non-tax revenues to support the funding of superannuation liabilities and budget initiatives.
- These financial assets have contributed approximately $0.5 billion in revenue for the Territory over the 2009-10 financial year and the six months to 31 December 2010.

2.1 Introduction

The Department of Treasury (Treasury) currently manages approximately $3.3 billion in financial assets on behalf of the Government. These funds include $2.2 billion in superannuation financial assets, held within the SPA Provision Account, and $1.1 billion in general government financial assets, held within the TBA.

The Government's current investment policies are governed by the *Financial Management Act 1996* and the *Territory Superannuation Provision Protection Act 2000* and investment management guidelines made under the relevant Acts.

The main objectives in relation to the investment and management of these financial assets by Treasury are to earn the Territory a competitive financial return, based on prudent financial and portfolio management principles, with an investment structure that is low cost, efficient to manage, and effective in deriving market-based returns.

Including investment revenues for the current financial year to 31 December 2010, as well as earnings for the past financial year, the Territory's financial investment assets have contributed approximately $0.5 billion in investment revenues for the Territory.

The overall purpose of allocating funds for investment is to derive external, non-tax based revenues to support the funding of superannuation liabilities and budget initiatives because it has been recognised that it is not feasible to fully fund these liabilities or policy initiatives from the current budget appropriations without significantly compromising or diverting resources away from other Government policies and programmes.

2.2 Superannuation Provision Account

The SPA was established in 1991 to assist the Government in managing its CSS/PSS defined benefit employer superannuation liabilities.

The operations of the SPA are subject to the legislative requirements of the *Territory Superannuation Provision Protection Act 2000* and the *Financial Management Act 1996*. Importantly, the *Territory Superannuation Provision Protection Act 2000* limits moneys held within the SPA to be used for superannuation purposes only, not for the general purposes of Government.

Significantly, the Territory has some level of defined benefit superannuation liability in relation to over 38,000 current and previous employees. This defined benefit superannuation liability is currently the single largest liability of the Territory. The current liability valuation is approximately $4.6 billion, and this liability accounts for approximately 65 per cent of all Territory liabilities.

Currently the funding objectives of the SPA are reliant on both Government contributions and investment earnings; investment earnings will play a significant role in funding the benefit payments in the future. As the SPA is in an unfunded liability position, with current assets of approximately half the value of the liability, the current investment policy objectives must not only meet the minimum required rate of return of matching the discount rate used to value the liabilities (currently 6 per cent) but exceed this minimum rate of return to assist in improving the overall funding position through time.

The current investment objectives for the investment assets set aside in the SPA are:

- Over the long term, to achieve a return equal to, or exceeding, CPI plus 5 per cent per annum on an after fees basis; and
- Over the short term (12 months), to achieve a return equal to, or exceeding, the performance (market) benchmark return on an after fees basis.

In balancing budget affordability, the long-term nature of the superannuation liabilities, and intergenerational equity issues, a key component of the funding strategy for the SPA is striking a prudent balance between the investment portfolio’s relative risk and return objectives and generating a reasonable level of investment return on the financial assets, and the amount of budget appropriation required to meet the liability funding requirements.

As at 30 June 2010 the portfolio has generated a return of CPI plus 4.2 per cent per annum (net of fees) since 1996. The portfolio has achieved a net nominal return of approximately 8 per cent for the current 2010-11 financial year to 31 December 2010.

The generation of investment earnings by the SPA to assist in funding this significant superannuation liability has a direct social objective and benefit to the ACT. The SPA investment portfolio has generated approximately $1 billion in investment earnings since 1991. The current actual financial year-to-date return (to 31 December 2010) of approximately $165 million is the equivalent of $1,200 per household. This compares with the average annual household rates of $1,250. These earnings represent funding that has not been required to be sourced from ACT taxpayers or from the redirection of scarce budget resources, therefore allowing budget allocations to be made to health, education, housing, infrastructure, or other Government social policy programs as deemed appropriate.

The balance of SPA investments as at 31 December 2010 is $2.2 billion. The actual asset allocation summary is outlined below in Table 1, broken down by allocation to actively-managed investment portfolios and passively-managed index portfolios:

Table 1: Superannuation Provision Account Investment Portfolio Allocations

Asset Class	**Active**	**Passive**	**Total**	**Allocation**
Return Seeking Assets	***$m***	***$m***	***$m***	***74%***
Australian Equities	321	157	478	22%
International Equities	231	418	649	30%
Emerging Market Equities	0	107	107	5%
Australian Property	240	0	240	11%
Australian Private Equity	142	0	142	6%
Defensive Assets				***26%***
Global Fixed Income	0	189	189	9%
Domestic Fixed Income	0	181	181	8%
Cash/Cash Enhanced	204	0	204	9%
Total Portfolio	**1,138**	**1,052**	**2,190**	**100%**

2.3 Territory Banking Account

The TBA is managed by Treasury. The TBA has two primary purposes:

- The TBA is the 'central account' of the ACT Government. Revenues on behalf of the Territory are transferred to the TBA and fortnightly appropriation disbursements are made to agencies from the TBA. The majority of the Territory's cash is retained in this account until required to be transferred to agencies for expenditure in accordance with approved appropriation.

- The second purpose of the TBA is to allow various ACT Government authorities and departments to invest their working capital or operational funds.

In relation to the TBA investment portfolio, the cash of the general government, not required for immediate expenditure, is currently invested in a cash enhanced fund and a domestic fixed interest fund. These investment funds comprise the cash balance from the TBA, the cash held by departments and some Territory Authorities.

The broad investment strategy is to achieve returns on a net of fee basis at or above the cash rate or bank bill index – a return representing a relatively low risk tolerance, generally seeking capital preservation, with a level of income that exceeds that available from leaving money in the transactional banking account earning a rate below the Reserve Bank of Australia target 11.00 am rate. These investment funds earned a nominal return of over 6 per cent for the 2009-10 financial year, and approximately 3 per cent for the current financial year to 31 December 2010.

Based on the return objectives, low tolerance for risk, and the ongoing liquidity requirements of the TBA investment portfolio, there is no requirement to invest in higher risk, higher return investment asset classes (for example equities). The TBA investments are therefore not exposed to listed company equity investments or alternative asset classes such as property or private equity.

The balance of the TBA investment portfolio investments as at 31 December 2010 is $1.1 billion. The actual asset allocation summary is:

Table 2: Territory Banking Account Investment Portfolio Allocations

Asset Class	**Active**	**Passive**	**Total**	**Allocation**
Defensive Assets	***$m***	***$m***	***$m***	***100%***
Domestic Fixed Income	0	226	226	21%
Cash/Cash Enhanced	852	0	852	79%
Total Portfolio	**852**	**226**	**1,078**	**100%**

2.4 Territory Authorities – Long Service Leave Authority

With the exception of the Long Service Leave Authority, Territory Authorities generally retain surplus cash within their transactional banking account or invest this cash via the TBA's centralised investment arrangement as described above.

The Long Service Leave Authority, however, manages investments directly in the financial markets in accordance with the *Financial Management (Investment and Borrowing) Guidelines 2010*.

The Long Service Leave Authority's primary function is to administer a statutory scheme which provides for portability of long service leave benefits for registered workers in the Building and Construction, Contract Cleaning, and Community Sector industries in the ACT, paying long service leave benefits when claimed and maintaining a register of employers, employees and contractors in accordance with the *Long Service Leave (Portable Schemes) Act 2009*.

The balance of funds under investment as at 30 June 2010 is $48 million in a passively-managed wholesale pooled unit trust with exposure to cash, fixed interest, equities and property. The Long Service Leave investment arrangement is currently leveraged off the Territory's broader investment arrangements with the current index manager. The Authority also has direct property investments totalling $18 million.

The Long Service Leave Authority's investment objectives are to achieve a return of CPI plus 3.5 per cent per annum, utilising an investment structure that is low cost, efficient to manage, and effective in deriving market-based returns. It is considered that the investments managed by the Long Service Leave Authority are in effect 'trust' moneys as opposed to 'public' moneys because these moneys are held in a separate fund for the benefit of registered workers in the Building and Construction, Contract Cleaning, and Community Sector industries in the ACT.

Section 3: Responsible Investment

ACT Government Position

- There is a growing demand for investments to be managed to deliver targeted returns in a manner that is balanced and guided by responsibility in terms of environmental, social and ethical concerns.
- Responsible investment is much broader in scope and more contemporary in nature than the term ethical investment.
- The Government supports and encourages dialogue in relation to responsible investment strategies with consideration of further enhancements to Territory investment practices to be made by way of amendments to current investment policies and investment management guidelines.

3.1 Responsible Investment

It is strongly acknowledged by the Government that there is a growing demand from investors who require not only that their investments be profitable but that they also meet certain non-financial criteria, with investment decisions made in relation to the pursuit of wealth being balanced and guided by a sense of responsibility in terms of environmental, social, or ethical concerns.

This growing interest in responsible investment reflects increased levels of education, rising awareness of social and environmental issues, increased availability of information, and increased participation in global share markets.

Responsible investment, being much broader in scope and more contemporary in nature than the term ethical investment, covers the full spectrum of investment practices and processes where environmental, social and/or ethical issues are considered before an investment decision is made.

A wide variety of criteria may be applied to responsible investment strategies including, for example, corporate governance and business ethics, environmental and social impacts of a company's operations and products, workplace issues including EEO and OH&S, community impacts and relations, and human rights policies and practices.

The term 'responsible investment' currently includes a broad range of different investment practices and strategies that fund managers can use when evaluating the environmental, social, governance or ethical practices of organisations in which to invest.

These methods include ethical prohibition and prioritisations, best-of-sector, thematic investing, and environmental, social and corporate governance (ESG) integration and active ownership practices. Responsible investment practice can seek to combine elements of each of these different approaches to create a customised investment solution that is acceptable to the investor.

3.1.1 Ethical Investment Prohibitions and Prioritisations (Negative and Positive Screening)

Investment prohibition, or negative screening, is the avoidance or exclusion of certain stocks, or groups of stocks (industry sectors) using moral or values-based criteria. For example, the industries commonly excluded by a negative ethical screening approach may include tobacco, alcohol, gambling, armaments, and uranium mining.

Investment prioritisation, or positive screening, is a form of thematic investment implemented by selecting companies that operate in certain industries that are identified as having positive social or environmental outcomes, such as renewable energy technologies or healthcare.

3.1.2 Best-of-Sector Investment

The best-of-sector approach seeks to invest in companies across all investment market sectors which are considered to be the most socially and environmentally responsible out of their peer group. This approach does not involve any ethical 'negative' screening.

The belief is that all industries must strive toward sustainability, including those industries which some people may consider to be unethical. This approach is based on the premise that companies with strong sustainability credentials are generally better managed companies and should be more profitable over the long term.

3.1.3 Thematic Investment

Thematic investment targets a broad range of sustainability themes, similar in nature to ethical prioritisations, including common themes such as renewable energies or other types of positive environmental technologies.

3.1.4 ESG Integration and Active Ownership

ESG integration and active ownership investing incorporates an assessment of environmental, social and governance factors and risks into the investment decision-making process, combined with company engagement for improved management of ESG risks, as well as the exercising of all voting rights, in order to achieve better management and company sustainability outcomes.

3.2 Market Size of Australian Responsible Investment Strategies

According to the recently published Responsible Investment Association Australasia's 2010 Benchmark Report[1] as at June 2010 all types of mainstream managed investment portfolios in Australia totalled approximately $926.8 billion (RIAA 2010, p14).

Of this amount, investment portfolios applying ethical prohibitions and prioritisation screens accounted for $10.4 billion, or approximately 1.1 per cent, with annual growth in assets of $1.4 billion. Best-of-sector and thematic investment strategies accounted for another $5.4 billion, or 0.6 per cent, with an annual decrease in assets of $155 million (RIAA 2010, p11).

[1] Responsible Investment Association Australasia (November 2010), *Responsible Investment 2010 - Inside RI*, RIAA: Sydney <http://www.responsibleinvestment.org>

ESG integration and active ownership investment practices accounted for approximately $74.8 billion, or 8.1 per cent, with annual growth in assets of $14.9 billion (RIAA 2010, p17).

3.3 Risk/Return Characteristics of Responsible Investment Approaches

The basic rule of investment management applies equally to responsible investment practices as it does to mainstream investment approaches: greater diversification of portfolios will lead to less investment risk. A well diversified portfolio should protect against market fluctuations.

Applying negative and positive ethical screens, or a thematic approach, tend to bias portfolios toward certain industries (e.g. health care, environmental and communication technologies) over others (e.g. resources, chemicals). This may lead to greater volatility in performance with a higher likelihood that performance will be either significantly above or below the relevant performance benchmark at a given time.

Best-of-sector approaches tend to track share indices more closely, as they invest in all industry sectors, are more diversified, and can better cushion performance during different business cycles. Risk is generally lower than with positive and negative screened portfolios.

3.4 The Territory's Responsible Investment Practices

The Government has always acknowledged, from the very first responsible investment review undertaken in 2007, that current share holdings have included, and would continue to include, company investments in all industries including investments in such industries as renewable energy and health care, but also tobacco, alcohol, gambling, armaments and mining.

The Government's current responsible investment activities are being implemented through ESG integration and active ownership policies, which is the largest sector of the responsible investment market. This sector is expected to continue to grow significantly over time through the adoption of these activities by the mainstream investment community as more investment managers and asset owners become signatories to the PRI.

As the responsible investment market continues to mature, the Government is watching developments closely and notes the ability to apply a range of responsible investment strategies to the Territory's investment practices into the future is possible and encouraging, without compromising investment returns.

The Government supports and encourages dialogue in relation to responsible investment strategies with any consideration of further enhancements to Territory investment practices to be made by way of amendments to current investment policies and investment management guidelines which are issued as disallowable instruments made under the *Financial Management Act 1996* and the *Territory Superannuation Provision Protection Act 2000*.

Section 4: Principles for Responsible Investment and ESG Integration

ACT Government Position

- The Territory is a signatory to the Principles of Responsible Investment which provide a framework to better integrate consideration of ESG issues into investment decision-making and ownership practices to improve long-term returns to beneficiaries.
- The Government has established an investment framework that incorporates the key objectives of the PRI and best-practice investment portfolio management principles and has made significant progress in implementing the PRI since becoming a signatory on 1 July 2008.

4.1 Introduction

The Government has a duty to act in the best interests of the ACT community, requiring that the pursuit of the investment objectives be undertaken with prudence (diversification and appropriate risk-taking) and professionalism.

As an asset owner, and acknowledging the Government's responsibilities to the ACT community, it is accepted that both financial and non-financial risks (specifically, ESG issues) can impact on long-term investment value and performance.

Reflecting the relevance of these issues upon current investment practices, the Territory is a signatory to the Principles of Responsible Investment (PRI) in relation to the financial investment assets managed by Treasury. By signing the PRI, the Government has demonstrated a commitment to adopt and implement the Principles.

4.2 Principles for Responsible Investment

The PRI were devised by the institutional investment community. They reflect the view that ESG issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes, and through time) and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty.

The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices to better align their objectives with those of society at large, and improve long-term returns to beneficiaries.

4.3 Review of the application of Environmental, Social and Governance Principles to Territory Investment Practices - 2007

In February 2007 the Government announced a review of the extent to which the Territory's investment operations should incorporate ESG principles and to also look into ethical considerations.

On 29 June 2007 the ACT Finance and Investment Advisory Board (FIAB) delivered a report, *'Review of the Application of Environmental, Social and Governance Principles to Territory Investment Practices'*, examining responsible investment.[2]

The recommendations contained in the report were as follows:

1. *The ACT Government adopts a risk-based approach to the application of ESG issues to the Territory's investment practices.*
2. *The ACT Government adopts the principles for responsible investing, as set out in the UN PRI.*
3. *ACT Treasury monitors the extent to which the Territory's fund managers and asset consultants are taking into account ESG issues in investment decision-making processes.*
4. *The ACT Government considers the appointment of a third party engagement service provider to assist in the implementation of a risk-based approach to ESG issues for the Territory's investments.*
5. *ACT Treasury requires the Territory's fund managers to provide their voting policies, requests that they exercise their voting rights and report on their voting activities.*
6. *The ACT Government considers the engagement of a third party proxy voting service provider.*

On 18 October 2007, the ACT Chief Minister and Treasurer Jon Stanhope announced that the ACT Government had agreed with all of the recommendations of the report.

4.4 PRI Implementation and the Independent Review of the Government's Current Investment Practices

Since becoming a signatory to the PRI on 1 July 2008 Treasury has made significant progress in implementing the FIAB Review recommendations and the PRI requirements into investment processes. Actions already undertaken by the Treasury since becoming a signatory to the PRI include:

- Development of an ESG investment policy for the SPA Provision Account;
- Review of equity investment manager proxy voting policies and procedures, and ongoing monitoring and reporting of all investment manager voting activities;
- Amendment to all current equity investment manager contracts to include provisions in relation to the Territory's current ESG requirements, as well as ongoing dialogue with

[2] <http://www.treasury.act.gov.au/documents/>

Territory investment managers to continually encourage better ESG integration in investment decisions;

- Amendment to current Treasury investment service provider procurement processes by the inclusion of ESG requirements in all tender documentation;
- Appointment of an ESG research provider in relation to the Territory's equity investment portfolios;
- Quarterly ESG risk screening of all stock holdings and ongoing dialogue with Territory investment managers in relation to the outcomes of this analysis;
- Appointment of an external engagement service provider to support the Territory's company engagement process on identified ESG risks;
- Participation in the PRI Annual Reporting and Assessment Survey;
- Attendance at the PRI Annual Conference; and
- Provision of ongoing reporting on the progress and activities undertaken by the Territory in relation to implementation of the PRI through established parliamentary processes and the Treasury Annual Report.

Following the October 2008 ACT Government elections, a Parliamentary Agreement was entered into between ACT Labor and the ACT Greens.

The Government, through the Parliamentary Agreement (item 11.1), agreed to:

> *Undertake an independent review of the Government's current investment practices by the end of 2009, to determine how the UN Principles of Responsible Investment (PRI) are being addressed. Subject to the outcome of the review, develop a timeline for staged implementation of the review's recommendations.*

The review was undertaken by the independent consulting business, Responsible Investment Consulting Pty Ltd. The final review was delivered on 25 February 2010.[3]

A summary of the Independent Review Findings are as follows:

- *It is considered that ACT Treasury has made considerable progress implementing the PRI since it endorsed the Principles on 1 July 2008.*
- *ACT Treasury's approach has been methodical and thorough and has established a strong foundation for the future.*
- *Given the developmental nature of the Principles for Responsible Investment it is considered that ACT Treasury has developed systems and processes to implement its commitments that are consistent with the practice of other PRI signatories, both in Australia and internationally.*
- *ACT Treasury's approach to implementation of the PRI is considered to be both appropriate and sufficient.*

[3] <http://www.treasury.act.gov.au/documents/>

Recommendations in respect of future actions by Treasury to further embed the requirements of the PRI by the Territory are outlined in Section 4.6 'Future PRI Activities'.

4.5 2010 PRI Feedback Report for Australian Capital Territory

The PRI Secretariat conducts an annual reporting and assessment survey of all PRI signatories to monitor their organisations' progress in implementing the Principles and to also serve as an accountability mechanism, both for signatories and the PRI Initiative as a whole. Since becoming a PRI signatory, the Territory has participated in the 2009 and 2010 annual reporting and assessment process.[4]

Treasury's implementation of the PRI has been reviewed according to the seven core areas of the PRI:

- Governance, Policy and Strategy;
- Principle 1: ESG Integration;
- Principle 2: Active Ownership;
- Principle 3: ESG Disclosure;
- Principle 4: Promotion;
- Principle 5: Collaboration; and
- Principle 6: Reporting.

The 2010 PRI Feedback Report for the ACT shows a significant improvement in the performance by the ACT against the Principles since 2009.

The following table presents a summary of the PRI's assessment of the ACT's performance per Principle and against all Asset owner peers.

[4] <http://www.unpri.org/reporting/result.php>

Table 3: Territory PRI Annual Survey Results and Progress[5]

ACT's historical quartile performance against all Asset Owners			
		Quartile Summary	
	2008	**2009**	**2010**
GPS	n/a	3	2
Principle 1	n/a	3	2
Principle 2	n/a	3	1
Principle 3	n/a	2	1
Principle 4	n/a	3	3
Principle 5	n/a	4	4
Principle 6	n/a	2	1
Number of peers	74	128	168
Top quartile represented by 1 to bottom quartile being 4			

The Governance, Policy and Strategy (GPS) assessment reflects the extent of policies, processes, and frameworks that signatories use to support their implementation of responsible investment. The GPS category is important in that it seeks to benchmark the overall governance framework that has been established to implement the Principles. It is considered that this is critical to implementing the Principles over the long term.

4.6 Ongoing PRI Implementation Activities

Future PRI implementation activities that are now being assessed by Treasury include:

- Increased participation in the PRI community through provided forums, regular review of tools and services provided by the PRI in relation to their suitability and relevance to the Territory's responsible investment program, and future ongoing attendance at the PRI Annual Conference;
- Further development of management performance tools to assist in monitoring the implementation of the PRI, including additional Treasury employee training in relation to responsible investment;
- Better alignment between the Territory's company engagement program and dialogue with current investment managers;
- A full review of current investment manager proxy voting policies and practices against international standards, as well as a review of the requirement for the appointment of a proxy voting service provider;
- The ongoing review of the SPA's ESG investment policy to ensure that it remains consistent with best practice and actual implementation practice;
- The future inclusion of specialist responsible investment managers to manage the Territory's financial assets;

[5] *Scoring disclosure clause required by the PRI Secretariat*

Scores have been calculated based on signatories' self-assessment and using the scoring methodology approved by the PRI Assessment Group. Although a limited verification exercise was undertaken with a proportion of signatories, responses have not been independently audited by the PRI Secretariat, PRI Assessment Group, or any other third party. Individual results including comparisons to the overall results (quartiles) are indicative and do not imply an endorsement of signatory activity. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of information presented, and no responsibility or liability can be accepted for any error, omission or inaccuracy in this information

- The implementation of the PRI into other asset class investments of the Territory in addition to shares; and
- The appointment of an additional Investment Advisory Board member with specialist skills and experience in relation to responsible investment practices.

4.7 PRI Annual Report and Progress toward ESG Integration

The trend towards acceptance of the importance of incorporating ESG factors into investment decisions by the mainstream investment community is significant and growing.

As outlined in the recent PRI Annual Report 2010[6], in just four years, US$22 trillion of assets (in relation to around 800 signatories) have signed up to the Principles for Responsible Investment. This represents more than 10 per cent of total global capital markets (PRI 2010, p1).

There are now a range of initiatives seeking to improve corporate ESG performance including the Principles for Responsible Investment, the Carbon Disclosure Project, ESG Research Australia and the Investor Group on Climate Change.

A recent study by Accenture and the United Nations Global Compact[7] highlighted that globally 93 per cent of company CEOs surveyed consider sustainability as important to their company's future success and that demonstrating a visible and authentic commitment to sustainability is especially important to urgently regain and build trust from the public and other key stakeholders, such as consumers and governments (Lacy P et al 2010, p10).

In 2009, research was commissioned by the Australian Council of Superannuation Investors (ACSI) and the Investment and Financial Services Association (IFSA) to review and address ESG integration by Australian fund managers in mainstream investment management[8].

According to the research the main barriers to effective integration of ESG factors into investment decision making processes by fund managers were difficulty in quantifying ESG factors, the quality and non-standardised nature of the data being provided by companies, and the lack of clear direction on asset owners' ESG requirements (ACSI 2010, p21).

Whilst companies are becoming aware of sustainability risks and the need to promote sustainable business practices, there is more progress required in relation to implementing company changes and on improving company ESG information disclosures, which provide clear links to a company's financial performance.

[6] PRI (2010), *Annual Report of the PRI Initiative 2010*, UNEP Finance Initiative and United Nations Global Compact.
[7] Lacy P, Cooper T, Hayward R, Neuberger L (June 2010), *A New Era of Sustainability*, UN Global Compact-Accenture CEO Study
[8] Mercer (Australia) Pty Ltd (May 2009), *ESG Integration of Mainstream Australian Equity Managers*, Australian Council of Superannuation Investors (ACSI) and Investment & Financial Services Association (IFSA)

According to PRI Annual Report (PRI 2010, p1):

> *ESG issues are often too big and too complex for any one investor or any one company to deal with alone. To meet this challenge and overcome the barriers preventing the private sector from taking the social and environmental impacts of their operations and investments into consideration, everyone needs to work together, not just investors, but governments, companies and society.*

Section 5: Proposed Legislation

ACT Government Position

- The Government does not support the exposure draft *Financial Management (Ethical Investment) Legislation Bill 2010*.
- Many of the investment limitation and obligation guidelines proposed in the Bill are not capable of precise legal definition which makes the implementation and subsequent compliance difficult to achieve with any degree of confidence or certainty.
- Legislation must be able to be implemented, fully complied with, and the required outcomes of the legislation must be measureable. Without such certainty it is not appropriate to enact legislation.
- There is no legal precedence in Australia or internationally in relation to legislated investment guidelines as proposed in the Bill.

5.1 Current Legislation

The Territory's investment activities are governed by the *Financial Management Act 1996* and the *Territory Superannuation Provision Protection Act 2000*.

The investment management guidelines in relation to these Acts currently outline the prescribed investments. Amendment to internal Treasury investment policies and to these guidelines would be considered more appropriate, if any changes are required to be implemented.

5.2 Ability to Comply With the Proposed Legislation

The Government considers that it is imperative that any legislative provisions, regardless of the issue, can be implemented, can be fully complied with, and the outcomes are clearly measureable. Without such certainty it is not appropriate to enact legislation.

The investment limitation and obligation guidelines proposed in the Bill are not capable of precise legal definition which makes the implementation and subsequent compliance difficult to achieve with any degree of confidence or certainty. The Government does not believe it is possible, nor appropriate, to pass legislation that is not legally precise or sufficient to support the management of the Territory's investments.

The structure of the proposed legislation is such that the onus is on the Treasurer, or the Chief Executive in the case of the *Territory Superannuation Provision Protection Act 2000*, to be satisfied, on reasonable grounds that 5 per cent or less of a relevant body's revenue is attributable to any one of the proscribed activities.

In the absence of such satisfaction an investment is a prohibited investment. In effect, this means all investments are prohibited unless the Treasurer/Chief Executive is satisfied that an investment is not prohibited. That is, the default position is that an investment in a relevant body is prohibited. This approach significantly adds to the compliance burden.

5.3 Legislative Precedence

The Government has been unable to locate any precedent either in Australia or internationally where investment limitations and obligations to the extent proposed in the Bill have been prescribed in legislation.

Legislation introduced into the New Zealand parliament in early 2010 to provide for an 'ethical investment framework' was defeated.

The key reasons for this included:

- The inability to be able to precisely define key terms, such as ethical, socially responsible, and environmentally sustainable;
- It was considered that the nature of investment is such that ethical investment happens now, and will happen in the future through market operations; and
- There were already clearly established and developed ethical investment policies within the New Zealand Government investment institutions by way of operational not legislated policies and governance structures.

5.4 Proposed Investment Limitations and Obligations

The Government has consulted with a range of investment service providers in the market to seek views of the practical implications of managing an investment portfolio in a 'legally compliant' manner to the investment limitations and obligations as set out in the Bill.

Due to many of the guidelines proposed in the Bill not being capable of precise legal definition (i.e. alleviation of poverty) and, in many cases, there is insufficient market information available, there is no certainty that investment decisions would be legally compliant. The explanatory statement accompanying the Bill is also deficient in guidance as to the interpretation and practical application of key requirements.

5.5 Five Per cent Revenue Limitation on Prohibited Activities

The ability to determine a company's revenue allocation at such a small percentage threshold from activities on a historic basis (i.e. the past financial year) can be difficult due to limited public disclosure of such information and the timeliness of available information. However, the Bill further complicates this issue by proposing that a determination of a company's revenue allocation from a particular business activity is made on a prospective basis (i.e. the financial year ahead).

This information would be almost impossible to obtain in a timely and accurate manner and, as a result, it would be necessary to exclude any company from investment where it was determined to derive any revenue at all from a prohibited activity and the Treasurer/Chief Executive was unable to satisfy herself or himself that such revenues were 5 per cent or less of total revenue.

The Bill provides that the revenue proportionality assessment be determined by a 'reasonable grounds test'. In many instances there will always be an inability to determine the revenue percentage and therefore on this basis, the most likely scenario would be to exclude the particular company because of the uncertainty. The impact of this approach will be a smaller and less diversified investible universe.

The specification of a 5 per cent revenue threshold is arbitrary and, even with this low revenue threshold, outcomes could still be contradictory to intentions, such as an armaments manufacturer that receives less than 5 per cent of revenue from the sale of cluster munitions or land mines being an approved investment. The legislation, as drafted, could also potentially lead to undesirable and/or unintended outcomes and consequences for the management of the Territory's financial assets, the extent to which is unknown and unquantifiable until full implementation of requirements to comply with any legislation commences.

5.6 Application of Prohibitions to both Direct and Indirect Holdings

Similar to many other institutional investors, there is significant investment allocations to passively managed unlisted pooled unit trusts to achieve management cost-effectiveness, immediate diversification, liquidity, and delivery of the market index return (i.e. through an indirect holding of units). Where investments are made into pooled trusts, units are being purchased, there is no direct ownership or investment in the underlying companies within the index benchmark being tracked, but the total return of the trust is derived from the underlying market index (i.e. the S&P/ASX 300 index).

The investment manager is not required to conduct extensive research and analysis of particular investment securities as there is no attempt to outperform the index, only to match the index return. For this reason, this is an extremely economical form of investment resulting in significantly lower management and transaction costs, and guaranteed achievement of the particular market-based index return. Approximately 42 per cent of all Treasury managed investments utilise this form of investment structure.

This form of cost-effective investment would certainly not be possible with the current index manager, and may no longer be suitable with any other index manager, based on the extensive investment prohibitions and prioritisations proposed; serious consideration would need to be given as to whether to abandon allocations to a passive index structure altogether. This would significantly increase annual investment costs immediately.

As there is no universal agreement as to what constitutes an ethical investment or what should be a prohibited investment, there are currently no market indices or pooled funds that the Government could invest in and ensure total compliance with the proposed Bill.

5.7 Relevant Body

The Government makes the observation that the investment restrictions, as outlined, would only apply to Australian share investments and would not be applicable to international share investments. The Government raises this as one example of the difficulties in drafting workable legislation in an area that is complex, involves highly integrated commercial activities, and requires flexibility to meet the dynamic nature of the investment industry.

5.8 Priority to Investing in a Defined Ethical Investment

The current Bill, as supported by the Explanatory Statement, states that where there is no substantive evidence of the potential for a reduced return between competing investments, the 'defined ethical investment' will need to be prioritised.

The course of action prescribed by the draft Bill is arguably no different to the current investment practices of the Territory. The Territory's investment managers undertake relative risk and return analysis before an investment selection is made; the most superior investment on a relative basis is selected, which can already include companies involved in a defined ethical activity as outlined in the Bill.

5.9 Conclusion

The Government does not support the proposed bill, due to the extent of the ethical investment prohibitions and prioritisations, and the potential investment risk and cost implications which are outlined in Section 6 of this submission. However, there are further actions the Government can undertake (drawing on a number of the issues raised in the proposed Bill) which are outlined for consideration in Section 7.

Section 6: Potential Investment Risk and Cost Implications of the Bill

ACT Government Position

- The proposed Bill raises significant concerns in relation to the potential increase in investment risk, the substantial one-off transaction costs in order to re-organise the financial assets to comply, and the potential increase to ongoing investment management costs for the Territory's financial assets, if adopted.
- General pronouncements that ethical stocks or ethical portfolios will outperform or underperform more traditional investment approaches must be viewed with caution.
- Ethical investment products are, in most cases, more expensive than traditional investment products.
- The broad nature of the Bill in relation to the proposed investment prohibitions and obligations would have a significant and immediate impact on the ability of the Territory's investment managers to select suitable investments, construct appropriately diversified portfolios, and meet current investment objectives.
- There could potentially be substantial costs incurred to transition the current portfolios to new arrangements depending on the extent of the legislative requirements. These costs are estimated to be in the order of $3.5 million to $4.7 million.
- Ongoing annual management costs could increase substantially, in the order of up to $11 million per annum, if the Territory was required to implement an appropriate ethical investment structure to attempt to fully comply with the requirements of the Bill.

6.1 Introduction

This financial risk and cost overview does not attempt to address any return implications from adopting an ethical investment approach, as outlined in the proposed Bill, to the management of the Territory's financial assets.

General pronouncements that ethical stocks, ethical portfolios, or an ethical investment approach will outperform or underperform more traditional investment approaches must be viewed with caution as there are many different investment strategies underpinning the collective group labelled 'ethical investment funds' with every investment portfolio being different and likely to respond differently in particular economic and business cycles.

The proposed Bill raises significant concerns in relation to the potential increase in investment risk, the substantial one-off transaction costs in order to re-organise the financial assets, and the potential increase to ongoing investment management costs for the Territory's investment portfolios if adopted.

6.2 Investment Risk Implications

The broad nature of the proposed investment prohibitions, which include companies involved in both the manufacture and sale of excluded activities, would have a significant and immediate impact on the ability of the Territory's investment managers to select suitable investments and to construct appropriately diversified portfolios, and still achieve current investment objectives.

The potential outcome from such an exclusion policy would result in a significant reduction in the investment opportunity set and restrict the relative assessment of all investment opportunities. Taking a conservative view of the proposed investment restrictions, it is estimated that approximately one third of the Australian equity market index (S&P/ASX300 index) would be excluded from investment. This would prevent the Territory from having exposure to many of Australia's largest and most successful companies which form a significant portion of the already reasonably concentrated Australian equity market.

In relation to international equities, even though the proposed Bill does not currently address these investments (assumed to be an unintended consequence), it is estimated that possibly one third to one half of the global equity market index (MSCI World ex-Australia index) would be excluded from investment by the Territory.

With this level of exclusion there could be significant implications in terms of potential investment portfolio concentration risk, increased portfolio return volatility, a bias toward smaller companies and certain industries, as well as long term investment capacity constraints.

6.3 Implementation Costs

Moving or transitioning significant financial assets can be a very costly exercise and there must be a strong financial business case to support such a significant restructure of the investment portfolio assets.

The current investment structure adopted by the Territory is low cost, efficient to manage, and is effective in deriving market-based returns. The investment structure utilises both active and passive investment management strategies to achieve the current investment objectives of the Territory.

Depending on the most appropriate investment solution adopted by Treasury, in moving to an investment structure that attempts to meet all the requirements of the proposed Bill, there could be significant implementation costs incurred across the Territory's investment portfolios.

Active investment management is the management of an investment portfolio that involves active trading of securities or through direct involvement by the relevant investment manager in managing the assets, in an attempt to produce returns above a relevant asset class performance benchmark, on a risk-adjusted basis.

This form of investment is more costly than passive index management due to the extensive research and analysis requirements in selecting appropriate securities or through the actual management of assets, that are expected to outperform.

Currently the Territory utilises active investment management for investments in the asset classes of Australian enhanced cash, Australian and international equities, Australian property and Australian private equity (see Table 1, p10). The current Australian property and private equity investments are deemed illiquid and are not included in the implementation cost analysis. Also, the enhanced cash investments are excluded from the analysis due to the inability to determine the impact on these investments due to imprecise definitions and guidance in the Bill.

If the proposed legislation was enacted there would be material impacts to the current actively-managed Australian and international company equity investment holdings, with approximately one third to one half of all current company equity holdings both domestically and internationally being required to be sold and new, compliant company holdings being required to be purchased.

The estimated cost impact for this would be heavily dependant on the final portion of the portfolios that are deemed to be compliant, the number and type of stock holdings of the investment managers that are deemed non-compliant, the current valuation and financial return on the stocks deemed non-compliant, and the prevailing investment market conditions at that time of implementation.

To restructure current portfolios by selling excluded stocks and replacing them with new, complying stock holdings, the estimated transaction costs are in the order of $0.6 million to $1.1 million. This does not include additional costs associated with forced sales and potential losses depending on the prevailing valuation of the investments and market conditions.

Significant potential implementation costs could be incurred due to Treasury being required to transition approximately $1.3 billion in passively-managed financial assets to fully comply with the proposed investment prohibitions and obligations as outlined in Section 5.6.

The estimated transaction and transition costs under this scenario are in the order of $2.9 million to $3.6 million. This does not include additional costs associated with forced sales and potential losses depending on the prevailing valuation of the investments and market conditions.

The Territory's current emerging market equity exposure of 5 per cent or $107 million would not be financially feasible under any new operational arrangements. These assets are expensive to divest, and could impact on the ability of the investment portfolio to achieve the current stated investment objectives going forward; emerging market equities have higher expected risk than developed market equities, but also have a higher expected return.

6.4 Future Investment Management Expenses

Quantification of future impacts to the ongoing investment management costs for the Territory is difficult to establish at this time given the current uncertainty around the final outcomes following consideration of the proposed Bill.

There are certainly many investment solutions available, covering the full spectrum of impact to ongoing costs, and Treasury would be required to implement the most efficient and cost effective solution available, whilst still attempting to meet the required investment objectives.

Current ethical investment products are, in most cases, more expensive than traditional investment products. This increase in ongoing management costs is due to the increased research and analysis requirement in relation to the selection and monitoring of appropriate investments.

Because of the broad range of the proposed investment prohibitions and obligations, the most likely outcome would be that all current use of cost-effective passive index management would cease, given the substantially reduced opportunity set of securities, and it is likely that a fully active management strategy on all equity investments would be required for the investment allocations because of the higher risks associated with the smaller universe of securities.

Most current investment manager relationships would need to be terminated and new investment managers that demonstrate the specialist skills, experience, and research capabilities in the area of ethical investment would need to be procured.

This would have a material impact on current investment operations and ongoing management costs, with an expected increase, using current publicly-quoted asset class ethical investment product management fees, in the order of up to $11 million per annum.

6.5 Impact to Current Investment Objectives

Treasury would be required to complete a full review of all current investment objectives on all the Territory's financial assets. Based on initial analysis, it is envisaged that Treasury would be required to increase expected returns, and increase investment risk through less asset class diversification, just to cover the estimated increase in investment management costs.

Alternatively, and probably the most likely outcome, would be that the current investment objectives would be required to be lowered and this would have a significant impact on the availability of future budget resources.

Section 7: Future Responsible Investment Considerations

ACT Government Position

- The ACT Government would support the consideration of:
  - the application of a negative screen (investment prohibition) to a limited number of industries being applied to the actively-managed share portfolios only;
  - the application of a positive screen (investment prioritisation) with an allocation of the Territory's private equity program to target investment in environmental technologies; and
  - the appointment of additional or future equity investment managers that are specialists in responsible investing strategies.

7.1 Further Responsible Investment Activities for Consideration

Whilst the Government has outlined future actions in relation to the implementation of the PRI in Section 4 of this submission there are many different investment strategies that are possible under a responsible investment approach. Responsible investment practice can look to combine certain elements of each of these different approaches to create a customised investment solution that is acceptable to the investor.

Large, wholesale changes to the current investment portfolios, as proposed in the Bill, would be costly and not financially prudent, whereas the incorporation of additional responsible investment strategies and practices to the Territory's financial assets in a measured and sensible way over time is strongly preferred by Government.

Further actions that could be considered to enhance the current responsible investment practices of the Territory include:

- the application of a negative screen (investment prohibition) to a limited number of industries being applied to the actively-managed share portfolios only;
- the application of a positive screen (investment prioritisation) with an allocation of the Territory's private equity program to target investment in environmental technologies; and
- the appointment of additional or future equity investment managers that are specialists in responsible investing strategies.

7.1.1 Application of a Limited Negative Screen

The Government is aware that some of the ACT community consider investment in certain industries and their associated business activities as unconscionable. Whilst the Government does not support the proposed legislation or the extent of the proposed ethical prohibitions and prioritisations, the application of a limited negative screen to the actively-managed Australian and international share portfolios in relation to the manufacture of tobacco and manufacture of armaments is possible immediately without any material impact to investment costs or investment risk.

This is due to the non-materiality of holdings in these industries within the current share portfolios, the non-material weighting to these industries within the stock market performance benchmark indices, and the ability of current fund managers to implement the changes without any impact to current investment mandate objectives or costs.

7.1.2 Application of a Limited Positive Screen

The Territory currently allocates 5 per cent, or approximately $110 million, of the SPA investment assets to Australian private equity, which is investment in companies that are not currently listed on the Australian stock exchange.

The program has investments in a broad range of Australian companies and industries including activities associated with renewable energies, waste reduction and recycling, and health care. As an example, the Territory is currently invested in three unlisted Australian companies, Winlab Systems, Global Renewables and SunShine Heart.

- Winlab Systems is a world-leader in the development and application of atmospheric modelling systems used to locate and develop wind energy sites globally. It uses its wind assessment technologies to prospect, acquire and provide wind energy sites for on-sale to wind farm operators. Established in 2003, the current portfolio of viable sites includes Canada, US, South Africa, Australia and New Zealand. The company is currently headquartered in Canberra.
- Global Renewables operates an Alternative Waste Treatment facility at Eastern Creek in Sydney, processing approximately 220,000 tonnes of municipal waste per annum. The facility diverts around 60 per cent of its waste away from landfills. The diverted waste is primarily converted into compost.
- SunShine Heart is developing a cardiovascular device to augment cardiac output in patients with severe heart failure. The ‘C-Pulse Heart Assist System’ is an innovative approach to assist the heart’s function, not replace it, and may be implanted using a minimally invasive procedure.

A main aim of responsible investment prioritisations (positive screening) is to encourage and develop companies that contribute positively to society and to the environment. A direct allocation of a portion of the current domestic private equity program to activities such as clean technologies is considered to have a high probability of achieving this aim due to the investment being utilised as capital for the development, commercialisation, and expansion of the company’s products or services.

7.1.3 Appointment of Additional or Future Responsible Investment Equity Managers

Due to the growth and development of the responsible investment sector, institutional-quality investment managers, as well as a broader range of responsible investment products, are now becoming available. These managers specialise in the range of responsible investment strategies as outlined in Section 3 of this submission.

The addition of one or more specialist responsible investment share managers to the investment manager structure, or the possible replacement of current investment managers with these specialist managers over time, is a viable and financially prudent option available to the Government.

Section 8: Conclusion

8.1 Conclusion

The Government has demonstrated a commitment to responsible investment practices by becoming a signatory to the Principles for Responsible Investment.

Significant progress has been achieved in establishing an investment framework that incorporates the key objectives of the Principles, and this continuing progress has been confirmed by the recent independent review undertaken by Responsible Investment Consulting Pty Ltd and through the PRI Annual Reporting and Assessment Survey conducted by the PRI Secretariat.

The Government is continuing to assess and implement enhancements to the responsible investment framework in a sensible and measured way over time as responsible investment practices and strategies continue to evolve.

A legislative approach as proposed by the draft Ethical Investment Bill is not supported as the Bill would potentially introduce legal uncertainty, investment portfolio concentration risk, portfolio volatility, long term investment capacity constraints, significant one-off transition costs, and a significant increase in ongoing management costs.

The Government continues to support and encourage dialogue in relation to responsible investment strategies with consideration of any further enhancements to the Territory investment practices to be made by way of amendments to current investment policies and investment management guidelines.