PERFECT STORM SUPER

SCRIPT for RESOLUTION 3

Cate: So if we perhaps move onto resolution two and have a bit of a discussion - resolution three - about the strategic side which is that climate change risks and opportunities should be formally incorporated into the fund's investment process through strategic reviews. Now this clearly has implications in terms of our performance and relationships - performance of our consultant and relationship with them, as well as obviously our own staff. But maybe if I open that up for discussion.

Jon: So we have an excellent asset consultant, that has - I always say, no asset consulting firm has a monopoly on all things that need to be known. And in my discussions with Frank who's been very supportive, we may need to come back to you and talk about the need for specialist advice in this area, and that's the type of things you'll need to give careful consideration to. Special advice on exactly the point that Geoff was making. How do we assess the risks of divesting from one particular sector as compared with the risks of - the positive risk of investing in a positive new sector). These are things I think we will need good advice on, and the internal investment team will work with that consultant or those consultants to deliver you the best recommendations we can.

Garry: I agree, but I think our asset consultant ought to be able to at least enumerate the likely risks and opportunities here from the literature, a review of the literature would enable an intelligent review - which we would certainly get from our asset consultant - ought to be able to at least take that step. So while I agree with Jon in terms of decision making about actual asset allocation and specific assets, I think for the purpose of the risk and opportunity register if you like, we should be able to get that from our asset consultant.

Kath: Yeah I'd be concerned if we saw this again as a reason to go and put on a whole lot of new staff or that sort of thing and took a hit to our MER. You know I am anxious about our members' response to this and what our peers are doing. We don't want to be too far ahead of the curve, and if we end up having to put on a whole lot of smart people to tell us what, as Garry says, you can get on Wikipedia and find out. Perhaps not, but you know, you can do a literature review and find out. Then we don't want this to be an excuse for short term - I don't think it is an excuse for a short term hit to our performance. I think that we should be able to do it relatively cheaply. We may have to roll it out over a number of years, asset class by asset class. But I don't think that…

Jon: So you're telling me Kath you want me a solution that is A cheap, B has no implications that are negative for short term performance. I think that's very hard to deliver. I think if we are to do our job properly and give you a solid thesis upon which you can rest and say yes, I understand this, I will now make a decision, then it will become I believe at those two costs. Short term underperformance - not necessarily but maybe, and some extra loading on the MER - sorry about that. We're not trying to build an empire here, we're simply trying to deliver you the best return.

Kath: Yeah I guess the message I'm giving back Cate is to not see this as an excuse to build an empire, to go and put in place a whole lot of infrastructure. If we're part of the collective, we've been back through collective processes to have this discussion and I think that we don't want to be the fund that goes out and spends all the money that other people will piggyback off. We've got to be careful about how we spend our members' money.

Frank: I hear what the Board's saying and I understand it, I think the best way forward is to identify what are the skill sets lacking internally to be able to carry out the policy. And that should keep the cost to a minimum. Also to look at is it - is the current asset consultant, his skill set in this area. If his skill set is lacking and he's not capable of providing it, then maybe you address that by looking outside the consultancy and paying advisors.

Cate: Well maybe you ask them to skill up surely. I mean I find it hard - if we're actually saying we believe we should incorporate climate change explicitly as a long term systemic risk, how you then can't on an annual basis look at the risks and opportunities.

Garry: Yeah I think that's right. I think we're - I think this is pretty much process, procedural. It's about really the creation of that policy plank and you know, we can go on and talk later I assume about some of the implementation type issues.

Jon: But I'd like to make one more point, coming back to what Geoff said before. Yeah, our intention is not to create the Department of Climatology in room 15C. This is all part of the fabric of risk assessment and risk control, and in that regard, no different from thinking about the currency or the state of the equity market or the price of the bond market. It's all one continuum. But this is very important and I think that's what we've all agreed on. This is something we really need to give thought to.

Geoff: All the focus in this discussion though has been on risk. We're talking about future strategic investments. I think we should be talking about opportunity. So why are we doing this? Are we doing this because we think the world's going to get warmer in the next 20 or 30 years and we think that we've got an obligation to our kids, to our grandchildren, to be out ahead of the game, setting a good example and beginning to change the world. Or do we actually think there are genuine opportunities out there, that if we are ahead of the curve, we can actually achieve investment return in our performance that justifies us taking the decisions that you're asking us to take today, from an investment point of view rather than from a philosophical or political point of view.

Garry: Why do there have to be alternatives? I mean why are those two things alternatives? Surely in a rational world, those two things would come together. And I mean I agree with Jon, that clearly there is a chance of short term underperformance. There's an equal chance of short term over performance. All we're talking about here is a differentiation from what might be regarded as the sort of average asset allocation across the industry, or across our competitors that we might be somewhat different.

Even that I think is questionable, because many of our competitors are ahead of this on this particular journey. So our real chance of short term underperformance or over performance might well end up being, not addressing the issue. And so I think it's completely wrong to think about this as a once - as a risk. I agree with what you're saying. It's not simply a risk, there are opportunities, and they're not necessarily inconsistent with the social benefit. And they ought in a rational world to be the same. I agree the world's not rational by the way.

Geoff: That's right. I mean I have no problem with taking a hit on short term performance, but the sense that I'm getting from the way that we've approached this as a board over the last few months, is that our hesitation on doing more in climate change is because we think in doing more, in doing what we think is our obligation to the world, that we're inherently, probably going to be doing so at the sacrifice of member returns, into the short, medium and long term.

Garry: Well we've got a fundamental difference on this point Geoff. If you keep getting stuck in that groove, we're going to have a very boring and monotonous discussion, because there is nothing, I have seen nothing from any source that indicates there is a greater probability of underperformance if we build these things. There is at least a theoretical chance of outperformance, I've seen nothing to say there's the likelihood of underperformance.

Frank: And also what's important is as a fund, most of our members are going to be with us for a 60 year journey. So when we look at these asset allocations and investments into the future, we need to be cognisant of the return from short term, but the long term. Some of these assets that we're currently invested in, in the long term are going to be an impact on our returns.

Geoff: But that's exactly my point Garry, that if you're - if we're approaching this discussion because we think that we can drive outperformance into the long term because they're at the start of the game, at the forefront of more responsible investing, more sustainable investing around climate change considerations, then I think that's a discussion that we very much should be in, and we should be focusing on the opportunities. But most of the discussion until what you just contributed before, has been around risk and has been around awareness, and - well the sense that I was getting, an inevitably that on the investment side this perhaps is not going to be such good news. We're going to do our bit for society, we're going to do more than the current government's doing…

Kath: I don't think that we've had that discussion, I don't think that we have been motivated by a philosophical or a social good. I think that the whole discussion has been an investment discussion and it's been about A, the fact that we're long term investors, but not - I'm not accepting the short term loss; about the fact that we do have to orient our portfolio because regulators around the world are putting a price on carbon, and that’s the issue. And abatement is still where the world is going and if people are going to make it more expensive to be in carbon emitting industries, then our capacity to make money out of those industries is reducing and we have to be in other industries if we want to be in the energy and water and those sort of sectors. That's - I thought that was the discussion that we've been having.

Jon: But also on the matter of investment performance, as an investment person I live and breathe performance, it matters to me above everything else. Bad performance is intolerable, so for me the driver of this is performance, and the fact that it might come from climate change sensitivity is an input, just as currency and equity prices are an input to performance.

Cate: Okay, well I think out of that it's very clear that we're highly committed to looking at both the risks and the opportunities of going down this path.

END TRANSCRIPT RESOLUTION 3