PERFECT STORM SUPER

SCRIPT for RESOLUTION 5

Cate: Okay. We'll move onto the investment allocation ***resolution, number five, that the investment committee seek low carbon investments on an appropriate risk for return basis and consistent with the investment strategy***. So this is a clear directive to look for low carbon investments. Are we happy to put that to our investment committee?

Frank: I think it's important for the investment committee to be quite clear in this resolution, that if they can't find any low carbon investment, what is the alternative. Because if you say - if you wrote it, it was resolved that the investment committee invest in low carbon and take into consideration risk and return, well what happens if an investment opportunity is not there to do it? Do they continue to invest in the normal way, and we accept it as long as they do the risk on return? Or do you expect them just to put money into low carbon investment?

Cate: Well it wouldn't be my expectation that it's an exclusive approach to investment, but I'll open it up to the board to - perhaps Jon, if you've got a comment on that?

Jon: Well I think it's a case of - to follow on from what Frank has said, we would want very clear guidance from this group about what they expect from us. So we've all read about, heard about, seen, investments in Clean Tech for example that probably didn't go as well as they should have, whether that's short term, medium term or long term. It's obviously a complex matter. Se we would like some clear indication of your tolerance for that kind of investment, because we don't want to put up a thesis which ultimately self-defeats and incurs the wrath of Geoff over here.

Cate: So the definition of appropriate in that resolution.

Garry: I think two big issues are raised by this. One is the question of asset allocation, so in broad sectoral terms not just investment class but also sectoral terms. Asset allocation, how we tilt in favour of lower carbon or tilt away as Jon says from higher carbon greenhouse risk. And then the other question is actual asset selection, and that brings with it an implication of a much more direct approach to investing, which I think is another issue altogether, and not one that we should be rushing into without care as we're currently constituted, because we don’t necessarily have a great record or experience in any direct investment, so why would we be great at direct investment in a low carbon environment. So I think they're the questions at this stage need to be further - I think they should be on the agenda and need to be further debated. And we need to work out with the help of our consultant and our executive how we might logically approach both those questions, of direct investment and asset class tilting. Because there's many, many ways we can go about that.

Geoff: I guess the question that I still have though is what is the reason for the tilt? Is it because we see investment advantage in the tilt, or is it because of the philosophical policy discussion we started this meeting with? Because that's still unresolved in my mind. I have no problem with the philosophical commitment, I still need to be convinced on the investment side.

Garry: If you could tilt and there was no evidence or likelihood that that would be a worse investment decision, would you? I would.

Geoff: Yeah I would too.

Garry: So that's enough. I think that's sufficient to guide us. You know, we are not looking to tilt our portfolio in ways that will lose us money compared to the alternative. We're looking to tilt in ways that will abate carbon and hopefully make us long term outperformance.

Frank: It's the opportunities that you're talking about here, not the risks. So when we go and implement the policy, it's about the opportunities versus low carbon and net current assets we have.

Jon: So we will come to you with a well thought out, well researched, well prepared thesis. Let's take an example that may or may not come to pass, to invest with a private equity manager who has particular skills in this area. We will bring a developed thesis to you, which of course you have that right to reject if you don't like it. But it certainly goes way beyond the belief into practical implementation, and at the level of the overall portfolio, not the specific investment. But how does it integrate into the overall portfolio. And maybe another topic we haven't yet considered Cate is what do we do for our pensioners as distinct from our superannuation customers. Do we treat them differently in this regard, given that they might have shorter timeframes for investment? I put that as a question not one I have an answer to.

Kath: Well I think that comes back to the fundamental question though doesn't it, because if what we're saying is we've got an expected return and volatility appetite within each asset class and we're tilting within those asset classes, then they're set and really you're just saying you know, you're swapping an apple for a pear and the pear for low carbon and that's fine, that sits within the asset class, and that's as I envisage it happening. If we're talking about having a separate asset class, a whole lot of different managers and all of those sorts of things, then I think that we might need to think about packaging something up differently for the pensioners. But as I envisage it, we're not looking to change all the rest of the investment strategy, which has a risk appetite and it has a return expectation for an asset class and we have those things. We've set them already, we're not revisiting those, we're just saying within that identify if we can low carbon opportunities.

Cate: So are people comfortable with that? I mean should we have a special option for people who really want to you know, give climate change a heads up in their investment portfolio and should we go down that path?

Geoff: It might be a good quite to the Board as to how interested we should be based on how much interest there is from members in moving into that space.

Garry: I think it is a good idea subject to us getting a successful policy about our core. If we can get a successful policy that we're agreed and united about and are going forward with, then we can fairly easily adapt that to a stronger version of that policy and offer it up to members. But I mean I think the first thing is to get the core strategy right and to know what we're doing in terms of the tilt, and I assume we're talking about really a tilt here.

Kath: I agree with Garry very much. I think that this is mainstream for us, but it may well be that if we do identify asset managers or others through the course of this that we think could package up a special option for our members who are particularly interested, we could do that down the track.

We've got a lot on our plate at the moment with all the regulatory changes and everything else, I wouldn't rush to it. But you know when there's some free capacity within the fund it's something we could look at.

Jon: And let's not forget our members in this debate. We've already seen Frank's third filing cabinet full of letters from members angry about issues such as tobacco and nuclear armaments and the rest. I'm sure there'll be a lot of letters around climate change over time, and we need to be sensitive to what it is the members are asking for and listen to them very carefully.

Kath: Yeah although they are a noisy - they're - we have to be aware that we've got to bring our membership with us - to the passive members who aren't paying that much attention. We don't want them to leave us because we're too far ahead of us.

Garry: Well it is a marketing issue. You know I think - like we want to retain and grow members, we want to do that presumably because there's very strong evidence about the impact on unit costs with growing membership, other things being equal which of course they're not. But you know, the economies of scale are enormously strong in investing, in admin, in insurance. So we want to be sensitive to the marketplace. If there's a marketplace there that will help us grow by having those options, I think we definitely need to look at it.

Cate: Okay, do we feel we've had enough discussion of asset allocation? I think we've reached a consensus there about what we mean and that we might down the track offer a special option if we get in place this fundamental framework.

END TRANSCRIPT RESOLUTION 5