

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Additional Budget Estimates Hearing – February 2009

Future Fund Management Agency

Finance and Deregulation Portfolio

Outcome 1 Output 1.1

Topic: Environmental, social and governance factors in investments

Question reference number: F58 a to c

Type of Question: Written

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Senator Brown asked:

The Future Fund announced in early 2008 that it will be considering environmental, social and governance (ESG) factors in its future investment decisions. In February this year, the Future Fund announced that it will recruit a manager of responsible investment to oversee the Fund's management of ESG factors. In light of these encouraging developments, can the Future Fund please advise:

- a) What role do ESG factors play in the Future Fund's investment decisions?
- b) Will the Future Fund be signing up to the United Nations Principles for Responsible Investment, as have hundreds of leading investment organisations including many major Australian industry and retail super funds? If not, why not?
- c) Are there any other existing frameworks that the Future Fund will use to guide its consideration of ESG factors?

Answer:

- a. The Board of Guardians has a statutory obligation to have regard to international best practice for institutional investment in determining its approach to corporate governance. Amongst other things the Board considers corporate governance to include the way a company manages its environmental, social, regulatory and other responsibilities.

In addition, the Board believes there is a positive relationship between good corporate governance and investment value and that it, therefore, has a responsibility to oversee, and if appropriate influence, the approach to corporate governance taken by the entities in which it invests. This influence is exercised through the Board's approach to its ownership rights which covers its voting policy and its ability to engage with companies through its investment managers, directly and/or in combination with other investors.

Consistent with its obligations the Board is presently undertaking a benchmarking exercise to determine how successful institutional investors integrate oversight of corporate governance, including ESG factors, into their investment program. This will inform the path the Board takes on this issue.

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- b. The Board has not yet formed a view on the United Nations Principles for Responsible Investment.
- c. In developing its approach, the Board will consider a variety of frameworks, including the United Nations Principles for Responsible Investment, and have regard to international best practice in institutional investment in considering these issues.