Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
BUDGET ESTIMATES 2013-2014

Finance and Deregulation Portfolio

Department/Agency: Future Fund
Outcome/Program:
Topic: Fossil fuel investments

Senator: Milne
Question reference number: F118
Type of question: Written
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Number of pages: 2

Question:

a) How much does the FF have invested in equities of companies whose primary activity is the mining of fossil fuels? How much in bonds issued by such companies?
b) Are you aware of the recent studies by Carbon Tracker/Grantham Institute, the International Energy Agency and the Climate Commission that conclude that 60-80 per cent of current fossil fuel reserves will be unburnable if the world is to avoid global warming of over 2 degrees? Does this imply there are both ethical and commercial reasons why it may not be desirable for the Fund to hold fossil fuel equities?
c) Has the Agency considered the implication of climate change for its investment portfolio?
d) Why does the Future Fund have subsidiaries in tax havens such as the Cayman Islands, British Virgin Islands and Jersey?

Answer:

a) The Fund has equity investments in many thousands of entities and identifying equity investments in entities whose primary activity is mining fossil fuels would require a detailed review of the specific activities of many of those entities.

However, using S&Ps Global Industry Classification Standard (GICS), we are able to identify the size of investments in sectors focused on diversified metals and mining (including metallurgical coal), thermal coal mining and oil and gas exploration and production. The Future Fund's direct listed equity investments in these sectors at 31 May 2013 totalled $3.746 billion.

Given the complexities outlined above and that debt instruments are not covered by GICS, it is therefore difficult to accurately identify the debt holdings requested. A manual review suggests such debt holdings may be in the region of $30 million.

b) We are aware of the studies.

The Board believes that effective management of material financial and reputational risks and opportunities related to environmental, social and governance (ESG) issues will, over the long term, support its requirement to maximise returns earned on the funds it manages.

There are often a range of views on ESG issues and it is important for investors to carefully consider these matters within a robust process. The Fund does this and, as part of its work on ESG, engages with a range of organisations and forums such as the Rotman International Centre for Pension Management, the Investor Group on Climate Change and the International Corporate Governance Network. The Fund also engages directly with peer investors and with its external investment managers to understand the issues and to incorporate consideration of them into investment decisions.

c) As outlined above, the Agency integrates environmental, social and governance risk management considerations, including those related to climate change, into its investment decision-making in a number of ways. This includes the development of its investment strategy and asset allocation, the selection and appointment of external investment managers and the assessment of specific opportunities, and the exercise of ownership rights. The Agency's approach is designed to incorporate consideration of material risks and opportunities into the investment process.

d) The Board invests through various jurisdictions and investment vehicles for legitimate commercial, legal and taxation reasons and in accordance with its mandate and legislation.

The Board does not invest in schemes that contravene the OECD's key principles of transparency and information exchange for tax purposes. It only invests through jurisdictions that are regarded by the OECD as having substantially implemented the internationally agreed tax transparency standard.