

PERFECT STORM SUPER

SCRIPT for INTRODUCTION AND BACKGROUND

Cate: Thank you. Well I'd like to welcome you all to our special meeting of the PSS Board. Before I get down to the business of the board meeting, I'd just like to ask if any of our board members have a conflict in relation to the matters that we are to discuss today?

Kath: Just my membership of the Australian Greens Cate, so that's worth noting.

Cate: Do you feel you're fine in terms of participating?

Kath: Yep, no problem.

Cate: No objections from the rest of the Board? No.

Geoff: Only to her choice of political party membership.

Cate: I'm hoping that it will mean she's very well informed on the issues under discussion.

Okay well let's get to the substance of why we're having this special board meeting today. We've received a lot of valuable material on climate change at previous board meetings, including the recent inter-governmental panel on climate change report this year. There's been scientific briefings and details of scenarios of a possible 4 degree of warming, together with the investment implications of climate change.

Primarily all of this great background material and briefing has come from IGCC. Now I'd like to draw your attention Board, to two particular things that have a bearing on our discussions and they are that climate change was identified as a risk to our portfolio in the course of the annual risk assessment conducted by KPMG earlier this year. Similarly, another point was that PSS' asset consultant highlighted this issue broadly in the course of our most recent strategic asset allocation review.

We have also commissioned a report from our lawyers and at the conclusion of their paper which they framed in relation to the sole purpose test and APRA's risk appetite statement requirements, it was that the Board has latitude to implement investment policies that protect investors from risks such as these, as climate change, if this is for a proper purpose and is in the interests of our members.

We've also had information from our asset consultant scoping out the performance track record of investment management products that address climate change issues and opportunities. I believe as a Board we're in general agreement on where we are currently, that we've been diligent in informing ourselves as a board and we're agreed that we should now, having discussed it at previous meetings, determine a proper course of action.

So we have in the agenda before us to talk through six or seven issues that we have identified that cover policy, policy implementation, investment strategy, timeframes, investment allocation, measurement and communication. Now these are set out in about seven resolutions. I would propose that what we do is we actually discuss each resolution but vote on them as a package at the end, just to save time.

Before we head into that discussion, I'd like to give the opportunity to our CEO Frank, and to our CIO Jon to give a few preliminary comments and then allow board members to make a couple of comments too. So Frank, would you like to...

Frank: Thank you Madam Chairperson. The management team have undertaken a focus group with our members to see whether this was a key issue in their consideration when they're investing with the fund. Yes they saw climate change as a key issue but they also wanted to package it around the fact that as long as their return and their outcome wasn't impacted.

Garry: Can you speak up a bit Frank? I think some of the people are having a little difficulty hearing you.

Frank: Sorry. We did a focus group to ensure that what you call, our members, were keen to understand what the Board was doing. The members overall were happy that we go down this track, except that they were also very conscious that their return wasn't impacted.

The other key issue is that we're - that's important is, to implement these policies there will be additional costs that the fund will have to face and the Board will have to approve. And so then I'll pass over to Jon and he can talk about how that will happen.

Jon: Thanks Frank. I want to bring to everyone's attention that as we discuss these matters that will be put before us today, we all need to bear in mind that there are certain clear implications for the Executive, tasks they will have to carry through on your behalf. So to list a few, and we'll debate these over time, we might have to change our strategic asset allocation, we may have to review the way we appoint managers, we may have to look at other consultants who can help us with the work that we do. Frank's made reference to the members, we'll obviously be very mindful of what they think. Let's not forget the regulator, or regulators plural, and finally and we have this debate often - too often for my liking - we have to recognise that when we do anything as radical as what we're proposing to do today, there will almost certainly be implications for short term performance. Or to put it pessimistically, there could be long periods of short term underperformance compared to our peers. This is where I beg for maximum indulgence from trustees to executives. We're doing the best we can and we're working for longer term outcomes not short term outcomes.

Garry: Well the only thing radical would be to decide to ignore science, that would be a radical thing to do. So apart from that, I agree but radical, I don't think that's what's proposed.

Geoff: I think we need to bear in mind though that the average balance of our members is about \$40,000. We're not looking after people who you know, are looking forward to the most secure of retirements. I think our focus has to be on investment returns, and that's got to be our primary focus. We can talk about policy, we can talk about wanting to do more in the sustainability space, but it comes down to the bread and butter issues that our members are most concerned about. They've just voted in a Federal Election where they've voted to wind back the carbon tax. And I think we need to make sure that we're not too far out ahead of the game on this. We shouldn't be behind the game, but I think we need to make sure that our focus is on investments first.

Kath: Look I agree with Geoff about our positioning as a fund. We don't want to lose members, I think it's really important. You know we can take a decision that's a good investment decision but if

we lose members, that's not in the interests of the fund overall. But I think that the advice that we've had is that there are opportunities open to us, and I'd be very anxious if the investment committee and the investment team are thinking that this is going to be an excuse for short term underperformance, because I think that we have to be looking for opportunities as well. So I hope Jon, you and your team will be looking at this as an opportunity to maintain and improve our performance over the medium - short term as well as the long term.

But I agree with you Geoff, the communications is going to be very, very important. I'm interested that our members are in a focus group, and that's not really a scientific way of assessing their views are supportive of this, but we are going to be very careful about the communication strategy and there is a level of scepticism in the community that we know is there, because of broader things.

END Transcript OF INTRODUCTION AND BACKGROUND