

6 July 2018

Ms Karen Chester  
Deputy Chair  
Productivity Commission

**Reference: Productivity Commission Draft Report Superannuation: Assessing Efficiency and Competitiveness**

Dear Ms Chester

Australian Ethical Investment Limited is pleased to make this submission to the Productivity Commission in response to the Draft Report on Superannuation: Assessing Efficiency and Competitiveness, released in May 2018 for public consultation.

**1 About Australian Ethical Investment Limited**

Australian Ethical Investment Limited was established in 1986 to manage the retirement and other savings of Australians in an environmentally and socially responsible way. Today we manage over \$2.7 billion in superannuation and managed funds for over 40,000 Australians in accordance with our [Australian Ethical Charter](#). This charter has remained unchanged for over thirty years and ensures Australian Ethical avoids investments that harm people, animals and the planet and seeks out investments that will create positive, sustainable change for society and the environment.

Australian Ethical is publicly listed on the Australian Securities Exchange (ASX: AEF) and is one of the fastest growing wealth companies in Australia. In 2017 we had an extraordinary year in terms of growth — our funds under management for the year grew 38% and our superannuation fund was the fastest growing fund in 2016<sup>1</sup> (. We were amongst the first certified B Corporations in Australia, and donate 10% of profits to good causes which includes an annual Community Grants program

**2 Comments on the Draft Report**

**2.1 Comment 1: Environmental Social and Governance (ESG) integration should be a requirement for shortlisted funds**

**The Draft Report's Draft Recommendation 2 is for a 'best in show' shortlist of funds for new members. Australian Ethical firmly believes, to be eligible for the proposed fund shortlist, a fund should have demonstrated that they rigorously integrate ESG factors into their investment**

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<sup>1</sup> KPMG Super Insights Report June 2017

**decision making.** They need to have active assessment processes in place that incorporate ESG factors in their evaluation of the suitability of investments.

#### 2.1.1 Background

This requirement reflects a broad industry and regulatory consensus that to disregard ESG factors exposes members to serious financial risk. APRA, for example, expects leading super funds (and other regulated entities) to be able to articulate in a sophisticated way how they have investigated climate-related risks and their action to respond to those risks<sup>2</sup>

### **2.2 Comment 2: Ethical investment options should be included in shortlisted funds**

**In addition, Australian Ethical firmly believes that the shortlist of funds should include ethical funds.**

#### 2.2.1 Background

Ethical investment typically incorporates ESG integration, but it also considers impacts on people, animals and the environment independently of nearer term financial risks. ESG integration on its own can be ‘ethically passive’. It won’t stop a fund investing in a harmful product if the manager thinks the company’s share price has fallen far enough to represent good financial value. This approach disregards the power which investors have to help positively shape the future. For example, if investors only choose companies which have strategies aligned to limiting warming to below two degrees, then they will proactively help to bring about a world which effectively limits warming. By shifting capital from fossil fuels to renewables, investors help to bring down the price of renewable energy, they encourage investment in more flexible electricity grids and energy storage, and they contribute constructively to a sensible public discussion about energy policy. These investors, particularly universal investors like super funds, are also acting in the interests of their clients because risk-adjusted returns are going to be better in a low-warming world than a high-warming one.

### **2.3 Comment 3: Ethical investment is a rational choice for many investors**

**Australian Ethical firmly believes that ethical investment is a rational choice for many investors.**

The Draft Report includes a brief discussion of ethical investing (page 183). We are concerned that this discussion misunderstands ethical investing by suggesting incorrectly that:

#### **1 Ethical investing is not aligned with good financial outcomes for members**

There is ample evidence that financial returns are not harmed by taking into account social and environmental impacts.<sup>3</sup>

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<sup>2</sup> APRA The weight of money: A business case for climate risk resilience. November 2017 (<https://www.apra.gov.au/media-centre/speeches/weight-money-business-case-climate-risk-resilience>). See section “APRA’s response”.

<sup>3</sup> See e.g. 18 of 2017 Responsible Investment Report (<https://responsibleinvestment.org/wp-content/uploads/2017/07/Responsible-Investment-Benchmark-Report-Australia-2017.pdf>); ESG & Corporate Financial t 02 8276 6288 e enquiries@australianethical.com.au p GPO Box Centre Sydney, GPO Box 8, Sydney NSW 2001 Australian Ethical Investment Ltd ABN 47 003 188 930 AFSL 229949 [australianethical.com.au](http://australianethical.com.au)

- 2 *The growth of ethical investing is a product of bias or emotional framing rather than rational decision making.*

Choosing a professional ethical fund is a rational decision given the strong positive financial and non-financial outcomes that can be achieved from ethical investing.<sup>4</sup>

- 3 *Ethical investing is problematic because views of ethical investments vary.*

People's views of the financial value and prospects of investments also vary, without making investing in general problematic. In any case, our experience is that most people agree that people, animals and the environment are important and that disagreement in particular cases arises from factual complexity rather than from different ethical values. Australian Ethical is transparent about its ethical investment approach to members and others by publishing on our website our Australian Ethical Charter, investments and analysis of key ethical issues.

We would be most pleased to expand on the above comments or meet with the Commission to discuss.

Yours sincerely

Phil Vernon  
Managing Director

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Performance: Mapping the global landscape  
([https://institutional.dws.com/content/media/K15090\\_Academic\\_Insights\\_UK\\_EMEA\\_RZ\\_Online\\_151201\\_Final\\_\(2\).pdf](https://institutional.dws.com/content/media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_(2).pdf))

<sup>4</sup> See references above.