

Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
SUPPLEMENTARY BUDGET ESTIMATES 2012-2013

Finance and Deregulation Portfolio

Department/Agency: Future Fund Management Agency

Outcome/Program:

Topic: ESG policy

Senator: Di Natale

Question reference number: F16

Type of question: Written

Date set by the committee for the return of answer: Friday, 30 November 2012

Number of pages: 2

Question:

Given that the Fund's ESG policy emphasises continued engagement with companies through measures such as the exercise of voting rights rather than exclusion, please detail specific instances where the Future Fund has observed or caused improvements in corporate behaviour in any tobacco company or companies since the introduction of its ESG policy. Where the Fund claims to have caused this change, please provide evidence to support this.

Answer:

The Board believes that the prudent exercise of ownership rights and engagement by investors improves the governance arrangements and behaviours of entities invested in, supporting the Board's obligation to maximise returns, and that the combined influence of investors has improved governance arrangements and behaviours across industries and sectors over time.

Many institutional investors globally share this view and exercise their ownership rights accordingly on the basis that influence and improvements will typically be the result of cumulative actions by multiple investors. This recognises that individual investors, particularly those with diversified portfolios, are typically a small part of a much broader group of shareholders in an entity. In addition, voting and engagement by investors in relation to one entity often tends to signal governance expectations to other entities helping to support improvement across multiple companies.

Through its managers the Board has exercised its ownership rights in relation to a variety of resolutions put to the shareholders in tobacco companies. It is important to reiterate that influence and improvement in corporate governance and behaviour can rarely be attributed to the action of a single investor, particularly where the investor is just one of a multitude of investors.

However, as an example of how improvement can occur through the cumulative actions of investors, voting rights accruing to the Board were exercised in favour of a shareholder resolution requiring Lorillard Inc to enhance disclosure of political contributions by the company. While the resolution did not receive majority support from shareholders, the high level of support for the resolution from a broad group of shareholders led the company board to enhance its disclosures, providing information on the company's political contributions, along with guidelines for government relations and political contributions, on its website.