Future Super

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

Future Super

FUT02QON:

Dr LEIGH: I have a question to Mr Peterson or Ms Griffith. You receive a rebate from BetaShares on the ETFs. I'm wondering what the size of that rebate is and what the advantage is of being in a product such as ETHI rather than, say, the comparable Vanguard product, VESG, which charges 18 basis points—less than half of the BetaShares product charges.

Ms Griffith: Diversa has engaged Future Super investment services under an IMA to conduct all the investments. So they're probably more privy to be able to answer the rebate question in particular and, I guess, probably better served to answer why they've selected one particular product over another.

Dr LEIGH: Sure. Feel free to redirect. That's fine. We're tight on time. Mr Hosain?

Mr Hosain: Thank you for the question. Obviously, the quantum of the rebate would be a commercial-in-confidence type of information. I'd be happy to take that on notice and see what I can do in terms of giving it to you…

Answer:

The specific quantum of the rebate paid by BetaShares to the Future Super Fund is commercial in confidence. However, Future Super confirms that after taking into account the rebate, its members pay less than the Vanguard VESG product fee stated by Dr Leigh to invest in ETHI.

It is important to note that Vanguard's VESG product is not a fully comparable product to ETHI, meaning the comparison of fees may be misleading. Future Super's investment management team conducts annual reviews of a range of Exchange Traded Funds (ETFs) in the market that claim to be ethically-focussed. The VESG product states on its website that that excludes "companies with significant business activities involving fossil fuels, nuclear power, alcohol, tobacco, gambling, weapons, adult entertaining and a conduct related screen based on severe contraversies".

However, Future Super's last review of VESG in May 2020 indicated that it invested in the companies listed below, all of which do not pass Future Super's negative screens and are therefore not held by ETHI:

- **Power Assets Holdings Ltd**

  This is a vertically integrated energy company that owns multiple fossil fuel powered energy generators across the globe, along with 110,071km of gas networks and 2,200km of oil pipelines [1]. Of 10,303 mw of generation capacity, 8575 mw of energy comes from non-renewable sources[2]. In 2013, Power Assets Holdings was sued by the ATO for failing to pay more than A$750 million in taxes[3].

- **A2A**

  The Italian company owns or co-owns the gas-powered plants at Cassano d'Adda, Gissi, Ponti sul Mincio, and a plant at Monfalcone, which is fuelled by coal, fuel oil and biomass [4]. It also has cogeneration plants powered by natural gas and/or coal and fuel oil [5].

- **JPMorgan Chase**

  JPMorgan Chase was recently described as "the world's top funder of fossil fuels by a wide margin."[6] It has channelled $US 196 billion into fossil fuels between 2016-2018. It has no policy restrictions on financing Tar sands, arctic oil & gas, ultra-deepwater oil & gas, fracking, and LNG.

- **Citibank**

  Outside China, Citi has been the worst coal power funder, and dominates offshore and fracked oil and gas [7]. Between 2016-2019, the bank has provided $US 188 billion for fossil fuel projects, with its annual financing amount increasing over the last year. Given its underwhelming policy initiatives, the bank is certain to miss Paris goals and exceed the goals set out by IPCC [8].

- **General Motors**

  General Motors recently established a new defence industry unit, GM Defense, as part of its Global Product Development organization [9]. It has been scaling up its activity and has communicated significant ambitions to win contracts with the U.S. Army[10]. While not much is publicly disclosed, the company has been selected to supply Infantry Squad vehicles (ISV) to the US Army for prototype testing[11]. It also recently designed and manufactured unmanned undersea vehicles (UUV) for the navy[12].

- **Walmart**

  Close to half of Walmart's 4,700 US stores sell guns, ammunition and related products [13]. The company does not divulge revenue breakdown from arms sales, but with 2% of all arms sales in the U.S. and 20% of total ammunition sales, estimates revolve around $US 600 million revenue per year[14]. Despite multiple shootings within Walmart stores, and other school shootings using ammunition bought through Walmart, the company introduced only limited restrictions to its sales of guns and ammunition [15]. Their biggest US competitors, Target and Amazon, do not sell any guns.

- **Coca-Cola**

  Coca-Cola Co. has significant exposure to manufacturing and selling alcohol and has been steadily increasing its exposure in the segment. So far, Coca-Cola Amatil, which is owned partially by Coca Cola Co, has 39 alcohol-related brands under its group, including Jim Beam, Teacher's, Coor's, and Blue Moon [16]. The company will also directly be selling cocktails in Japanese stores [17]. It should also be noted that the Coca Cola Co. generates revenue by selling junk/ unhealthy beverages and imposes a substantial cost on the world's water systems [18].

- **Dollar General**

  Dollar General started selling tobacco products, in an attempt to increase revenue, around the time CVS withdrew them from its shelves. Since then, the sale of tobacco products has been an important driver of sales growth at the chain, particularly getting traction in rural America [19]. While the company does not give a revenue breakdown for its products, senior management have emphasised the importance of tobacco sales in driving foot traffic and higher average basket sizes. [20].

- **Fidelity National Information Services**

  Fidelity has significant exposure to gambling since its $US 35bn acquisition in 2019 of Worldpay, one of the iGaming industry's most prominent payment providers[21]. Worldpay's clients include online gambling companies, state lotteries and land-based casinos.

- **Amazon**

  The company is one of the top 10 holdings in the ETF but has some serious ESG concerns. Amazon's supply chain is reported to have seen instances of use child labour and slave labour, unionisation has been discouraged, and workers have died of covid19 in warehouses [22]. Amazon Web Services also hosts ICE and Homeland Security Databases, used to legally (and illegally) detain and deport asylum seekers and immigrants [23].

- **Nestle**

  The company's supply chain has been vulnerable to reports of human trafficking and child labour across continents. In Thailand, there have been credible allegations that refugees and migrants have been trafficked to work in slavery-like conditions in the seafood supply chain[24]. It is also fighting lawsuits regarding child labour in its Ivory Coast cocoa farming operations [25]. As the largest producer of bottled water, Nestle has also been subject to controversy for its approach to taking water from natural water sources, in some cases leaving indigenous and poor communities in the US, Canada, China and Pakistan with reduced access to safe drinking water [26].

- **Barrick Gold Corp.**

  As one of the largest gold mining companies in the world, Barrick Gold has been involved in a number of environmental and human rights violations. Women and girls in its Porgera mine have faced sexual violence by employees and contractors, for which the company has paid compensation [27]. The company has also severely damaged the environment, specifically the Riverine in PNG [28]. In Tanzania, the company has been accused of using force resulting in deaths to evict locals and maintain profits [29].

- **L'Oreal**

  The cosmetics giant has faced controversy for animal testing for cosmetic purposes. While the company has made some improvements, critics argue their statements are misleading [30]. The company still pays for animal testing in countries like China, despite other companies finding alternatives in the same market [31]. They also have a weak policy on toxins and environmental pollution, earning them a low rating on Ethical Consumer [32].

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FUT03QON: **Dr LEIGH:** After the rebate, does the cost of ETHI fall from 0.49 to below the VESG number of 0.18 per cent or not?

Mr Hosain: The numbers are very clearly stated in that fee report that I gave to you. It's certainly below that. But you also have to recognise that, as a super fund, we have administration costs that also go to it as well. I hope that that is answering your question, Dr Leigh.

Dr LEIGH: No, it doesn't. I'm out of time.

Mr Hosain: Okay. I will come back to you.

Answer: Same answer to that provided for **FUT02QON.**

FUT04QON: **Mr SIMMONDS:** Mr Hosain, why did you divest from Facebook?

Answer: The Future Super Fund invests in the BetaShares ETHI exchange traded fund. BetaShares removed Facebook from ETHI in April 2018 as part of an annual rebalance review. We understand part of the consideration for the removal of Facebook from ETHI was the view formed that the company was exposed to significant ESG related reputational risk and controversy, including its association with Cambridge Analytica, that was inconsistent with the values of ETHI.