CHAPTER 5

INSTITUTIONAL INVESTORS

...the best strategy is for us to engage with companies over the long term in an effort to improve their social, environmental, governance and financial performance – to change the direction of the ship rather than jumping ship[1]

5.1 Large institutional investors are in an unusual position in the corporate responsibility debate. Notwithstanding the opportunity to participate in Annual General Meetings, most small investors are essentially passive, and have little capacity to influence the management of the companies in which they invest. They are simply too small, and control too little a shareholding, to have any such impact. Institutional investors, however, control vast sums of money, and have both the capacity and the occasion to exert direct and substantial influence over the operation of listed companies. This gives institutional investors the capacity to influence corporations' approaches to corporate responsibility including the management of non-financial risks.

5.2 This chapter explores the role of institutional investors in advancing corporate responsibility.

Characteristics of institutional investors

5.3 Before considering the role of institutional investors in corporate responsibility, it is appropriate to describe what the committee means by 'institutional investors' and to outline some of the characteristics of such investors, and how they differ from individual retail investors.

5.4 Institutional investors, broadly, are institutions through which investors collectively invest. Retail investors therefore invest in the institutional investors, who in turn invest in listed companies (or other investment products). This allows small investors to invest in a broad range of shares, and to have their investment actively managed, under circumstances where they may not have the time or expertise to do so themselves. Obvious examples of institutional investors include superannuation funds and managed funds.

5.5 For the purposes of this report, institutional investors have three important characteristics which set them apart from most other shareholders. First and foremost, they are large scale investors with massive funds at their disposal. Largely due to compulsory superannuation arrangements, Australia is the world's fourth biggest fund management market and the largest in the Asia Pacific. In Australia there is

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1 Sir Graeme Davies, Chairman, Universities Superannuation Scheme (UK), *0.618*, issue 5, January 2005.

$955 billion under management[2] with about $30 billion of new funds flowing in every year.[3] Consequently, institutional investors are able to exert considerable influence over a company's operation. In many cases, these large institutional investors may be able to influence the membership of boards, therefore having a direct and immediate impact on the decisions of directors.

5.6 The second important characteristic of institutional investors is that they are able to invest in the long term. Because of their size, and their ability to spread funds across a diverse range of investments, institutional investors are able to take a longer term position in companies. Mr Münchenberg from the Business Council of Australia put the proposition aptly and succinctly: 'If anyone has a long-term interest, it is surely the superannuation funds.'[4]

5.7 As a result, large institutional investors may not be constrained by the short-term investment market needs which, it has been suggested elsewhere in this report, force companies to sacrifice corporate responsibility in pursuit of immediate profit.

5.8 Finally, institutional investors generally invest as trustees (in the general, rather than the legally specific, sense of the word). They are investing other people's money. Consequently they have duties to *their* investors or members, which in some ways parallel directors' duties, and attract the same concerns as were discussed in chapter 4.

5.9 The rest of this chapter considers these features of institutional investors, and their impact on corporate responsibility. The chapter considers:

- the impact of longer term investing on institutional investors' perceptions of both risk and opportunity;
- the ways in which institutional investors can use their size and influence to promote corporate responsibility and better management of non-financial risks;
- the duties of institutional investors, and whether these inhibit a commitment to corporate responsibility;
- the extent to which institutional investors have been active in promoting corporate responsibility; and finally

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2 Australian Bureau of Statistics publication 5655.0, 'Managed Funds Australia, December 2005, http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/4896C3F895880688CA2568A900139379?OpenDocument, accessed 13 June 2006.

3 Coghill, Black, Holmes, *Submission 71*, p. 3.

4 Mr Steven Münchenberg, Deputy Chief Executive, Business Council of Australia, *Committee Hansard*, 23 February 2006, p. 93.

- whether legislative changes are required in order to support further involvement in corporate responsibility by institutional investors.

Long term investment

5.10 As noted above, institutional investors are more likely than retail investors to consider longer term investments. The 2003 Department of the Environment and Heritage report *Corporate Sustainability – an Investor Perspective*, put it as follows:

> Long term investors such as superannuation and insurance funds are most exposed to social and environmental risks embedded in the companies in which they invest. The relative concentration of the Australian sharemarket and the widespread use of benchmark indices in investment means that as they grow, institutional investors increasingly become permanent owners of shares in companies. Sustainability considerations particularly benefit these long term investors.[5]

5.11 Of course, this does not mean that institutional investors do not take advantage of short term, speculative investments too. However most institutional investors have sufficient funds under management that they can do both; while many retail investors lack this luxury.

5.12 Longer term timeframes expose institutional investors to both long term opportunities, and long term risks.

Longer term opportunities

5.13 Given the longer timeframes of institutional investors, they can afford to support corporate strategies which may not yield immediate profits, but which give companies the basis for longer term sustainable profitability. It has been noted elsewhere in this report that many 'corporate responsibility projects' fall into this category.

5.14 A director seeking to satisfy market and shareholder demands for short term, short-sighted growth and profits will be unlikely to see any 'enlightened self interest' in long term, responsible projects which do not generate immediate profit. On the other hand, a director who is influenced by longer term institutional investors may be emboldened to operate the company in a socially and environmentally responsible manner, even if this means sacrificing short term profits. This will be even more the case if those institutional investors directly press for greater corporate responsibility, as discussed below.

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5 Department of the Environment and Heritage, *Corporate Sustainability – an Investor Perspective* (the 'Mays Report'), 2003, p. 18.

Longer term risks

5.15 One of the difficulties faced by social and environmental campaigners is that they are promoting dangers and concerns which are likely to be felt in the long term rather than the short term. Changes in air quality, for instance, are not likely to be particularly noticeable on a daily basis or even, in many cases, on a yearly basis. The ecological impact of a reduction in biodiversity, while very real, is also going to occur in imperceptible increments. From a social perspective, a slow decline in literacy or a slow rise in alcoholism or depression might operate in the same way.

5.16 For a short term investor, corporate strategies which sacrifice an immediate profit in the current quarter, for the sake of better air quality into the future, may well appear unattractive. If the desire is to realise a profit within days or weeks, and the change in air quality in that period of time is likely to be virtually nil, then the sacrifice will be too great.

5.17 For the longer term investor, however, slow changes in environmental and social conditions matter. While a short term investor only wants to know what a mining company will produce this month, and what the commodity price for its product is, the longer term investor wants to know whether the company is exploring for further resources, whether its land rehabilitation projects are sufficient that they will avoid regulatory penalties, and whether the company is adept at managing its relationship with its workforce, its local community and in many cases the Indigenous custodians of local lands.

5.18 The BT Governance Advisory Service (BTGAS) submission outlined this longer term approach to risk as follows:

> Long term investors expect organisational decision makers to have a regard for the interests of stakeholders other than shareowners when those stakeholder interests have the capacity to influence shareowners' interests. We believe that companies that manage their stakeholders' interests are managing their shareowners' interests, especially over the long-term. This arises from the fact that risks to companies arise not just from typical financial risks but also from regulatory, community and litigation risks.[6]

5.19 Long term risk is an even greater issue for the insurance industry, which by its very nature is involved in the management of long term economic risks. For these very reasons, the insurance industry has been among the most progressive in terms of identifying long term environmental and social risks, and supporting both investment and effort to avoid them. The Insurance Australia Group (IAG) gave an example of this process in its submission:

> IAG is now exploring … how our scale could best be utilised to influence and benefit the broader range of IAG's stakeholders. This requires understanding of long term shareholder value that can be derived from

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6 BT Governance Advisory Service, *Submission 19*, p. 2.

> integrating such an approach into the short-term financial imperatives (such as costs).
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> For example, IAG understands that its long term business will be impacted by human induced climate change, typified by an increase in the frequency and ferocity of weather events that will result in increased insurance claims and payouts. IAG is addressing how it might best leverage its scale with its supply chain to address the primary cause of climate change, greenhouse gas emissions. The use of IAG's scale could assist in leveraging outcomes that both increase awareness of the impacts of climate change and assist in reducing greenhouse gas emissions.[7]

Size of institutional investors

5.20 A simple reality of investment is that money talks. This has been institutionalised in the *Corporations Act 2001* in paragraph 250E(1)(b), which gives members one vote at meetings, for every share they hold. Those with more shares, have more votes. On a more daily basis, large institutional investors have the capacity to affect significantly the share price of companies in which they invest, because they can create significant demand for a particular share, or alternatively (by selling their own shares) can significantly increase supply into the market. Each of these can have an obvious effect on the share price.

5.21 The size of institutional investors, with their attendant market power, can be used to promote corporate responsibility in a number of ways. Two related issues will be discussed below: the inclusion of corporate responsibility factors in company research; and the subsequent demand for better reporting.

Corporate responsibility and research

5.22 In order to be successful, institutional investors invest a great deal of time and money conducting research into listed companies in which they have an interest. This research might lead them to purchase shares in companies where they do not hold shares; or to divest themselves of shares they currently hold. This capacity to conduct research, and to invest successfully based on that research, is in fact at the heart of the service which institutional investors provide to their clients.

5.23 In the past, company research was primarily a financial affair. The company's financial performance was analysed to determine its prospects for growth and profit into the future. Along with this, matters which are related to financial performance while not strictly financial, are taken into account. These include matters such as corporate governance, and the company's strategic position in its key markets.

5.24 In recent years, many institutional investors have begun conducting research into corporate responsibility factors, on the basis that a company's management of these has an impact on its longer term profitability; and also on the assumption that a

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7 Insurance Australia Group, *Submission 29*, p. 12.

company which can successfully manage its social and environmental impacts and risks, is also likely to manage its overall business successfully.

5.25 Obviously the 'ethical investment' sector has this form of research at its heart. For these investors, the environmental and social performance of a company may rule it out of an investment portfolio, regardless of its potential for economic success:

> The ones who are ahead of the game are the sustainable responsible investment analysts. They do look at between 100 and 200 extra issues of analysis when they value a company. So they will look at financial analysis but they will also look at all the issues—I would imagine that you are all aware of the particulars in the [Global Reporting Initiative (GRI)]. When you start comparing and contrasting performance against GRI indicators, you start to get a much broader picture of a company's capability.[8]

5.26 Evidence before the committee suggested, however, that even mainstream institutional investors, whose primary focus is well and truly on financial performance, are beginning to take note of environmental and social factors. This does not represent a rush of ethical concern, but rather a realisation that social and environmental risks and opportunities can be material to a company's future financial performance. In a recent UN report, investment giant ABN AMRO stated:

> Pricing 'non-financial risk' is difficult. It may be beyond our present valuation metrics to give it an exact quantifiable value. However, there are strong theoretical grounds for measuring these risks on a company-relative basis and this may help to value the risks of a company relative to its peers more accurately … Furthermore, understanding CSR gives a deeper understanding of the company and the business threats it faces. We believe these types of risks warrant closer examination by analysts and should lead to added value in investment decisions.[9]

5.27 By taking non-financial risk management into account when assessing investment prospects, institutional investors are able to provide a strong drive to 'enlightened self interest'. Corporations who wish to attract investment from institutional investors will find themselves judged – at least in part – on their social and environmental performance. Senior managers, who are renumerated partially in shares or derivates, will find that the value of their remuneration package is influenced by the market value of their company, which in turn depends partially upon their corporate responsibility.

5.28 Mr Brown from ANZ Bank illustrated this form of remuneration package, although his evidence was that corporate responsibility is not (currently) seen as an important driver of overall remuneration:

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8 Ms Louise O'Halloran, Executive Director, Ethical Investment Association, *Committee Hansard*, 23 November 2005, p. 34.

9 ABN AMRO Equities United Kingdom 'Pharmaceuticals and SRI' in United Nations Environment Programme Finance Initiative, *The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing – 11 Sector Studies*, 2004, p. 15.

> All senior executives are now rewarded on an annual performance basis. From memory, certainly for the more senior executives in the bank, the weighting towards three-year performance objectives is now over half of their annual remuneration. More than half of my total remuneration for a year is based on two- or three-year out performance objectives for the organisation—the performance objective being share price. I would not call it long term; it is two or three years. … It is basically an option package which is set out on two- or three-year horizons. It will alter the further you go down in the organisation. It has made a difference.[10]

Reporting

5.29 This rush of research interest in corporations' environmental and social performance becomes a driver for better corporate responsibility. Experts conducting research on behalf of institutional investors argued before the committee that in many cases they lack adequate non-financial information from the companies and so find it difficult to make accurate judgments. For these researchers, 'greenwashed' social and environmental reports, with glossy covers showing photos of smiling children and healthy green tree frogs, will simply not be useful. Hard, verifiable data, comparable between companies (at least within sectors) is required. Market driven demand for this data is likely to be more effective than any government regulation in producing this information.

5.30 For instance, Professor Coghill and his colleagues stated:

> A central issue for superannuation trustees is access to information to identify material issues and to incorporate such information into investment decision-making. Most of those interviewed held the view that information on material risks is unavailable or difficult to obtain.[11]

5.31 The BTGAS made a similar comment:

> The current reporting requirements for publicly listed companies do not give investors sufficient information to understand the extent to which companies are managing social and environmental risks. While we do not advocate prescriptive legislation that would increase compliance costs for companies, we do believe some companies lack guidance on what information should be reported to long term investors. If a simple voluntary framework could be provided to at least give investors insight into the governance processes in place to assess social, environmental and corporate governance risks, investors could make up their own mind on these processes' sufficiency.[12]

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10 Mr Gerard Brown, General Manager, Corporate Affairs, Australia and New Zealand Banking Group, *Committee Hansard,* 5 April 2006, p. 40.

11 Coghill, Black, Holmes, *Submission 71*, p. 59.

12 BT Governance Advisory Service, *Submission 19*, p. 2.

5.32 The Ethical Investment Association of Australia set out the problem as follows:

> At present the disclosure required of corporations is inadequate for the financial markets to determine the entire operational, strategic and managerial capacity of a company. There are two reasons for this, and one is that many issues currently regarded as non-financial are not required to be reported on. I speak here, of course, about the company's environmental impacts, its impact on the health and wellbeing of society, its attitudes and practices regarding industrial relations management and human resource management, its practices in the communities in which it works, its practices in countries to which it outsources, its systems regarding adherence to a code of ethics, its governance procedures and so on.
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> This information is not currently available in a format that is of use to analysts, unless they are specialised researchers in the area such as fund managers and analysts who specialise in sustainable responsible investment. While it may be plain to many that these issues do and will have an impact on the company's profitability, it is more likely that issues of this nature will take slightly longer to reach the bottom line than many other operational issues. The current structure of the financial markets and the corporate sector is such that long-term thinking goes unrewarded and is often penalised.[13]

5.33 Finally, as noted below, pressure for increased corporate responsibility disclosure is one of the UN's Principles for Responsible Investment. It is clear from this evidence that increased corporate responsibility reporting is not just a good for its own sake: it will allow markets to more adequately assess the risks and opportunities accruing to a company by virtue of its environmental and social positioning.

Duties of institutional investors

5.34 In chapter 4 of this report, the committee discussed the directors' duties found in the *Corporations Act 2001*, and the argument that these might preclude or at least inhibit corporate responsibility. The committee concluded that the Corporations Act itself does not preclude corporate responsibility.

5.35 Legislation places similar duties on those who operate institutional investment funds. The responsible entity of a managed fund, for instance, must 'act in the best interests of the members and, if there is a conflict between the members' interests and its own interests, give priority to the members' interests…'[14]

5.36 For regulated superannuation funds, the duty of the fund trustees is set out in section 62 of the *Superannuation Industry (Supervision) Act 1993*. The section is quite long and detailed, but in essence it provides for the 'core purposes' of providing

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13 Ms Louise O'Halloran, Executive Director, Ethical Investment Association, *Committee Hansard*, 23 November 2005, pp. 30-31

14 *Corporations Act 2001*, s. 601FC(1)(c)

various (financial) benefits to members[15] and 'ancillary purposes' of providing a somewhat wider range of (financial) benefits.[16]

5.37 Unsurprisingly, the duty placed on responsible entities by section 601FC of the Corporations Act was not raised in evidence before the committee. On its face, section 601FC does not limit the responsible entity to acting in the best *financial* interests of the members. Rather, the members are left to determine for themselves, through their constitution, what the best interests of the fund are to be.

5.38 The 'sole purpose test' was, however, raised before the committee. It was suggested that the sole purpose test operates to restrict superannuation trustees in the same ways in which directors' duties were said to constrain directors:

> A key barrier appears to be the interpretation of the sole purpose test with respect to CSR, as many of those interviewed felt that evidence of a material financial risk would be required to provide protection to fiduciaries if an investment decision is taken on CSR performance.[17]

5.39 A contribution by Blake Dawson Waldron to a 2005 UN Report stated that:

> Traditionally, Australian superannuation fund managers have taken the view that the sole purpose test precludes them from undertaking investment decisions based wholly or primarily on [corporate responsibility] considerations.[18]

5.40 The Financial Services Institute of Australasia (Finsia) submitted that to clarify the position between the sole purpose test and SRI investments, the Australian Prudential Regulation Authority (APRA) should issue detailed guidelines in order to give superannuation trustees more confidence in allocating investments to SRI fund managers.[19]

Committee view

5.41 The committee is not persuaded by a restrictive view of the sole purpose test. In chapter 4, the committee outlined its view that the argument does not stand in the case of directors' duties; it is even less compelling with respect to superannuation trustees. As the committee points out above, the very nature of superannuation investment is long term. Superannuation funds, perhaps more than any other group of investors, are placed to take advantage of long term opportunities, and are most

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15 *Superannuation Industry (Supervision) Act 1993*, s. 62(1)(a)

16 *Superannuation Industry (Supervision) Act 1993*, s. 62(1)(b)

17 Coghill, Black, Holmes, *Submission 71*, p. 58.

18 United Nations Environment Programme Finance Initiative, *A legal framework for the integration of environmental, social and governance issues into institutional investment*, 2005, p. 45.

19 Financial Services Institute of Australasia, *Submission 146*, p. 9.

exposed to long term risks. In the committee's view, consideration of social and environmental responsibility is in fact so far bound up in long term financial success that a superannuation trustee would be closer to breaching the sole purpose test by ignoring corporate responsibility.

5.42 The committee can see no sensible interpretation of the sole purpose test which would constrain trustees from researching and considering companies' environmental and social performance, and making investment decisions influenced by that consideration.

5.43 To clarify the position for institutional investors the committee supports Finsia's suggestion that the APRA should issue detailed guidelines regarding the sole purpose test, to clarify for superannuation trustees their position in relation to allocating investments to ethical investment fund managers.

Recommendation 2

5.44 The committee recommends that the Australian Prudential Regulation Authority issue detailed guidelines on the sole purpose test to clarify for superannuation trustees their position in relation to allocating investments to sustainable responsible investment fund managers.

How active have institutional investors been?

5.45 Given that the committee has identified the potential of institutional investors to have a major impact on corporate responsibility, it is appropriate to consider how active they have been to this point. Evidence before the committee suggests that the picture for institutional investors is similar to that for corporations more broadly: attention to corporate responsibility issues is small but growing:

> Most of those interviewed believed that CSR would become an increasingly important factor in their roles over time. An indicative comment in this regard: 'It's on the radar and corporates are more nervous about it'. Advisers to the superannuation industry also commented on the growing importance of CSR, in one case noting that '[capabilities in CSR investment applications] are likely to be a factor for super funds in selecting advisers.'[20]

5.46 As discussed earlier the main reason for the lack of interest in this area on the part of institutional investors is the lack of non-financial information. Another reason identified for this relative lack of interest is that the economy has not yet suffered a major shock which is directly attributable to social or environmental factors. The report prepared by Ernst & Young for the Department of the Environment and Heritage, entitled *The Materiality of Environmental Risk to Australia's Finance Sector*, stated that their consultations had:

> … revealed a notable absence of known examples in Australia where finance sector participants are aware of having suffered substantial financial

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20 Coghill, Black, Holmes, *Submission 71*, p. 55.

> losses due to environmental exposures. This is considered one of the main reasons why the debate on materiality or significance of the environmental risk to Australia's finance sector is not as advanced as the UK, Europe and USA.[21]

5.47 Major shocks have, however, been forecast. The committee is aware that the Senate Rural and Regional and Transport References Committee is currently conducting an examination into future oil supply, and is examining the forecast 'peak oil' crisis. If predictions are correct, then world oil production will shortly peak, then begin a long term decline, resulting in ever increasing prices (and therefore lower productivity for those companies which rely heavily on oil). Will it take a major shock to make markets aware of the potential impact of social and environmental factors? The committee hopes not. The recommendations contained in this report aim at making this less likely.

Assisting institutional investors

5.48 In chapter 4, the committee considered whether to make consideration of environmental and social factors a requirement for company directors. It concluded that this was the wrong approach, for three reasons: the duty cannot be expressed in law with appropriate clarity; it may lead to a simple, compliance-based exercise; and there are potentially successful non-regulatory measures which can be implemented. Those same arguments lead the committee to conclude that it would be inappropriate to try to use regulations to force institutional investors to take greater account of social and environmental factors.

5.49 The committee received evidence of several market drivers that have the potential to raise the importance of risk and corporate responsibility in the investment community. Finsia submitted that these are:

- superannuation choice – there are many more people, especially Generation X and Y, who are making investment decisions for the first time;
- emerging research that demonstrates SRI funds can offer equal, or superior, performance to mainstream funds;
- greater understanding of the consequences of environmental risk to individual companies and whole industry sectors;
- increased community expectation that corporations will not merely focus on short-term profits, but have regard to other stakeholders affected by their operations, and the potential impact on future generations; and

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21 Ernst and Young, for the Department of the Environment and Heritage, *The Materiality of Environmental Risk to Australia's Finance Sector*, 2003, p. 2.

- the deepening pool of superannuation funds under management – the structure of super investments provides the longer-term perspective that is considered to be required for CSR.[22]

5.50 In addition, more and more institutional investors are obtaining expertise in the assessment of social and environmental risks and opportunities. When investing in overseas financial markets institutional investors are also increasingly exposed to corporate responsibility practices. These funds are making social and environmental assessment a mainstream element of their company research. The question for the committee is how to encourage and accelerate this growth.

5.51 The biggest impediment at present appears to be access to adequate, verifiable information about social and environmental risks. In chapter 7 of this report, the committee considers the adequacy of environmental and social reporting. That chapter contains recommendations which will support movement towards the provision of useful, verifiable, comparable information about a company's approach to corporate responsibility. The provision of such information reduces the time and complexity of research into corporate responsibility; and the increased reliability and comparability of the information makes it more likely that it can be included in an institutional investor's calculus for assessing companies.

United Nations Principles for Responsible Investment

5.52 The United Nations has for some time been considering the role of institutional investors in driving corporate social and environmental responsibility. A result of this process has been the development of the recently-released UN *Principles for Responsible Investment* (the UN Principles). The Principles are as follows:

(a) We will incorporate [corporate responsibility][23] issues into investment analysis and decision-making processes;

(b) We will be active owners and incorporate [corporate responsibility] issues into our ownership policies and practices;

(c) We will seek appropriate disclosure on [corporate responsibility] issues by the entities in which we invest;

(d) We will promote acceptance and implementation of the Principles within the investment industry;

(e) We will work together to enhance our effectiveness in implementing the Principles;

(f) We will each report on our activities and progress towards implementing the Principles.

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22 Financial Institute of Australasia, *Submission 146*, p. 4.

23 The Principles use the acronym ESG, for 'environmental, social, and corporate governance'. The committee has adjusted the UN Principles to use the consistent term 'corporate responsibility' rather than 'ESG'.

5.53 On the United Nations Principles for Responsible Investment internet site each principle is accompanied by suggested activities which institutional investors might undertake in order to implement the UN Principles.[24]

5.54 Unlike many UN activities, in which nation states are the signatories, the UN Principles are signed and adopted by institutional investors. As at 14 May 2006, investors from countries as diverse as Sweden, France, Thailand, Japan and the USA had signed up to the UN Principles. Just three Australian funds had done so: the Catholic Superannuation Fund, Christian Super, and Portfolio Partners Limited. The committee notes that the UN Principles are only very new, and considers that many other Australian institutional investors are likely to become signatories. The committee wishes to congratulate those three funds which have already done so.

Recommendation 3

5.55 The committee recommends that institutional investors in Australia seriously consider becoming signatories to the United Nations Principles for Responsible Investment.

5.56 The committee notes the establishment by the Australian Government in February 2006 of the Future Fund – a dedicated financial asset fund to meet unfunded superannuation liabilities of the Commonwealth.[25] The committee considers that with the establishment of the Future Fund, the Australian Government has an opportunity to show significant leadership in the area of corporate responsibility. While the committee recognises that the fund will be managed at arm's length from government, it remains appropriate for the Australian Government to set out general principles for the fund to follow. This point was acknowledged by the Senate Economics Legislation Committee which inquired into the Future Fund Bill 2005. The Economics committee stated: 'it may be appropriate to include principles in the directions to be given to the Board provided for under the investment mandate provisions of the Bill.'[26] The committee notes that such principles could include signing up to the UN Principles.

Recommendation 4

5.57 The committee recommends that the Future Fund should become a signatory to the United Nations Principles for Responsible Investment.

Conclusions

5.58 The committee considers that institutional investors are in an excellent position to drive corporate responsibility in Australia. Because institutional investors often have long term investment timeframes, they are positioned to take advantage of

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24 http://www.unpri.org

25 Explanatory Memorandum, Future Fund Bill 2005, p. 2.

26 Senate Economics Legislation Committee, *Provisions of the Future Fund Bill 2005*, February 2006, p. 12.

long term opportunities, and are exposed to long term risks. Through improved non-financial risk management, institutional investors are also one of the likely beneficiaries of increased adoption of corporate responsibility.

5.59 In previous chapters in this report, the evidence presented has been that there is often an underlying assumption of incompatibility between the interests of shareholders and the interests of other stakeholders. For institutional investors, activities which maximise corporate responsibility are likely to be in their long term interests, as much as those activities are in the interests of the environment or communities connected to the corporation. If the interests of institutional shareholders parallel the interests of other stakeholders, enlightened self-interest should suggest that there is no reason for corporations to shy away from corporate responsibility.