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DIARY DATES

ACSI ESG Guidelines Seminar

Melbourne – 14 April 2008
 Sydney – 12 May 2008
 Brisbane – date TBA

ACSI Conference

Investing for the Future: Leading By Example
 Melbourne – 6 June 2008

ACSI ANNOUNCES NEW CEO

Michael O’Sullivan, President, ACSI was delighted to advise all our members on 11 February that Ann Byrne had been appointed to the full-time role of ACSI CEO.

Ann is well known to most ACSI members as the CEO of UniSuper and before that as CEO of STA. She brings a wealth of superannuation and investment knowledge and a strong commitment to corporate governance.

Phil Spathis, who has been Executive Officer of ACSI on a part-time basis since its inception, will continue with ACSI as Manager, Engagement and Advocacy. He will continue to combine that role with his legal practice at IFS Legal.

Ann will commence work at ACSI on 9 April, joining Phil, our Principal Policy and Research Officer Ros McKay, Research Officer Meredith Squires, our new Research Assistant Ed John (who is doing the Super Cadets program) and our Administrative Assistant Chris Panagiotopoulos.

HANDBOOK ON RESPONSIBLE INVESTMENT ACROSS ASSET CLASSES

The Boston College’s Institute for Responsible Investment has recently published a *Handbook on Responsible Investment Across Asset Classes*.

The handbook seeks to help investors:

- Incorporate responsible investment methods into their investment mandates;
- Identify and evaluate opportunities for responsible investment;
- Co-ordinate the vocabulary and metrics used to measure ESG impacts.

The handbook covers cash and cash equivalents, fixed-income, public equities, private equity, real estate, hedge funds and commodities, and sets out suggestions for developing a responsible investment strategy and opportunities for responsible investing in each asset class. The handbook also includes a note on investment in emerging markets.

The handbook’s goal is to ‘initiate discussion between asset owners, managers and investment consultants on the best means to identify and measure the ESG impacts of the full range of responsible investment options that offer market-rate returns.’

A copy of the handbook is available online at:

<http://www.bcccc.net/index.cfm?fuseaction=page.viewPage&PageID=1869>

RESPONSIBLE INVESTMENT

The February edition of UK journal 'Pensions World' featured an article from the AXA Investment Managers Director of Responsible Investment, Dr Raj Thamotheram, titled 'Money Saver?' The article focuses on the ability of responsible investment principles to offer pension schemes better returns and enhance the economic wellbeing of beneficiaries. The article refers to the fallout of the sub-prime crisis and the recent recalls of Chinese produced consumer products as examples where responsible investment 'done well' may have avoided, or at least mitigated, the negative impact of these events. The article demonstrates this by identifying the similarity between the issues, namely the way they manage (or don't manage) their supply chains. In both cases there were several intermediaries between the product manufacturer and end user. The article also discusses why the credit crunch, and issues in China, are not one-off events and relates them to a broader 'governance of sustainability' across every sector.

Dr Thamotheram emphasises the utmost importance of transparency as well as the significant impact these events have had on market confidence. The article differentiates between the narrow 'box ticking approach' to corporate governance (CG) and a broad approach to governance which he argues could give investors the ability assess the 'real drivers of risk and reward'. The article highlights research conducted in conjunction with Governance Metrics International which found the following:

- 'Using CG can add alpha: between 2003 and 2007, companies that were upgraded for CG scores were more likely to outperform the benchmark index and vice versa.'

- 'Good CG indicates more defensive nature: companies with higher CG scores tended to outperform those with lower scores when the economic backdrop was more uncertain, with lower scored companies outperforming when economic confidence was improving.'
- 'High CG score equals lower risk: companies with higher CG scores tended to have lower volatility, lower beta and lower value at risk than those with higher scores.¹

The article also highlights the role that fund managers can play in this process and focuses on the central role of clients in driving the ongoing development of responsible investment.

The full article is available at:

<http://www.gmiratings.com/noteworthy/axa.pdf>

CLIMATE CHANGE

The release of Professor Ross Garnaut's interim report has again brought the issue of climate change to the front of Australian public policy debate.

Professor Garnaut's interim findings reinforce the key messages for pension funds that were outlined in our December newsletter:

- Global warming is occurring more rapidly than even the IPCC report predicted.
- A considerable shift in investment capital is needed to develop alternative energy, transport, construction and other technologies to reduce greenhouse emissions to a level necessary to limit global warming to an increase of 2°, beyond which the consequences are extreme.

¹Thamotheram, R. (2008) 'Money Saver?', *Pensions World*, Vol. 37 (No.2), February 2008, pp.23-24.

With these issues in mind, ACSI members are invited to the 4th **AustralAsian Cleantech Forum** which will be held in Melbourne on the 11th and 12th March 2008. The theme of this year's forum is 'Innovative Finance and Investment to Create a 21st Century Industry.' The program at this Forum will highlight many of the issues in cleantech investing that ACSI members are increasingly focussing on.

The Cleantech Forum is offering all ACSI members the opportunity to attend the Forum at the cost price of \$595 (a saving of 50% on the full registration fee). The forum has arranged for ACSI Members to attend a private lunchtime session with Mr Fred Buenrostro, CEO of CalPERS, to be held on Day 1 of the Forum. Mr Buenrostro will discuss the way CalPERS has responded to ESG issues and climate change.

An email invitation was sent to all ACSI members on 18 February, but please contact Chris Panagiotopoulos at: cpanagiotopoulos@mail.ifs.net.au if you would like another copy.

Internationally, the Investor Network on Climate Risk recently released a Climate Change Action Plan which includes a pledge by investors to collectively invest \$10 billion in clean technology opportunities over the next two years and to incorporate 'green standards' into their investment decisions.

The plan was launched at a summit held at the UN in New York and was released by almost 50 leading US and European institutional investors including CalPERS, CalSTRS, Calvert, F&C Management and Generation Investment Management. Those who signed on to the plan included state treasuries, pension fund leaders, asset managers and foundations, collectively managing over \$1.75 trillion in assets.

Under the plan, investors commit to:

- Require asset managers, consultants, and financial advisors consider climate risks

and opportunities to ensure that investments are managed by firms and individuals that are aware of the financial threats presented by climate change.

- Invest capital in companies developing and deploying clean technologies, and seek investment opportunities in all appropriate asset classes to support clean technology efforts.
- Improve the energy performance of real estate portfolios and investments.
- Encourage comprehensive corporate responses to climate risks and use their position as investors to urge companies to provide better disclosure on the financial and material risks posed by climate change.
- Help investors evaluate and address corporate climate risks.
- Expand climate risk scrutiny and collaboration by investors, stock market analysts and others in the finance sector.
- Encourage companies and investors to support government action on climate policy and support policies to maximise energy efficiency.

A copy of the plan is available at: <http://www.ceres.org/NETCOMMUNITY/Document.Doc?id=279>

CRIMINALISATION OF CARTELS

One element of ESG is how a company operates with regard to its customers, suppliers and its reputation within a market. A prominent issue in this area is anticompetitive behaviour, an example of which was recently highlighted by events relating to Amcor and Visy.

In January this year, the Assistant Treasurer, Chris Bowen, released an exposure draft of the Trade Practices Amendment (Cartel Conduct and Other Measures) Bill 2008. The

bill is largely based on the Review of Competition Provisions of the Trade Practices Act 1974 (the Dawson Review) and the draft guidelines discussed by the previous Federal Government in 2005.

The Bill is seeking to create two criminal offences in Part IV of the Trade Practices Act 1974 (TPA) and equivalent offences in the Competition Code enacted in each state and territory. The offences relate to making (and giving effect to) contracts, arrangements or understandings containing cartel provisions with the intention of dishonestly obtaining a benefit.

Cartel conduct refers to anticompetitive behaviour between competitors to fix prices, share markets, control output or rig bids.

The maximum penalties for individual offenders are 5 years imprisonment and a fine of \$220,000. The maximum penalty for an offending corporation is a fine that is the greater of \$10 million, or three times the value of the benefit from the cartel or where the value cannot be determined, 10 per cent of annual turnover. The Bill also creates civil penalties which mirror its criminal provisions. The Memorandum of Understanding attached to the Bill outlines the roll of the Australian Competition and Consumer Commission (ACCC) and the Commonwealth Director of Public Prosecutions (DPP) in facilitating the new criminal and civil provisions.

More information on the Bill is available at: <http://www.treasury.gov.au/contentitem.asp?NavId=037&ContentID=1330>

ACCC MERGERS GUIDELINES

The ACCC is set to amend its Merger Guidelines to introduce an analysis of mergers which reflects international best practice in the area.

The ACCC released a draft version of its revised Merger Guidelines on 8 February 2008 for public consultation. The ACCC has

invited submissions on the Draft Merger Guidelines 2008. Submissions must be made before Friday 28 March 2008.

The Merger guidelines are used by the ACCC as a framework when assessing whether a proposed merger is likely to substantially lessen competition under section 50 of the Trade Practices Act 1974 (Cth). The revised guidelines seek to tighten the current framework, changes made include:

- Removal of current 'safe harbours' relating to market share and indicative market concentration thresholds.
- The addition of new thresholds for the voluntary notification of mergers to the ACCC.
- A preference that divestitures occur before, or on, the completion date of a merger.

The ACCC's draft *Merger Guidelines 2008* are available at:

<http://www.accc.gov.au/content/index.php/ml/itemId/809866>

SUSTAINABILITY CONFERENCE

We have been asked by the organisers of the Sustainable and Responsible Investments Forum to let members know the event will be held in Sydney on the 28-29 of April. ACSI has no connection with the conference, so members can obtain more information from the Marcus Evans website:

<http://www.marcusevans.com/html/eventdetail.asp?eventID=13650&SectorID=39&divisionID>

INTERNATIONAL DEVELOPMENTS

UK

Review of UK Combined Code

The UK Financial Reporting Council (FRC) has completed its 2007 review of the Combined Code on Corporate Governance. Similar to



Australian Council of Super Investors Inc.

CORPORATE CITIZENSHIP NEWSLETTER

February 2008 : Issue No.35

ASX Corporate Governance Principles, the UK Combined Code on Corporate Governance sets out standards of good practice with regard issues of corporate governance such as board composition and development, remuneration and accountability. Following its 2007 review, the FRC is currently consulting on two possible changes to the Combined Code:

- A removal on the restriction on an individual chairing more than one FTSE 100 company
- An amendment, relating to listed companies outside the FTSE 350, to allow the company chairman to sit on the audit committee where he or she was considered independent on appointment.

More information about the review is available on the FRC website:

<http://www.frc.org.uk/corporate/2007review.cfm>

NORWAY

Women compulsory on Boards in Norway

As of January 1 this year, the Norwegian Public Companies Act has made it mandatory for all Norwegian companies listed on the OBX (Oslo Stock Exchange) to ensure that at least 40% of directors are women. Non-compliance with these provisions can result in a company being delisted from the OBX. The changes to the Companies Act were made following a government assessment in 2005 which revealed that only 16% of Norwegian board members were women. Following slow progress in 2005, Norway's parliament then moved to introduce the mandatory requirement from January 2008.²

CONTACT INFORMATION

Michael O'Sullivan
President
Ground Floor, 215 Spring Street
MELBOURNE VIC 3000
Website: www.acsi.org.au
Tel: (03) 8677 3891
Fax: (03) 8677 3889
Mobile: 0418 996 359
Email: mosullivan@caresuper.com.au

Phillip Spathis
Executive Officer
Ground Floor, 215 Spring Street
MELBOURNE VIC 3000
Website: www.acsi.org.au
Tel: (03) 8677 3886
Fax: (03) 8677 3889
Mobile: 0417 501 065
Email: pspathis@mail.ifs.net.au

This newsletter is correct to the best of our knowledge and belief at the time of going to press. It is, however, written as a general guide so it is recommended that specific professional advice is sought before any action is taken

² Risk & Governance Weekly, *Norway's 'Golden Skirts'*, 22 February 2008