

Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
SUPPLEMENTARY BUDGET ESTIMATES 2014-15

Finance Portfolio

Department/Agency: Future Fund Management Agency

Outcome/Program: 1/1.3

Topic: Methodology used by investment managers to inform decisions

Senator: Waters

Question reference number: F126

Type of question: Hansard, F&PA Committee, Pages 38-39, 20 November 2014

Date set by the committee for the return of answer: Wednesday, 31 December 2014

Number of pages: 2

Question:

Senator WATERS: Could you take on notice to provide an answer to that question because I am concerned that you, as the managing director, are not across how your investment managers factor in a really significant economic, not to mention environmental, issue? I really would like to understand how it is that carbon risk exposure is being factored into the investment decisions of the fund. I think that is a very important point. So I would really look forward to some more detailed—

...

Mr Neal: That is what I said. I said that there are 90 different methodologies because there are 90 different investment managers.

Senator WATERS: Of the 90, in regard to the ones who do, in fact, consider carbon exposure, how does that inform their decisions and what methodology do they use to determine that, particularly if you are not participating in that carbon disclosure project? Could you take that on notice?

Mr Neal: We will have to take that on notice.

...

Senator WATERS: If you could take on notice for me, when you are making those investigations about the methodology that they employ, whether any of those managers have read that 2009 *Nature* paper about the amount of fossil fuels that need to stay in the ground in order to have a safe climate and, therefore, a functioning economy...

Answer:

Through its Ownership Rights and Environmental, Social and Governance Risk Management policy the Fund, directly or through its managers, exercises voting rights and engages with companies on a breadth of issues including environmental issues.

The Future Fund's investment managers undertake extensive research and analysis drawing on a wide range of resources and information and applying their expertise in accordance with their particular investment strategy.

In making specific investment decisions external investment managers will typically develop valuations by analysing financial data such as discounted cash flows and various financial ratios, as well as analysis of broader market dynamics, the characteristics of the particular entity and production and reserve data. Managers will also incorporate consideration of factors such as potential changes in technology, regulatory settings and the macroeconomic environment.

In private markets, the Future Fund's investment managers are required to consider and assess material risks including, for example, the risks to property or infrastructure assets as a result of regulatory requirements which could include issues relating to climate changes and responses.