RESPONSIBLE PUBLIC INVESTMENT IN AUSTRALIA

PROGRESS AND BARRIERS IN INTEGRATING ENVIRONMENT, SOCIAL AND GOVERNANCE FACTORS BY GOVERNMENT INVESTMENT FUNDS

AUSTRALIAN CONSERVATION FOUNDATION

RESPONSIBLE PUBLIC INVESTMENT IN AUSTRALIA

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A report prepared for the Australian Conservation Foundation by Alan Lazarus
March 2008

EXECUTIVE SUMMARY

As a result of the growing consensus that environmental, social and governance (ESG) issues are important determinants of business success, many global investors and asset managers are starting to integrate these issues into their core investment decision-making activities.

In Australia, attention has focused on the role of superannuation funds in driving improved ESG performance. Comparatively little information has been available about the awareness and engagement of government investment funds on ESG issues.

This report aims to fill that information gap. It analyses the investment practices of Australian government investment funds in 2007, specifically:

- the extent to which major government investment funds are utilising best practice in incorporating ESG issues into their investment decision-making; and
- whether the investment holdings of government funds in the energy sector are consistent with stated environmental protection policy goals.

The recommendations focus on how government investment funds can contribute most effectively to improved environmental performance.

Government investment funds in Australia

This report examines how $206 billion is invested by Australian governments, through 36 government investment funds spanning the Commonwealth and all states and territories.

These include pools of capital that:

- manage more than $50 million in total assets;
- are controlled or managed by governments or government agencies; and
- are invested in part in the private economy, typically through ownership of stocks.

They include superannuation funds for government employees, portable long service leave funds, public insurance funds, general-purpose funds that manage the assets of a wide range of state agencies, trustee funds and even general treasury funds.

Of the $206 billion in total assets under management, about $52 billion (nearly 25 per cent) is invested in listed Australian shares, mostly in ASX 300 companies.

Due to a lack of available information, asset classes other than Australian equities are not reviewed in this study. Investments in unlisted/private markets, international equities and fixed interest assets should also be considered in light of ESG risks and opportunities.

Government investment funds demonstrate widely varying levels of understanding of responsible investment practices

Of the $52 billion invested in the Australian share market by Australian government funds:

- Approximately $28 billion (55 per cent) is invested with some level of commitment to incorporating ESG risks and opportunities into investment activities. The type of ESG engagement differs among funds, from detailed assessment of ESG factors across the entire portfolio, to outsourcing engagement services, or through a commitment to the United Nations Principles for Responsible Investment.
- An estimated $775 million (1.5 per cent) is invested within dedicated socially responsible investment options, undertaken with some form of value-based investment screening (negative screening).

In general, the largest government funds tend to be more likely to undertake ESG screening or engagement, though the Future Fund is, so far, a notable exception. It remains unclear whether the Future Fund will make any specific ESG commitments. Due to the size and nature of this fund, it is particularly critical that it adopts best practice in asset management.

International best practice in asset management, particularly in regards to long term investors such as superannuation and government funds, increasingly includes consideration of ESG factors in the investment decision-making process. There is strong evidence that ESG issues can be material to performance of portfolios, particularly over the long term. ESG consideration is now clearly established as within a trustee's fiduciary duties. In response, best practice in the investment industry is quickly becoming aligned with a commitment to the United Nations Principles for Responsible Investment (UN PRI). These principles provide a framework for asset managers to integrate ESG issues into investment decisions.

Overall, there is a wide variation in the ESG commitments and performance of government investment funds.

At the Commonwealth level the Australian Reward Investment Alliance (ARIA), the major superannuation fund for government employees, is a leader in responsible investment practices.

The ACT appears to be the only jurisdiction that has conducted a whole-of-government review of responsible investment practices. Positive developments have also recently occurred in Victoria and Queensland, where major government asset managers VFMC and QIC have endorsed the UN PRI.

In contrast, most major government funds in NSW, South Australia and Western Australia have not indicated any notable ESG initiatives. Funds in these states are putting value at risk by failing to consider material ESG issues in their portfolios.

Few of the government funds interviewed for this report appeared to have linked ESG factors with their material influence on returns and the associated risks and opportunities in investment management. This demonstrates a worrying disconnection between many public sector funds and industry best practice developments.

In many cases government asset managers lack the transparency of private sector asset managers in terms of their investment strategy and portfolio holdings. However, a small number of asset managers were aware of ESG developments and reported that the UN PRI was being considered at board level.

Government investments in the energy sector may be undermining stated environmental policy objectives

The investment practices of government funds have the potential to support or detract from government policy goals. Most Australian jurisdictions, for example, have policies and laws that related to climate change and energy. But investment priorities sometimes appear to undermine stated policy objectives.

The total investment of all State, Territory and Commonwealth funds in the listed energy sector is estimated as follows:

Industry:	Holdings ($ million):
Nuclear/uranium	$ 559
Fossil fuels	$ 5,379
Renewable energy	$ 126

There appear to be contradictions between these investment holdings and the stated policy goals of some States and Territories. In particular:

- NSW, Victoria, Queensland and Western Australia all have significant holdings in uranium-related equities, despite legislative or political bans on uranium mining;
- All jurisdictions have very low holdings in the renewable energy sector, despite a stated strong commitment to renewable energy as a critical part of future energy generation; and
- All jurisdictions have significant exposures to fossil fuel industries, despite a range of policy commitments relating to the need to reduce greenhouse gas emissions.

The imbalance between investment in fossil fuels and renewable energy sources is striking, given the public commitment of all Australian governments to renewable energy.

Recommendations for improving integration of ESG considerations into investment practice

The following steps would greatly increase the ESG performance of government investment funds, ensuring long-term value creation as well as furthering important government policy objectives:

- Public funds should pursue best practice investment management pursuant to a systematic framework for incorporating environmental, social and governance issues into their core investment decision-making and active ownership practices.
- Public funds should endorse the United Nations Principles for Responsible Investment, as the current globally accepted framework for accomplishing responsible investment goals.
- All Australian jurisdictions should conduct a whole-of-government review of investment practices and establish mechanisms to align investment and policy goals, as well as maximise long-term value by following responsible investment practices.
- Public funds should be managed more transparently, including regular and full disclosure of their investment processes and holdings

INTRODUCTION

For the purposes of this report, Australian government funds include all pools of capital that could be identified that:

- have more than $50 million in total assets under management;
- are controlled or managed by governments or government agencies; and
- are invested in part in the private economy, typically through ownership of stocks.

These funds include superannuation funds for government employees, portable long service leave funds, public insurance funds, general-purpose funds that manage the assets of a wide range of state agencies, trustee funds, and even general treasury funds.

The funds by nature tend to be long term investors, seeking to build on the value of the investment to meet future liabilities. Many of these are well known (eg. Future Fund and ARIA), however many remain 'hidden' funds, that exist for a particular purpose in a particular jurisdiction, with very little disclosure or transparency in regards their investment holdings.

Section 2 of the report sets out the range of government funds across the Commonwealth, states and territories, and assesses their investment strategies.

Finally, a series of conclusions and recommendations suggest how government investment funds could contribute most effectively to improved environmental performance.

PART 1:
OVERVIEW – THE CASE FOR RESPONSIBLE INVESTMENT

The asset management industry is evolving rapidly, particularly for long term owners of assets. A range of environmental, social and governance (ESG) issues have become identified as core investment risks that have the potential to impact on investment returns over the life of the investment- from climate change and environmental risks, to human capital management, human rights, health and safety, local communities, supply chain management, brand and reputation management, and emerging market exposures to name a few of the risks analysed under an ESG framework. This analysis of ESG issues is becoming a best practice for the industry, and a core part of an asset manager's analysis of risks and investment valuation.

The global asset management industry is increasingly integrating a broader assessment of risk into investment decision making as well as incorporating a broader perspective on fiduciary responsibilities of institutional investors. This has come about as research continues to identify strong links between a company's performance and its management ability in key ESG related areas. In effect, it has been established that strong management of ESG risks is a proxy for strong management of a business. Responsible investment (RI) is a term used in relation to the integration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices, with the aim of improving long term returns for beneficiaries through a broader consideration of risks.[1]

The area of RI is a relatively recent evolution growing out of and along side the field of socially responsible investment (SRI), which in turn evolved from the field of ethical investment. RI focuses on a comprehensive analysis of material investment risks that have not been traditionally assessed by financial analysts. RI is not a values-based investment analysis (in the way of SRI or ethical investing) and does not necessarily involve excluding industries or companies from investment portfolios. Through a comprehensive review of 'extra-financial'[2] risks, responsible investment is aimed ultimately at improving returns and lowering investment risk. There is increasingly strong evidence that ESG issues can be material to performance of portfolios, particularly over the long term.

Although not universally applied by asset owners and investment managers, this ESG perspective on investment appraisal is rapidly gaining favour and entering the mainstream. The rapid evolution indicates that this is fast becoming best practice in the industry. Most clearly, this is demonstrated by the significant and rapid take up of the United Nations Principles for Responsible Investment (UN PRI), which requires signatories to consider ESG issues in investment decision making processes. The UN PRI were launched at the New York Stock Exchange in July 2006, and to date has attracted 235 signatories (asset owners and investment managers) with funds under management of over US$10 trillion.

This does not represent a short term trend in the investment industry, but rather a fundamental shift in awareness that ESG factors have a material impact on a fund's performance. This is most particularly focused on investment in equities, with the recognition through empirical analysis that extra-financial factors have an impact on company (equity) valuations – ie. the intangible factors that are not on a company's balance sheet impact the share performance and include: management of reputation, employees, the environment, corporate governance etc. In particular, the emergence of carbon pricing has demonstrated to investors that externalities, traditionally kept off the balance sheet, are becoming real risks for business. Climate change is a strong example of how regulation can evolve to impact on a company, and those companies well prepared for climate change will be prepared for regulatory developments as well as physical risks from a changing climate.

The position that ESG factors are material is supported by increasing numbers of studies.[3] Many of the most forward-thinking asset managers and those managing some of the largest pools of capital are working to mainstream and integrate ESG research into investment decision making to maximise returns based on solid analysis of ESG risks and opportunities. This also supports the idea that consideration of ESG factors is in fact a requirement of fiduciary responsibility, or at the very least, does not breach this duty of trustees. A recent report has analysed the fiduciary duty question in a number of jurisdictions, including Australia, and confirms that there is no breach by trustees incorporating ESG into investment.[4]

To clarify what is sometimes confused:

- **Ethical investment** – an investment strategy where owners of capital choose to avoid certain sectors or companies in their investments, based on value judgements – this is often referred to as negative screening, with sectors frequently screened out of investments being tobacco, alcohol, weapons and uranium.
- **Socially responsible investment** – an investment strategy that aims to maximise returns whilst also investing towards socially and environmentally beneficial outcomes. The strategy can vary between investment managers, but usually involves a negative screen as well as a positive screen, which weights investment away from environmentally or socially detrimental industries, and towards socially or environmentally beneficial investments. Such an investment strategy is values based.
- **Responsible investment** – aims to incorporate ESG factors into investment analysis and valuations from an investment risk perspective, with the aim of maximising returns, without value judgement. RI is focused strongly on obtaining additional 'alpha', or outperformance of investments, through the successful identification of extra-financial risks and opportunities in investments.

With US$10 trillion in assets already progressing down the path of RI through the UN PRI, there is a strong case that this forms a substantial movement in asset management.

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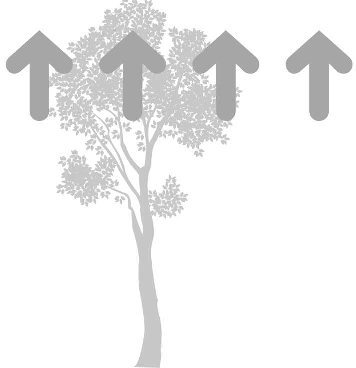
1 UN Principles for Responsible Investment, www.unpri.org

2 Non-traditional, or non-financial risks, yet still holding a material or financial impact on an investment.

3 UNEP FI (2007), *Demystifying Responsible Investment Performance: A Review of Key Academic and Broker Research on ESG Factors,* A joint report by the UNEP FI Asset Management Working Group and Mercer; UNEP FI (2007), The Working Capital Report.

4 Freshfields Bruckhaus Deringer (2005), *A legal framework for the integration of environmental, social and governance issues into institutional investment,* A report for the Asset Management Working Group of the UNEP Finance Initiative.

1.1 DEVELOPMENTS IN RESPONSIBLE INVESTMENT



An overview of responsible investment developments in Australia

The following section outlines some of the key developments in responsible investment in Australia.

United Nations Principles for Responsible Investment (UN PRI)

The UN PRI, launched in April 2006, is perhaps the most significant development in the area of responsible investment globally and within Australia in recent years. The UN PRI are a voluntary set of principles for asset managers that commit signatories to integrating ESG factors into their investment decision making processes. The Principles come out of the work of the United Nations Environment Program's Finance Initiative (UNEP-FI) and provide a framework for integration of ESG into investment analysis.[5]

The principles are a significant development in the context of the Australian investment industry due to their extremely strong take up by Australian asset managers in such a short amount of time. As at January 2008, the principles have over 40 Australian signatories, including five government investment funds. In total, the principles have attracted approximately 290 signatories, including asset owners, investment managers and professional service partners. Global signatories represent over US$10 trillion of assets under management.

The Principles are voluntary and aspirational. They are not prescriptive but instead provide a list of possible actions for incorporating ESG issues into mainstream investment decision making and ownership practices. The six Principles for Responsible Investment are:

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report our activities and progress towards implementing the Principles

This particular initiative is driving much of the integration of ESG research in the Australian market place, as the commitments clearly lead asset managers to expand their research focus.

Carbon Disclosure Project

The Carbon Disclosure Project (CDP)[6] is an independent not-for-profit organisation aiming to create a lasting relationship between shareholders and corporations regarding the implications of climate change on shareholder value. The CDP undertakes an annual survey of global listed companies regarding their exposure and preparedness to climate risk, and releases the results in their annual CDP reports.

CDP provides a coordinating secretariat for institutional investor signatories with a combined US$41 trillion of assets under management. On their behalf, it seeks information on the business risks and opportunities presented by climate change and greenhouse gas emissions data from the world's largest companies: 2,400 in 2007. Over seven years CDP has become the gold standard for carbon disclosure methodology and data. The CDP website is the largest repository of corporate greenhouse gas emissions data in the world.

Approximately eleven Australian funds and asset managers are signatories to the CDP, including one government investment fund, ARIA.

Investor Group on Climate Change (IGCC) Australia/New Zealand

Another strong development in the area of responsible investment in Australia is the IGCC. The IGCC is a membership based organisation for institutional investors, with 21 members with total funds under management (FUM) of over $340 billion.[7] The IGCC aims to ensure that the risks and opportunities associated with climate change are incorporated into investment decisions through:

- Raising awareness of the potential impacts, both positive and negative, resulting from climate change to the investment industry, corporate, government and community sectors;
- Encouraging best practice approaches to facilitate the inclusion of the impacts of climate change into investment analysis; and
- Providing information to assist the investment industry to understand and incorporate climate change into the investment decision-making process.

A recent membership list numbers approximately 15 members, with no government investment funds.

Parliamentary Joint Committee on Corporations and Financial Services

On 23 June 2005 the Parliamentary Joint Committee (PJC) on Corporations and Financial Services resolved to inquire into Corporate Responsibility and Triple-Bottom-Line reporting for incorporated entities in Australia. The committee issued its report in June 2006.[8]

The report noted that investors such as super funds (and other long term investors) are exposed to the social and environmental risks of the companies in which they invest. The report noted further that such long term investors are better placed to withstand the volatilities in returns that may accrue if they pursue strategies which might address long term ESG risks.

Extending that analysis further the report contained a recommendation that the super fund regulator, the Australian Prudential Regulation Authority, clarify the rules which might otherwise restrict superannuation fund trustees in pursuit of ESG matters.

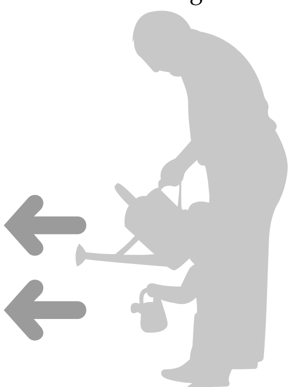
In simple terms this should be seen as encouraging superannuation funds to focus more on the long term impacts of the companies in which they invest, in keeping with trends in RI.

A further recommendation by the Senate Committee was that superannuation funds generally should consider adopting the UN Principles for Responsible Investment and specifically nominated the Future Fund as being a candidate for the UN PRI.

Growth of ESG service providers
An example of the quickening pace of responsible investment development in the Australian investment industry is the ever increasing numbers of service providers, dedicated to providing research, engagement or other services to institutional investors. Currently, Australia lists numerous of such service providers, with ESG research houses including Centre for Australian Ethical Research, Innovest Strategic Value Advisors, Monash Sustainability Enterprises, Reputex, SIRIS and Sustainable Asset Management (SAM) Australia, some of which have also established indices for sustainable investing. Further, investment banks are developing in-house teams specialising in ESG research that feed directly into the traditional financial analysts. Such organisations include Goldman Sachs JB Were, Citigroup and AMP Capital.

A development of note in 2007 was the organisation, Regnan.[9] Regnan's predecessor was the BT Governance Advisory Service, established by BT Financial Group in 2002 as a mechanism for institutional investors to collectively engage with the companies of the ASX 200. Regnan represents institutional investors predominantly in engagement activities with Australian companies, but also through the provision of ESG research. Many of the large Australian institutional investors make up Regnan's client base.

At the time of writing, subscribers to Regnan represented around $50 billion of FUM and included four government investment funds (ARIA, Local Government Superannuation Scheme, Northern Territory Government and Public Authorities Superannuation Schemes and the Victorian Funds Management Corporation).



Australian Council of Super Investors[10]
The Australian Council of Superannuation Investors (ACSI) is a not-for-profit organisation formed in April 2001 to provide independent research and education services to superannuation funds, in relation to the corporate governance practices of companies in which they invest.

ACSI's services are designed to:

- equip trustees with the tools to develop and implement a corporate governance policy;
- keep trustees up-to-date on corporate governance practices of listed companies so that trustees can effectively manage investments risks; and
- provide trustees with regular publications including newsletters, research papers, codes of conduct and best practice guides.

ACSI also provides members with a voting alert service on the corporate governance practices of Australia's S&P/ASX 200 companies to aid with voting and engagement decisions. ACSI is owned and managed by elements of the industry funds movement and as such is not largely used by members outside the industry funds.

ASCI adopted the UN Principles for Responsible Investment during 2007 in the category of professional service provider and in November 2007 launched new guidelines to help superannuation funds consider environmental, social and corporate governance issues in investing. The guidelines contain:

- suggestions for funds on how to incorporate ESG issues into investment processes;
- suggestions for fund managers and asset consultants to assist with the consideration of ESG issues and outline the expectations that superannuation funds may have of their service providers in the future;
- broad expectations and suggestions for listed companies; and
- a brief discussion of some of the key challenges in moving from ideas to action in this area.

One government investment fund, ARIA, subscribes to ACSI.

[5] See http://www.unpri.org
[6] See http://www.cdproject.net
[7] See http://www.igcc.org.au
[8] See http://www.aph.gov.au/senate/committee/corporations_ctte/corporate_responsibility/report
[9] See http://www.regnan.com.au
[10] See http://www.acsi.org.au

PART 2
JURISDICTIONS – STATE AND TERRITORY FUNDS

The following section outlines the government investment funds across the Commonwealth, States and Territories and provides a profile of the responsible investment policies and practices for each government investment fund identified.

These funds include all pools of capital that could be identified that:

- have more than $50 million in total assets under management;
- are controlled or managed by governments or government agencies; and
- are invested in part in the private economy, typically through ownership of stocks.

This section then investigates whether the investment holdings of government funds in the energy sector are consistent with stated environmental protection policy goals.

This is undertaken through an assessment of the exposure of each jurisdiction to investments in:

- Fossil fuel extraction and power generation;
- Uranium mining and nuclear power generation; and
- Renewable power generation.

Notes on the charts used within this section:

ESG fund – refers to the value of investment funds accruing to entities covered by this study who have adopted the UN Principles for Responsible Investments (or whose fund managers and service providers have adopted the UN PRI).

ESG investments – refers to an estimate of total funds under management allocated specifically to ethical or socially responsible investment (SRI) mandates.

All other is the balance of the investment portfolios in each jurisdiction.

Note that the managers in the ESG investments subset may or may not have adopted the UN Principles for Responsible Investment. All fund values listed in the following section are based on 30 June 2006 data, or most recent available. This was the most consistently available data at the time of undertaking this research.

Methodology

The following section is the result of a review of all government investment funds with a value of $50 million and above. The review entailed a survey of government asset managers across all jurisdictions. Approximately 85 per cent of funds were contacted directly, with responses received by 67 per cent.

Within the following section, the proportion of government funds invested in three industry sectors are assessed:

- Uranium – mining and nuclear energy;
- Fossil fuels – mining and energy generation; and
- Renewable energy – development and generation.

For calculation of these investment exposures, it has been assumed that 25 per cent of total funds under management are invested within an Australian equities portfolio (exact proportion is used where asset allocation data was made available). This proportion is based on feedback from funds and represents an average asset allocation of long term investment funds.

Further, it was assumed that the funds were all universal owners of Australian equities, with an allocation of equity holdings spread across the entire ASX 300. There is a strong justification for this assumption, as it represents an indexed holding, common for funds with long term investment horizons such as a superannuation funds. As a result, it is assumed that all funds have a similar benchmark investment distribution across the ASX 300 index, and as such their weightings in uranium, fossil fuels and renewables are similar to the overall weightings of the ASX 300 in these industry segments. For this analysis, the ASX 300 index was taken as at 19 November 2007.

We undertook an assessment of the ASX 300 to ascertain the involvement of companies in the industries listed above. The level of involvement was taken as a proportion of a company's market capitalisation based around the company's revenues earned in the most recent financial year, or where this data was not available, by approximation based on the company's operational activities. In all cases, a conservative estimate was used.

As a result, the uranium, fossil fuel and renewable energy industries represent the following approximate market capitalisation of the ASX 300:

- Uranium – 0.9 per cent of market capitalisation
- Fossil fuels – 8.6 per cent
- Renewable energy – 0.2 per cent

Due to the above assumptions, each government investment fund is presumed to hold these percentages of their Australian equities portfolio in each industry sector.

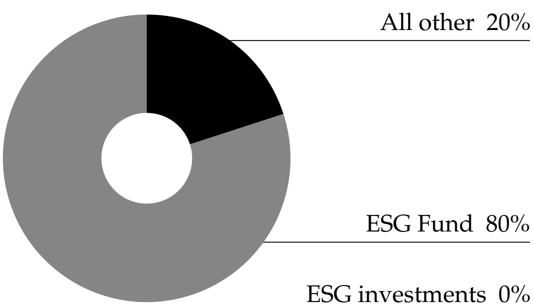
2.2 **COMMONWEALTH FUNDS**

At the Commonwealth level, five government investment funds were identified and assessed as set out in the following table, with total funds under management (FUM) of $72 billion. This is the largest capital base of any jurisdiction assessed for this report, largely due to the size of the recently established Future Fund.

Fund:	Funds Under Management ($million):	UN PRI Signatory?	ESG Initiatives:	Description of fund:
Australian Reward Investment Alliance (ARIA)	15,440	Yes	Yes	Provides superannuation services to Australian government employees through three schemes: • Commonwealth Superannuation Scheme (CSS) • Public Sector Superannuation Scheme (PSS) • PSS Accumulation Plan (PSS Ap)
AvSuper	929	No	No	Airservices Australia defined benefit scheme.
Military Superannuation and Benefits Scheme (MSBS)	2,960	No	No	For Australian Defence Force employees.
Future Fund	52,320	No	No	The Future Fund's was established in 2006 to receive fund flows from the Federal Government to offset the unfunded liabilities of the following schemes: • CSS • PSS • Defence Force Retirement and Death Benefit scheme (wholly unfunded with no investment fund in existence) • MSBS (military super)
Reserve Bank of Australia Officers Super Fund	786	No	No	For Reserve Bank of Australia employees.
TOTAL:	**$72,435**			

The $72 billion FUM was divided as per the chart below, with a majority of funds reviewed as part of an ESG screening process. This is due to the leading role taken by ARIA. The chart does not include the funds managed by the Future Fund as it did not manage any equity portfolios at 30 June 2006.

Commonwealth entities



ESG initiatives within Commonwealth funds:

ARIA has been regarded as a leader in the field of ESG integration, and was integral to the development of the UN PRI under the leadership of its CEO, Steve Gibbs, and as such, is a signatory. The fund was part of the establishment in 2007 of a governance advisory organisation called Regnan. Further, the fund is involved in the Investor Group on Climate Change (IGCC) as well as supporting the CDP. ARIA casts votes across all its investing jurisdictions.

ARIA offers it members a 'sustainable' option within PSSap. This option is limited to Australian equities. The manager of assets for this option is UN-PRI signatory AMP Capital Investors. Whilst it was not possible to ascertain actual investments with AMP (the value of the Sustainable option), the mandate size (expected future size of the portfolio) is $200 million. This represents little more than 1 per cent of the total funds of ARIA as at June 2006, however, as a UN PRI signatory, it is expected that ARIA's whole portfolio is assessed from an ESG perspective.

Given the early stage of the Future Fund's development, it would not be appropriate to take a speculative view of what the fund's approach might be before the matters have been given proper consideration. In response to questions for this report, the Fund stated that its Statement of Investment Policies notes that the Board of Guardians of the Fund will exercise its shareholder rights as a prudent investor seeking to maximise investment returns over the long term, while minimising risk of loss. The Board recognises the strong link between good corporate governance and investment value and, in response to this, has voted actively on certain recent shareholder resolutions.

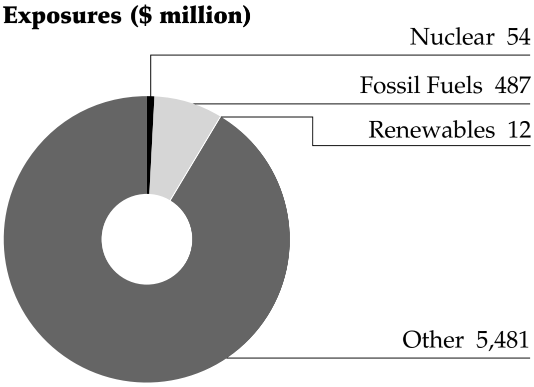
The Parliamentary Senate Inquiry in 2006 recommended that the Future Fund adopt UN-PRI but to date this has not occurred. The Managing Director of the fund, Paul Costello, was previously the head of the New Zealand Super Fund, which has taken a lead position in responsible investment including signing up to the UN PRI. The MD has made a statement indicating that the fund will be a market leader in its area, which may indicate the eventual integration of responsible investment principles into the way investments are managed by the Future Fund.

There are no other ESG initiatives within other Commonwealth funds.

Sectoral exposures:

The Future Fund has been excluded from this analysis, as the fund is in its early stages and most of its assets were held in cash, as of June 2006. Therefore, 30 per cent of funds held by the Commonwealth public investment funds are assumed to be allocated to Australian equities – a $6 billion worth of assets are invested in Australian equities. Of these funds, the following amounts are invested in uranium, fossil fuels and renewable energy.

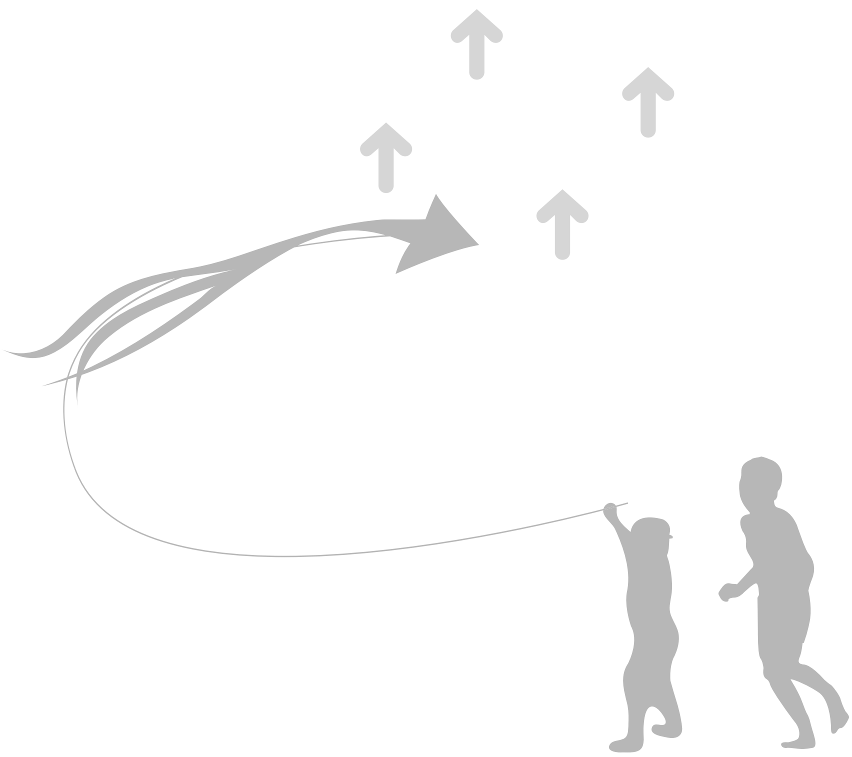
Commonwealth Investment Exposures ($ million)



Consistency with Commonwealth policy:

Sector:	Policy:
Uranium	The Commonwealth supports Uranium mining from existing mines. No support for nuclear power.
Fossil Fuels	Policy position committed to a 60 per cent reduction in greenhouse gas emissions by 2050, and currently working on a national emissions reduction target. With the recent signing of the Kyoto Protocol, Australia has a target of 108 per cent of its 1990 greenhouse gas emissions for the first commitment period of 2008-12.
Renewable Energy	Target of 20 per cent by 2020. Also, Mandatory Renewable Energy Target of 9,500 GWH by 2010.

There is therefore a clear inconsistency between the Commonwealth's investment in nuclear industry and its policy position. A low level investment in renewables does not support the strong policy position for alternative energy sources.



2.3 AUSTRALIAN CAPITAL TERRITORY FUNDS

Within the Australian Capital Territory (ACT), one main public investment fund was identified and assessed with total FUM of $2,621 million. All ACT funds fall within the Superannuation Provision Account (SPA) and the Territory Bank Account, however, for this report, only the SPA is covered due to its Australian equities holdings.

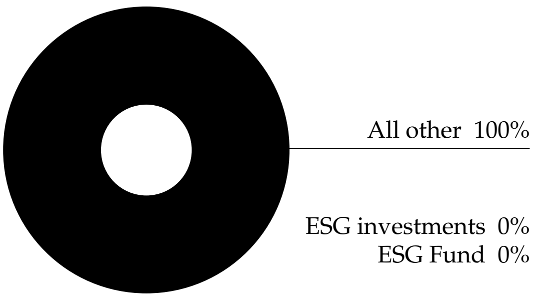
The SPA was established in 1991 to assist the ACT government in managing its superannuation liabilities. Traditionally ACT employees were able to join the schemes managed by ARIA, (CSS, PSS and then the PSSap).The ACT government has established an investment fund which ensures that through time, the ACT's funding responsibilities in respect of ACT employees' accrued benefits will be fully funded.

First State Super NSW, an industry fund which is the default fund for the NSW public service, has since 2006 also been the default fund for ACT employees.

Fund:	Funds Under Management ($million):	UN PRI Signatory?	ESG Initiatives:	Description of fund:
ACT Government Super Provision Account		No	No	To manage ACT Government employee superannuation liabilities.
TOTAL:	**$2,621**			

There is currently no ESG component within any of the ACT public funds. However, during 2007 the Finance and Investment Advisory Board of the ACT Government undertook a review of the application of ESG principles to Territory investment practices.[11] This was produced in June 2007 and the report recommended the ACT Government adopts the principles for responsible investing, as set out in the UN PRI. It is likely a change in investment processes will therefore be imminent.

Australian Capital Territory



ESG Initiatives within ACT funds:

As it currently stands, there are no ESG initiatives within ACT government funds and, as such, no funds are invested under an ESG assessment process.

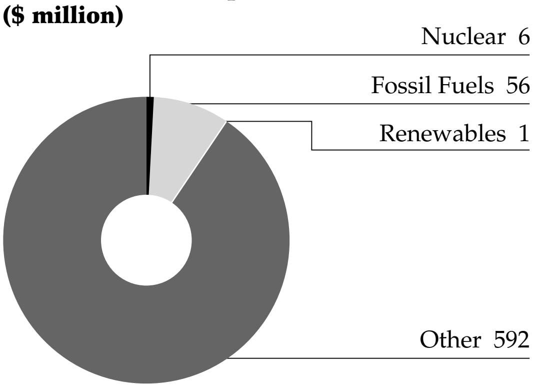
However, as stated above, a comprehensive review of responsible investment was commissioned by the Territory government in 2007 and this is expected to lead to a renewed emphasis on ESG. As well as recommending adopting the UN PRI, other key recommendations included (taken directly from the review report):

1. The ACT Government adopts a risk-based approach to the application of ESG issues to the Territory's investment practices.
2. 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.

Sectoral exposures:

As investment currently stand, the ACT public funds invest an estimated $56 million in fossil fuels, $6 million in the nuclear industry and a mere $1 million in renewables.

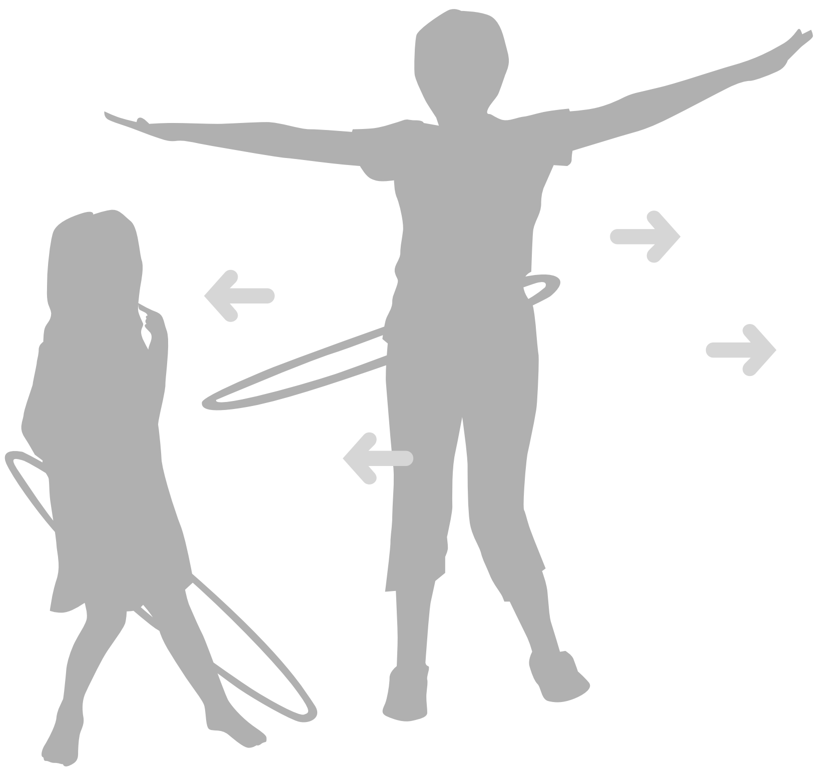
ACT Investment Exposures ($ million)



Consistency with Government policy:

Sector:	Policy:
Uranium	No clearly defined uranium policy.
Fossil Fuels	No relevant policy positions.
Renewable Energy	No clear policies.

With few clear policy positions, there is little inconsistency in the investment practices of the ACT.



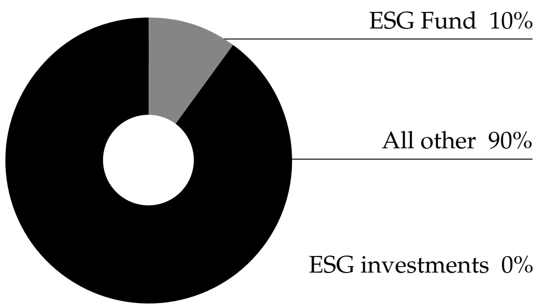
2.4 NEW SOUTH WALES FUNDS

Within the NSW funds, eight public investment funds were identified and assessed with total FUM of $66 billion.

Fund:	Funds Under Management ($million):	UN PRI Signatory?	ESG Initiatives:	Description of fund:
Office of the Protective Commissioner	1,400	No	No	Under the direction of the Attorney General, the Protective Commissioner provides financial management services for people who are unable to manage their own affairs due to disability.
State Super NSW (SAS Trustee Corporation)	28,578	No	No	State Super NSW manages the funds of four closed NSW schemes: • State Authorities Superannuation Scheme • State Authorities Non-Contributory Superannuation Scheme • State Superannuation Scheme • Police Superannuation Scheme
NSW Public Trustee	1,250	No	No	Public Trustee NSW was created by an Act of Parliament in 1913 with the role of acting as independent and impartial Executor Administrator and Trustee for the people of NSW.
NSW Treasury Corp – Hour Glass facilities	10,451	No	No	NSWTC invests short and long term, and counts amongst its customers, organisations such as Tooronga Zoo, the NSW Road Traffic Authority, State agencies such as State Rail and some NSW universities. There is no legislated requirement to invest with the Hour Glass (as there is in Victoria with some clients of VFMC) – so they are required to offer competitive facilities.
WorkCover Authority of NSW	7,283	No	No	The Workers Compensation Insurance Fund for NSW.
Building and Construction Industry Long Service Payments Board		No	No	Invests its funds with NSW Treasury Corp's Hour Glass facilities. In common with other long service accrual entities, a review of publicly available information suggests it has no interest in the Responsible Investing matters.
Local Government Superannuation Scheme	5,195	Yes	Yes	Superannuation fund for employees from local governments across NSW
TOTAL:	**$54,157**			

The approximately $54 billion FUM was divided as per the chart below, with a majority of funds not reviewed under any ESG screening process beyond the 10 per cent within ESG type funds through the LGSS.

New South Wales



ESG initiatives within NSW funds:

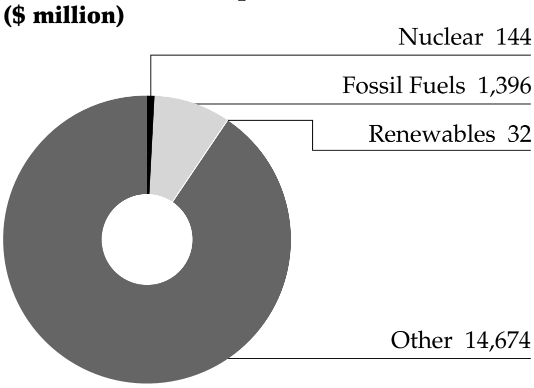
There is little in the way of integration of ESG analysis within NSW public funds. NSW Treasury Corp – Hour Glass Facilities stated that all of its stocks are voted, but don't publicly disclose their voting decisions.

The NSW Local Government Super Scheme is a UNPRI signatory and runs an innovative investment arrangement. It 'shorts' stocks it chooses not to own but doesn't interfere with the decisions of its appointed fund managers. For example it might take a view that it does not wish to own XYZ Ltd. It aggregates all the XYZ Ltd positions across its fund managers and then will execute a derivative transaction which will have the effect of cancelling out the XYZ holding. This 'short list' is outsourced to service providers. They are yet to implement proxy voting and will be seeking external advice.

Sectoral exposures:

As investment currently stand, the NSW public funds invest around $1.4 billion in fossil fuels, $144 million in the nuclear industry and $32 million in renewables.

NSW Investment Exposures ($ million)



Consistency with Government policy:

Sector:	Policy:
Uranium	Uranium exploration and mining is prohibited under legislation. No support for nuclear power.
Fossil Fuels	In June 2005 the NSW Government became the first Australian jurisdiction to commit to long term reduction targets – a 60 per cent cut in greenhouse emissions by 2050 – and a return to year 2000 greenhouse emission levels in NSW by 2025. The NSW Government supports a national target of 60 per cent reduction in carbon dioxide equivalent emissions by 2050.
Renewable Energy	NSW Mandatory Renewable Energy Targets of 10 per cent by 2010, and 15 per cent by 2020.

There is therefore a clear inconsistency between the NSW investment in nuclear industry and its policy position. A low level investment in renewables does not support the strong policy position for alternative energy sources and emissions reductions.

2.5 NORTHERN TERRITORY FUNDS

Within the NT funds, two public investment funds were identified and assessed with total FUM of $0.8 billion.

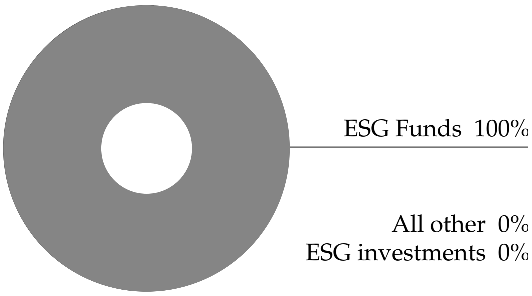
The Northern Territory Government and Public Authorities Super Scheme (NTGPASS) and the Northern Territory Treasury Corporations are the substantial public sector investing institutions in the Territory. A division of Northern Territory Treasury, the NT Superannuation Office, administers the Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS); the Northern Territory Supplementary Superannuation Scheme (NTSSS); the Legislative Assembly Members' Superannuation Scheme (LAMS); the Northern Territory Police Supplementary Benefit Scheme; and the Northern Territory Administrators Pensions Scheme.

The default superannuation scheme for new territory employees is the Melbourne based industry fund AGEST which is not a fund contemplated by this study. Over time the NT organisation will decline as its membership ages.

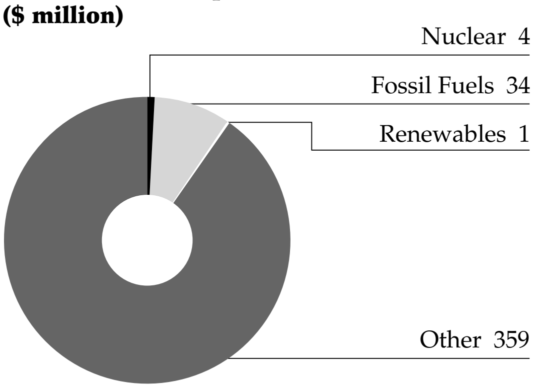
Fund:	Funds Under Management ($million):	UN PRI Signatory?	ESG Initiatives:	Description of fund:
Northern Territory Government and Public Authorities Super Scheme (NTGPASS)	545	No	Yes	The Northern Territory Government and Public Authorities Super Scheme (NTGPASS) and the Northern Territory Treasury Corporations are the substantial public sector investing institutions in the Territory
Northern Territory Treasury Corporation	234	No	Yes	The Corporation describes its mission as "to provide the Northern Territory Government with cost effective funding, efficient financial management and reliable service".
TOTAL:	**$779**			

The $0.8 billion FUM was divided as per the chart below, with all of the funds reviewed as part of an ESG screening process due to their use of Regnans as engagement consultants.

Northern Territory



NT Investment Exposures ($ million)



ESG initiatives within NT funds:

The NT bodies report that there is cross-pollination between the NT Super body (NGTPASS) and the Treasury Corp and that a membership to Regnan (a UN PRI signatory) is considered common to both NT bodies. The NT funds are left to make their voting decisions.

Sectoral exposures:

As investment currently stand, the two public funds invest around $34 million in fossil fuels, $4 million in the nuclear industry and $1 million in renewables.

Consistency with Government policy:

Sector:	Policy:
Uranium	Supports Uranium mining from existing mines.
Fossil Fuels	Commitment to reduce greenhouse gas emissions from electricity consumption in government buildings by 10 per cent by 2011.
Renewable Energy	No dedicated policy, but support for renewable energy development.

There is little inconsistency between investment practices and policy positions.

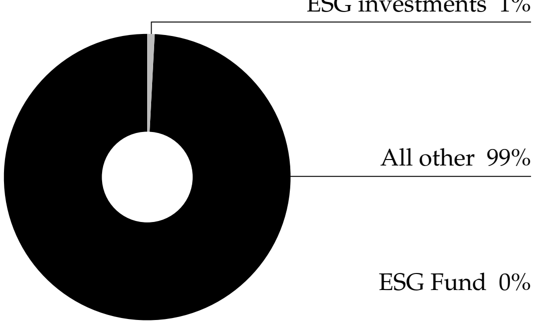
2.6 QUEENSLAND FUNDS

Within the Queensland public funds, four public investment funds were identified and assessed with total FUM of $55 billion. Queensland's Treasurer is responsible for the operations of the Queensland Investment Corporation and much of the government superannuation sector in Queensland. In common with most states and territories, in Queensland there is one substantial government controlled investment institution – Queensland Investment Corporation – which recently had grown to be managing over $65 billion for a large number of state-based organisations (data included in this report is taken from July 2006).

Fund:	**Funds Under Management ($million):**	**UN PRI Signatory?**	**ESG Initiatives:**	**Description of fund:**
Queensland Investment Corporation	51,250	Yes	Yes	QIC is the manager for much of Queensland's public sector. QIC clients include industry super funds, state based super funds, Queensland Government entities and former Government business entities. A partial client list follows: • HESTA • Workcover Queensland • QLeave – Long Service Leave Board • QSuper • BUSSQ (Queensland industry super fund for the building industry) • LG Super • SunSuper • Motor Accident Insurance Commission • UNITAB • Vision Super Victoria • Emergency Services Super Victoria • Queensland Building Services Authority
Local Government Super – Qld	3,015	No	Yes	LGS is a superannuation fund for current and former Queensland local government employees and their spouses.
City Super	1,104	No	Yes	Brisbane City Council runs its own super fund for current and former employees of Brisbane City Council, subsidiaries and associated employers.
TOTAL:	**$55,369**			

The $55 billion FUM was divided as per the chart below when the review was undertaken in 2007, with only a minor proportion of funds assessed under any ESG type arrangements. However, in late December 2007, QIC became a signatory to the UN PRI which has reversed the following chart, showing approximately 92 per cent as ESG investment. At present, it is estimated that approximately 1 per cent of Queensland funds are in SRI products, which is likely to overestimate this small allocation (as is explained below). Assumptions have been made due to a lack of reported data.

Queensland



ESG initiatives within Queensland funds:

As of late December 2007, QIC had become a signatory to the UN PRI. QIC votes across its investment portfolios (it directly manages its Australian equities portfolios from its own offices) and it reports the voting activity on the QIC website. It does this because it has membership of IFSA – the Investment and Financial Services Association – which imposes an obligation upon its membership to publicise their proxy voting activities.

QIC takes an active engagement approach to its investment management. QIC sees no need for collective engagement activities because the size of the QIC investment portfolio allows it to engage on its own. QIC has invited the boards of major institutions to the QIC board room for discussions of mutual interest. QIC believes in investing in poor performing companies (across various metrics which include sustainability measures), on the basis that investing in poorly managed companies can lead to improved returns once QIC engages with these poorly behaved companies.

One of QIC's major clients, QSuper, offers an SRI option called the QSuper Socially Responsible option, offered through QIC and managed by AMP Capital Investors in their AMP Capital Investors Responsible Investment Leaders Balanced Fund. Q Super did not disclose the funds under management within this option, but stated it is growing quickly from a low base. For the purposes of this report, the value of the SRI component has been estimated at 1 per cent of total FUM.

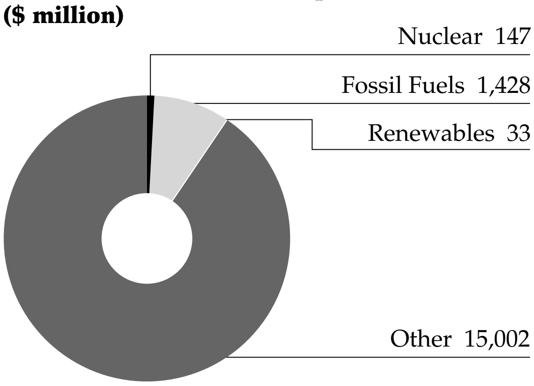
Local Government Super offers an SRI option offered through the SunCorp Investment Management Limited Ethical Balanced Trust. This option is called Socially Responsible Option. This option operates a number of screens seeking to avoid investments in industries including tobacco, gambling, armaments or having a poor environmental record or poor safety processes. The fund does not disclose level of funds invested in this product, but as SunCorp's SRI option has in total only $87 million, it is likely that the LGS component is immaterial.

Furthermore, City Super also offers an SRI option, comprising Australian shares only (invested with AMP capital investors) which comprises 2 per cent of the total fund.

Sectoral exposures:

As investment currently stand, the Queensland funds invest around $1.4 billion in fossil fuels, $147 million in the nuclear industry and $33 million in renewables.

Queensland Investment Exposures ($ million)



Consistency with Government policy:

Sector:	Policy:
Uranium	Policy position against uranium mining. Exploration is allowed in Queensland. No support for nuclear power.
Fossil Fuels	Queensland has stated in its Climate Change Strategy (Climate Smart 2050) that it would play its part in meeting a national greenhouse gas emissions reduction target of 60 per cent below our 2000 levels by 2050.
Renewable Energy	Supports Federal MRET scheme, but also invests government finds into renewable technology development.

There is therefore an inconsistency between the Queensland Government investment in nuclear industry and its policy position. A low level investment in renewables does not support the strong policy position for alternative energy sources and decreasing emissions.

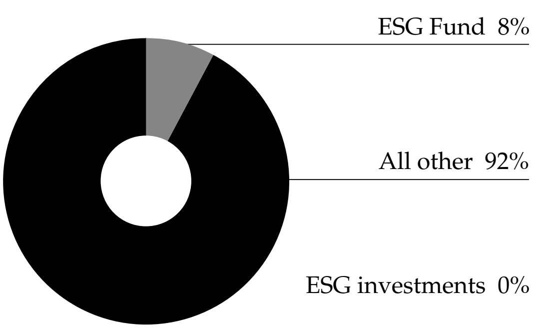
2.7 SOUTH AUSTRALIAN FUNDS

Within the South Australian funds, five public investment funds were identified and assessed with total FUM of approximately $15 billion.

Fund:	Funds Under Management ($million):	UN PRI Signatory?	ESG Initiatives:	Description of fund:
Funds SA	11,800	No	Yes	The principal government owned and controlled funds management entity in South Australia is Funds SA, answerable to the Treasurer of South Australia. Amongst Funds SA's many clients are SA Police Super, Super SA, the Parliamentary Super Scheme, Judges Pension scheme and Southern State Super. The significant client which accounts for over 80 per cent of Funds SA is SA Super.
Local Government Super (SA-NT)	1,232	Yes	No	Superannuation for local government employees.
Public Trustee SA	660	No	No	Public Trustee offers and provides to all South Australians a comprehensive range of independent trustee services. They assist South Australians in will making and advice, Estate administration, Trustee Services, Powers of Attorney management and documents, Enduring powers of Guardianship, Taxation services, document safe custody, investments services and Genealogical services.
WorkCover SA	1,130	No	No	WorkCover SA is funded by employers to manage a balanced and financially sound system that rehabilitates, compensates and returns insured workers to safe workplaces and the community.
Portable Long Service	50	No	No	A small long service leave board, whose role is to fund the long service leave accrual of a select group of workers in the construction industry.
TOTAL:	**$14,872**			

The $15 billion FUM was divided as per the chart below, with a majority of funds not reviewed under any ESG screening process. The 8 per cent ESG funds is due to Local Government Super being a UN PRI signatory.

South Australia



ESG initiatives within SA funds:

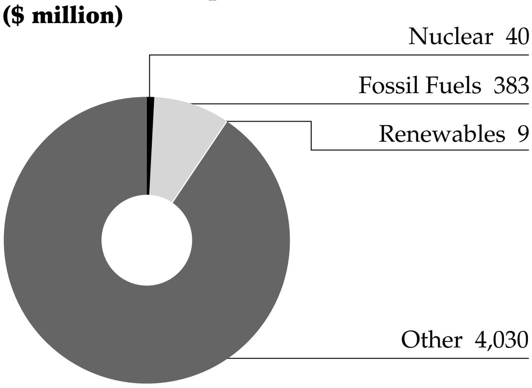
Funds SA has stated that it is actively considering matters in respect of the UN-PRI and has issued an ESG statement available on the Funds SA website which is concerned with these matters. It is fielding an increasingly large number of emails and calls from the clients of wholesale clients in connection with responsible investment. The Fund has stated that engagement and voting are currently matters left in the hands of the fund manager groups.

Local Government Super SA-NT is a UN-PRI signatory. The fund also offers an SRI option, 'Sustainable Share; option, with Ausbil Dexia and AMP jointly managing the assets within this option. At June 2006 an investments industry database reported the two managers collectively managing less than 1 per cent of total funds under management.

Sectoral exposures:

Our estimates of current SA public funds investment indicate that they invest approximately $383 million in fossil fuels, $40 million in the nuclear industry and $9 million in renewable energy.

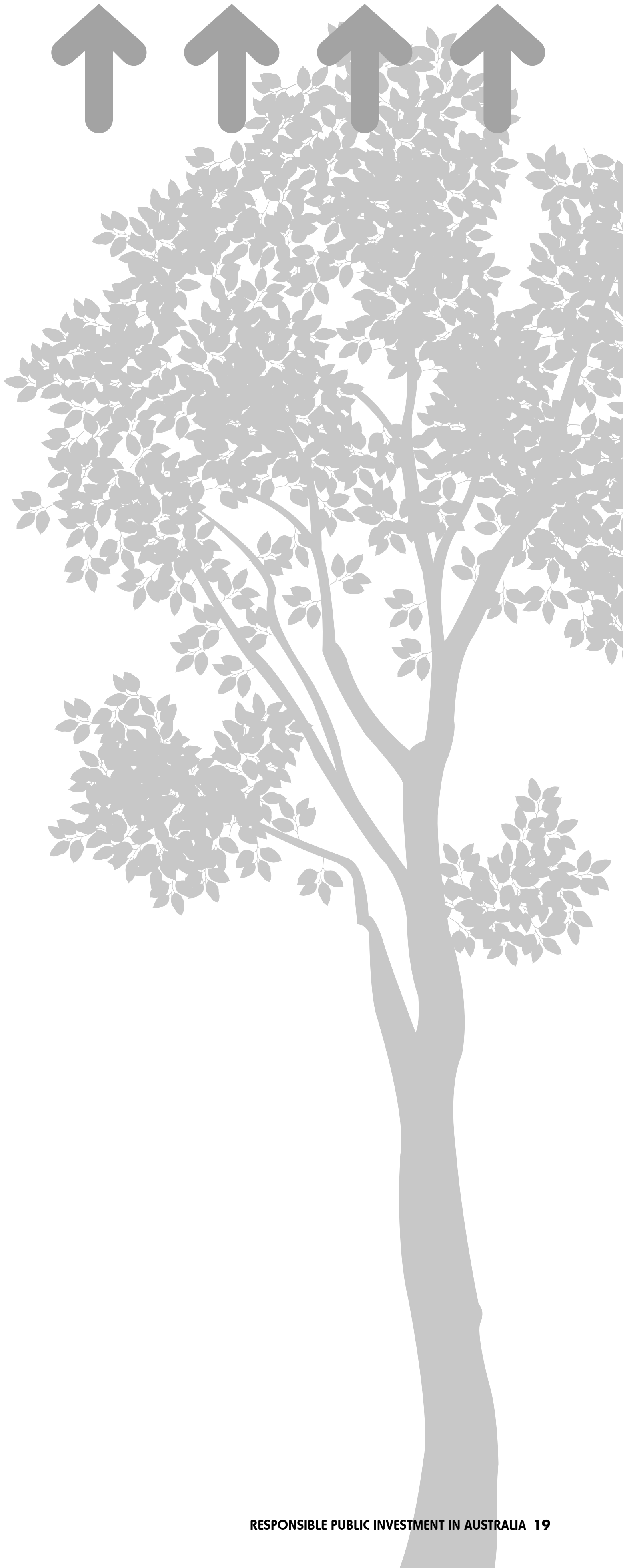
SA Investment Exposures ($ million)



Consistency with Government policy:

Sector:	Policy:
Uranium	No policy against uranium mining
Fossil Fuels	*South Australia's Strategic Plan* (2007) contains the following target for greenhouse gas emissions: 'Achieve the Kyoto target by limiting the state's greenhouse gas emissions to 108 per cent of 1990 levels during 2008-12, as a first step towards reducing emissions by 60 per cent (to 40 per cent of 1990 levels) by 2050.' Under the Climate Change and Greenhouse Emissions Reduction Bill 2006, SA proposes targets to: – reduce by 31 December 2050 greenhouse gas emissions within the State by at least 60 per cent to an amount that is equal to or less than 40 per cent of 1990 levels as part of a national and international response to climate change
Renewable Energy	Target of 20 per cent by 2015.

A low level investment in renewables does not support the strong policy position for alternative energy sources and lower emissions targets.



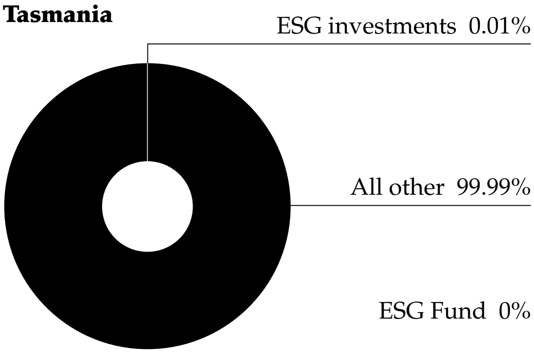
2.8 TASMANIAN FUNDS

Within the Tasmanian funds, three public investment funds were identified and assessed with total FUM of $4 billion.

Fund:	Funds Under Management ($million):	UN PRI Signatory?	ESG Initiatives:	Description of fund:
Retirement Benefits Board Tasmania (RBF)	2,789	No	Yes	RBF is Tasmania's public sector superannuation fund. Membership is available to people working for a Tasmanian public sector employer and their spouses. Schemes available to members are: • RBF Contributory Scheme; • State Fire Commission Superannuation Scheme; • Tasmanian Ambulance Service Superannuation Scheme; • RBF Investment Account; and • Tasmanian Accumulation Scheme
Public Trustee	120	No	No	
Motor Accidents Insurance Board	1,024	No	No	The Motor Accidents Insurance Board describes itself as a Tasmanian Government Business Enterprise which operates a combined common law/no fault motor accident scheme for Tasmanians. The scheme provides medical and income benefits on a no fault basis to persons injured in motor vehicle accidents whilst enabling access to common law.
TOTAL:	**$3,933**			

The $4 billion FUM was divided as per the chart below, with a majority of funds not reviewed as part of any ESG screening process. Again, the ESG investment component is exaggerated in order to demonstrate some small SRI investments, which were reckoned at approximately $3 million.

Tasmania



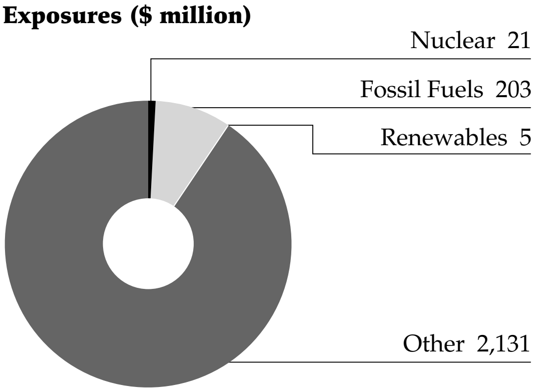
ESG Initiatives within Tasmanian funds:

The RBF offers members an SRI investment entitled RBF Socially Responsible Investments. It is managed by AMP Capital Investors and the Bank of Ireland Ethical Investment fund. At June 2006, the investment in these two SRI funds was $3 million, representing 0.1 per cent of the total RBF funds under management.

Sectoral exposures:

As investments currently stand, the Tasmanian public funds invest approximately $203 million in fossil fuels, $21 million in the nuclear industry and $5 million in renewables.

Tasmanian Investment Exposures ($ million)



Consistency with Government policy:

Sector:	Policy:
Uranium	No policy position.
Fossil Fuels	Tasmania has committed to the national target of reducing greenhouse gas emissions by 60 per cent by 2050.
Renewable Energy	No state targets – currently 90 per cent of power met by renewables – hydro and wind.

A low level investment in renewables and high investment in fossil fuels does not support the policy position for alternative energy sources.

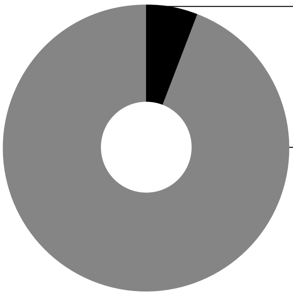
2.9 VICTORIAN FUNDS

Within the Victorian funds, four public investment funds were identified and assessed as set out in the following table, with total FUM of $44 billion.

Fund:	Funds Under Management ($million):	UN PRI Signatory?	ESG Initiatives:	Description of fund:
Senior Masters (Funds in Court) Office	1,000 (estimated)	No	No	The Office is an office of the Supreme Court of Victoria that deals with funds paid into Court. It is called the "Senior Masters Office" because the Senior Master of the Supreme Court administers such funds. The Senior Master is a Judicial Member of the Court. The Office administers money recovered in legal proceedings on behalf of people with a legal disability. This fund has been estimated at approximately $1 billion, based upon discussions with market participants and despite unsuccessful attempts to establish the quantum of FUM with the Office itself.
State Trustee	1,400	No	No	State Trustees' core purpose is centred on helping people with their financial needs so they can make the most of their opportunities. This is achieved through the provision of a comprehensive range of will making, trustee, executor, and personal financial administration.
Victorian Funds Management Corporation	41,000	Yes	Yes	The largest government controlled organisation is Victorian Funds Management Corporation. The following clients use VFMC as fund manager: • Emergency Services Super (UN-PRI signatory) • Victorian Parliamentary Scheme (closed) • Victorian WorkCover Authority • Transport Accident Commission • Victorian Managed Insurance Authority • Department of Human Services • Department of Justice • Melbourne Fire and Emergency Services Board • National Gallery Victoria • Royal Children's Hospital • Swinburne University of Technology • University of Melbourne • Arts Centre Trust
Construction Industry Long Service Scheme	400	No	No	This organisation is set up to provide for long service leave accruals for construction industry workers and is portable and reciprocal with other state based schemes. The sole purpose of this organisation is to administer an employment benefit established by State legislation.
Treasury Corporation of Victoria		No	No	The State of Victoria's central funding authority and financing adviser. Three core competencies to the state and state related entities are: • loans and financing services • advisory services • investment services. TCV offers Government guaranteed debt instruments in exchange for the cash investments
TOTAL:	**$43,800**			

The $44 billion FUM was divided as per the chart below, with a majority of funds reviewed as part of an ESG screening process under the VFMC.

Victoria



ESG initiatives within Victorian funds:

VFMC is a becoming a leading institutional investor in the area of responsible investment. The VFMC is a signatory to the UN PRI, and is becoming an active institutional owner of equities, as well as highly visible in the engagement entity Regnan. VFMC point to a well developed voting policy and use CGI Glass Lewis and ISS to provide proxy voting advice.

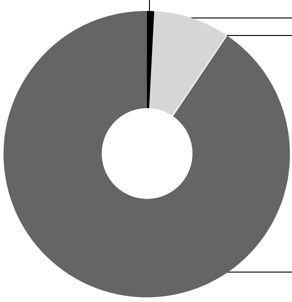
According to an industry database, as of June 2006 VFMC had utilised the following fund managers that have adopted UN-PRI:AMP, BT, JF Capital Partners, Ausbil Dexia, and Genesis (UK), although the overall allocation to UN-PRI signatories was rather small.

State Trustees makes mention of its evolving broad internal corporate social responsibility plan in its most recent annual report however does not indicate any incorporation of ESG analysis within its investment portfolio.

Sectoral exposures:

As investment currently stand, the four public funds invest around $1.1 billion in fossil fuels, $118 million in the nuclear industry and $26 million in renewables.

Victorian Investment Exposures ($ million)



Consistency with Government policy:

Sector:	Policy:
Uranium	Legislation against uranium mining and exploration. No support for nuclear power.
Fossil Fuels	Victoria has adopted a long term target to reduce emissions by 60 per cent by 2050.
Renewable Energy	Victorian Renewable Energy Target of 10 per cent by 2016.

There is therefore a clear inconsistency between the Victorian Government entities investment in nuclear industry and its policy position. A low level of investment in renewables and high level in fossil fuels does not support the strong policy position for alternative energy sources and emissions reductions.

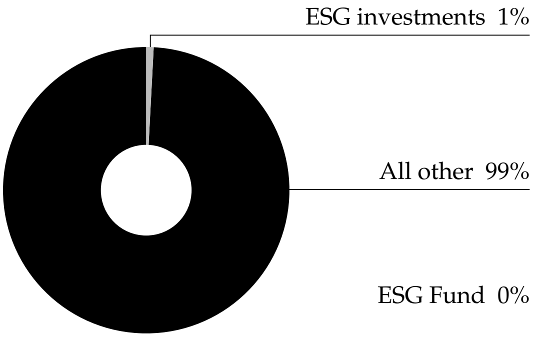
2.10 WESTERN AUSTRALIA FUNDS

Within the Western Australian funds, five public investment funds were identified and assessed with total FUM of approximately $10 billion.

Fund:	Funds Under Management ($million):	UN PRI Signatory?	ESG Initiatives:	Description of fund:
Department of Treasury and Finance – Public Bank Account	1,500-3,000	No	No	This account constitutes all investments of spare governmental funds (on behalf of 100+ agencies) which are invested in relatively short dated debt instruments. Advice for the management of the investment portfolio of State of Western Australia derives from WA Treasury Corp. The account is reported to fluctuate between $1.5 to 3 billion.
Government Employees Superannuation Board (GESB)	6,258	No	Yes	GESB, established pursuant to WA State Superannuation Act, manages the super fund for current and former employees of the WA Public Sector, and their partners. GESB had more than 270,000 members in 2006.
Insurance Commission of Western Australia	2,285	No	No	WA Insurance is the sole compulsory Third Party Insurer for motor vehicle injuries in Western Australia.
WA Long Service Leave Payments Board	102	No	No	This is a relatively small organisation, established to provide for long service leave payments for itinerant construction workers.
WA Fire and Emergency Services Super Fund	318	No	No	Superannuation provision for the Fire and Emergency Services sector.
TOTAL:	**$10,463**			

The $10 billion FUM was divided as per the chart below, with only a small proportion of funds reviewed as part of an ESG screening process.

Western Australia



ESG initiatives within WA funds:

Within the GESB, there are no general investments in SRI products in the main portfolios but there is an option under the MYPLAN scheme which is entitled 'Responsible Investment – Australian Shares'. GESB explain that its approach to investing under this option takes into account not merely financial performance but also whether the investment contributes positively to social, environmental and ethical values. GESB explains that there is a limited performance history for these sorts of investments and because of the extra layer of research and monitoring, higher investment management fees may be charged. The option is limited presently to Australian shares and is offered using the AMP Capital Investors Sustainable Alpha Investment process. It was first offered in 2007.

It is the position of management of the Insurance Commission of WA that most of the prescriptive elements of UN-PRI are being carried out by manager group and they feel little value in going down the path of adopting of UN-PRI. Managers are expected to vote all AGMs and are reportedly considering ESG matters at internal review meetings. This was not an uncommon response to interviews with funds.

WA Fire and Emergency Services Fund offers an SRI option, called SRI Share Option – described as 100 per cent exposure to shares, with socially responsive and ethical principles. The manager, Challenger Financial Services, manages this small portfolio with a number of screens. Using these screens, there are no investments in companies involved in:

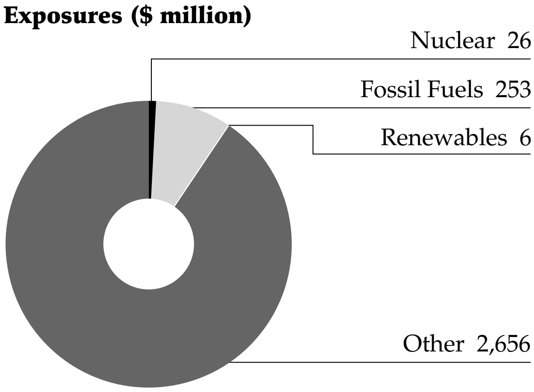
- Harvesting of old growth forests
- Uranium mining and/or processing
- Cruel or inhumane animal testing
- Alcohol production
- Tobacco manufacture
- Armaments manufacture
- Gambling or gambling equipment manufacture

Companies are further assessed against a range of environmental considerations, labour standards and practices, corporate governance standards and values and regulatory compliance. According to industry databases, the value of the Challenger portfolio at as 30 June 2006 was $6 million, representing less than 2 per cent of total funds under management for this WA fund. The fund manager Challenger advises that it is likely to adopt UN-PRI, as it is coming under pressure from more active UN-PRI signatories within the industry funds movement.

Sectoral exposures:

As investment currently stand, the five public funds invest around $253 million in fossil fuels, $26 million in the nuclear industry and $6 million in renewables. As the Public Bank Account holds no Australian equities, it has not been included in this chart.

WA Investment Exposures ($ million)



Consistency with Government policy:

Sector:	Policy:
Uranium	Policy position against uranium mining. Exploration is allowed in WA. No support for nuclear power.
Fossil Fuels	Climate Change Action Statement to reduce Western Australia's greenhouse gas emissions by 60 per cent of 2000 emissions by 2050.
Renewable Energy	Target of 15 per cent (of the South West grid) by 2020.

There is a clear inconsistency between the WA Government investment in the nuclear industry and its policy position. A low level investment in renewables and high proportional investment in fossil fuels does not support the strong policy position for alternative energy sources and greenhouse emissions reductions.

2.11 AGGREGATE RESULTS

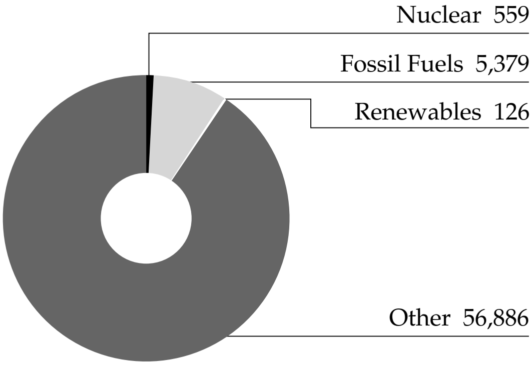
In the following section we have aggregated the results of all Australian government funds.

Our research has identified approximately $206 billion of capital invested by government entities across Australia, through 36 government investment funds across all states and territories.

On average, the government funds invest approximately 25 per cent of their assets into the Australian share market, operating as universal owners of Australian equities across the ASX 300. Of this $52 billion invested in the Australian share market:

- Approximately 55 per cent of capital is invested with some level of environment, social and/or governance (ESG) screening process – $28 billion. The level of ESG screening differs among funds, from detailed assessment of ESG factors across the entire portfolio, to outsourcing engagement services, or through a commitment to the United Nations Principles of Responsible Investment.
- An estimated $775 million is invested within dedicated socially responsible investment options, undertaken through negative screening. This equates to 1.5 per cent of total public funds.
- Of all ESG or SRI managed funds, these options occur in only six public investment funds of the 32 assessed – 19 per cent of the funds assessed.
- The government funds undertaking ESG screening tend to be the largest funds.

Investment Exposures –
All Government Public Funds ($ million)



In terms of government investment in the energy industry, immediately visible is the large proportion of public funds invested in the fossil fuel industry, at nearly $5.5 billion, or an estimated 8 per cent of total public funds held by government asset owners.

Furthermore, the nuclear industry, through investments in Australian mining companies with uranium interests, represents over $550 million of the total assets invested.

In contrast to these large sums of government capital invested in uranium and fossil fuels, only $126 million is invested in support of renewable energy businesses.

There is therefore an inconsistency between government policy and investment practices.

PART 3
CASE STUDIES – THE FUTURE OF PUBLIC FUNDS

The following section presents some leading international examples of funds managed under a responsible investment manner. These are recommended as examples in the restructuring of any of the Australian government investment funds discussed in the previous section.

Norwegian Government Pension Fund

In 2006, this was the largest pension fund in Europe with approximately $280 billion of assets in bonds and equities. The Government of Norway has long recognised that its non-renewable hydrocarbon resources in the North Sea would eventually become depleted, and that to ensure a strong economy beyond this and avoid the "resource curse", careful management of petroleum revenues would be necessary. The fund has had in place strong ethical guidelines since 2004:

> *"Firstly, the Fund should be managed with a view to achieving high return that will enable coming generations to benefit from the country's petroleum wealth. Secondly, the fundamental rights of those affected by companies in which the Fund invests should be respected. This ethical basis is promoted through two instruments: exercise of ownership rights and exclusion of companies from the Fund's investment universe."*

Responsible investment strategy:

1. Voting
As necessary, the fund takes voting recommendations from proxy voting service providers. Voting decisions are guided by a set of principles which were developed as part of the funds ethical guidelines and are based upon internationally recognised codes such as the OECD Principles of Corporate Governance. Voting guidelines are available on the web site and the voting decisions will be available from 2007. Where appropriate the fund joins class action suits.

2. Engagement
As owner the fund expects companies to provide an account of how well they comply with principles or codes of corporate governance. In addition the fund engages and discusses other issues with companies which it views as being potentially damaging to long term financial value, contradictory to the funds principles or of key concern in relation to OECD and UN-PRI guidelines.

3. Negative screens and exclusions
The Fund actively complies to ethical guidelines, and as such has divested the holdings of 18 stocks for a range of reasons such as weapons, systematic human rights violations, severe environmental damage and gross corruption. A Council on Ethics assesses and makes decisions on whether investments in specified companies are consistent with the ethical guidelines. Most recently (January 2008), the Fund has excluded three investments, one producer of cluster munitions and two producers of nuclear weapons.

California Public Employees Retirement System (CalPERS)

Often cited as a leader in the area of corporate governance, their approach is best described as the prudent exercise of ownership rights with the aim of increasing shareholder value while minimising risk. CalPERS has over 1.5 million public employees and family members and more than 2,500 employers with FUM of $270 billion. The fund believes that economic wealth can be either created or destroyed through shareholder activism and hence must be done responsibly. In support of its public stated positions on a range of environmental and investment matters, CalPERS is signatory to a wide range of collaborative initiatives such as Carbon Disclosure Project and UN-PRI.

Responsible investment strategy:

1. Voting
CalPERS votes its domestic and international holdings in accordance with the funds proxy voting policy. CalPERS will as necessary submit its own shareholder resolutions and publishes much of its voting activity on their website. CalPERS participates in class actions in order to recover lost assets.

2. Engagement
CalPERS engages with companies on issues which may pose a risk to the value of its portfolio. Companies are given a timescale in which to implement behavioural changes and report on improvement. CalPERS prefers to engage with companies rather than to divest their holdings in them.

3. Negative screens and exclusions
CalPERS allocates a score before allowing investment in emerging markets based upon a robust list of criteria. For example, CalPERS formed a view in 2006 that companies operating in Sudan may be unwittingly furthering the human rights violations occurring there. On the positive screening side, CalPERS has specific investments in clean technology funds and other environmentally screened funds (approximately $800 million, or .3 per cent of total FUM). The fund also holds around $ 5.7 billion in direct real estate holdings, over which it has a real estate environment strategy, aiming to reduce energy consumption across the portfolio by 20 per cent in five years.

VicSuper

VicSuper fund is a public offer fund with a membership base primarily in the Victorian public sector. The following information is gathered from the VicSuper website (www.vicsuper.com.au) and annual reports to members. In 2006, VicSuper managed in excess of $5 billion for over 200,000 members. VicSuper has adopted sustainability as its central operating principal and aims to position itself as a sustainability leader – for example it was among the first financial services players in Australia to produce a 'sustainability report'.

VicSuper takes a low cost indexing approach to its investment activities, so rather than employ funds managers who might attempt to beat a market benchmark, it simply aims to match the returns of the broader benchmark, save for the fees required to undertake that effort. A criticism of large scale equity market indexing when attempting to integrate sustainability principles is the lack of a clear sanction. If a company is badly behaved, VicSuper has little choice but to continue to be invested and continue to add to its investment as funds from members flow in. VicSuper doesn't readily identify the fund managers in its' public reporting who are appointed to manage the VicSuper investment portfolio unless a manager is appointed to manage discrete portfolios, so a sizeable relationship with Vanguard Investments Australia is publicly disclosed but other relationships in pooled arrangements are not clearly identified. In common with most Australian superannuation funds, VicSuper will obtain private equity, infrastructure and property investments principally through pooled arrangements, however the extent of these is not disclosed.

Responsible investment strategy:

1. Voting
VicSuper exercises its voting rights and obtains advice from CGI Glass Lewis and Australian Council of Super Investors (in the case of Australian Equities) and Institutional Investor Services (for global equities). VicSuper has also recently joined a class action service. Votes cast are periodically posted to the VicSuper website.

2. Engagement
VicSuper initiated the creation of Regnan Governance Research and Engagement Pty Ltd which VicSuper describes as an investment service that identifies and assesses risks to long-term shareholder value, particularly focusing on engagement on behalf of its members.

3. Negative screens and exclusions
VicSuper appears to have no such screens employed, and has applied a small proportion of its Australian and international equities investment portfolio to two Investments Managers with strong ESG monitoring mechanisms, Generation Invesment Management, and Vanguard Investments Australia (who in turn use Sustainable Asset Management - SAM). VicSuper committed to a number of Victorian based clean energy funds in 2007, the names of which are not as yet available publicly.

VicSuper was a founding member of the Investor Group on Climate Change, Australia NZ and is a signatory to the Carbon Disclosure Project. The fund has a commitment to ensure its operations are carbon neutral by producing lower emissions and by buying carbon offsets. In 2007, VicSuper released a report analysing the carbon risk of the ASX 200 (the VicSuper Carbon Count), authored by Trucost PLC, a UK based research provider. The fund took out the Inaugural Sustainable Super Fund of the Year 2007 at the Responsible Investment Association Australia's "Ethical Investor Australian Sustainability Awards".

Australian Reward Investment Alliance

As discussed in the previous section, ARIA is considered another leader in the integration of ESG into its investments. In 2006 ARIA managed in excess of $15 billion for over 298,000 members.

1. Voting
ARIA exercises its voting rights and obtains advice from CGI Glass Lewis and Australian Council of Super Investors in the case of Australian Equities and mandates its global equity managers to vote internationally.

2. Engagement
ARIA developed the BT Governance Advisory Service which formed the nucleus of Regnan in 2007.

3. Negative screens and exclusions
ARIA appears to have no such screens employed, and has applied a small proportion of its Australian equities investment portfolio to an SRI focused Investments Manager.

ARIA participated in the development of the United Nations Principles for Responsible Investment and became a signatory in December 2006. ARIA is committed to ensuring that all investment activities undertaken are consistent with the Principles. Furthermore, ARIA is a member of the Investor Group on Climate Change and the Carbon Disclosure Project and a foundation member of the Australian Council of Superannuation Investors.

PART 4
CONCLUSIONS AND RECOMMENDATIONS FOR REFORM

In terms of the investment holdings of public funds, it is of great concern that there are clear contradictions between legislation and policy in certain States and Territories. In particular:

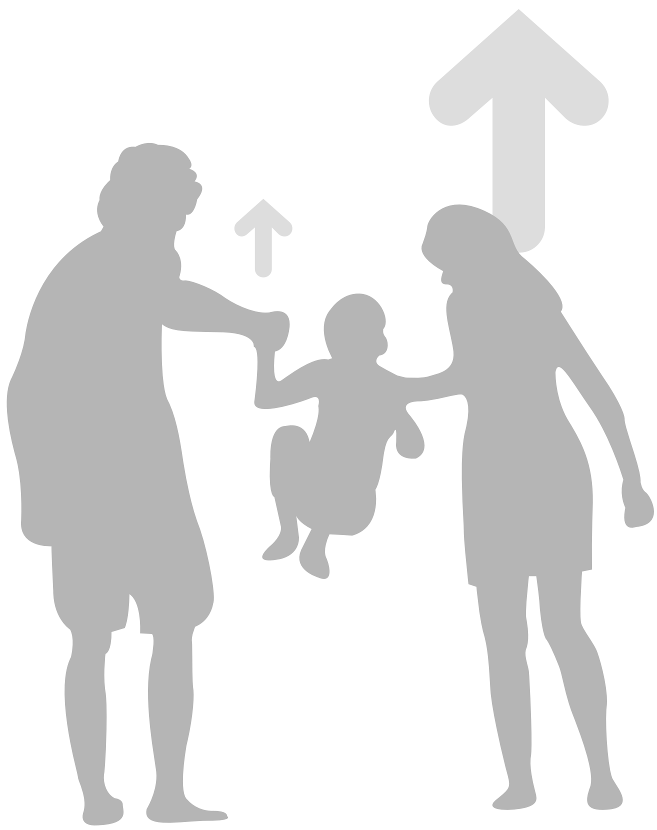
- NSW, Victoria, Queensland and Western Australia all have significant holdings in uranium-related equities, despite legislative or political bans on uranium mining in those jurisdictions;
- All jurisdictions have very low holdings in the renewable energy sector, despite a strong commitment to renewable energy as a critical part of future energy generation; and
- All jurisdictions have significant exposures to the fossil fuel industry, despite a range of policy commitments relating to the need to reduce greenhouse gas emissions.

The imbalance between investment in fossil fuels and renewable energy sources is striking, given the public commitment of all Australian governments to renewable energy.

Recommendations for improving integration of ESG considerations into investment practice

The following steps would greatly increase the ESG performance of government investment funds, ensuring long-term value creation as well as furthering important government policy objectives:

- Public funds should pursue best practice investment management pursuant to a systematic framework for incorporating environmental, social and governance issues into their core investment decision-making and active ownership practices.
- Public funds should endorse the United Nations Principles for Responsible Investment, as the current globally accepted framework for accomplishing responsible investment goals.
- All Australian jurisdictions should conduct a whole-of-government review of investment practices and establish mechanisms to align investment and policy goals, as well as maximise long-term value by following responsible investment practices.
- Public funds should be managed more transparently, including regular and full disclosure of their investment processes and holdings.



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