Supporting sustainable finance in Australasia

EPA VICTORIA

Victoria The Place To Be

Issue 16 July 2009

Briefing

UNEP Finance Initiative
Innovative financing for sustainability

UNEP Finance Initiative news from Australasia

VicSuper takes the lead on low carbon superannuation

VicSuper is the first Australian super fund to direct members' retirement savings into an investment portfolio which is designed to achieve the same investment return as the broader international share market – with half the carbon footprint.

Managed by Vanguard Investments, this low carbon investment portfolio comprises 700 companies which collectively emit significantly less carbon emissions than their industry peers (visit www.vicsuper.com.au for more details). These companies were selected from the 1,700 company strong MSCI World ex-Australia Index, and represent the top 40% of each industry for carbon performance.

VicSuper Chief Executive Bob Welsh, said: "The cost of environmental damage which carbon emissions cause is not yet priced into the value of financial assets such as share prices for publicly listed companies. But it's only a matter of time, and this means investors are currently presented with significant risk and opportunities.

"At VicSuper, we firmly believe that low carbon investments offer less risk and the likelihood of higher long-term investment returns. Therefore, investing in a carbon aware portfolio is simply a commonsense investment decision for us.

"Our initial $150 million investment is the latest step which we've taken on VicSuper's well-established journey to incorporate sustainability considerations into all investment decisions. Not only is this the best way to safeguard and grow the retirement savings entrusted to us, but it also enables VicSuper's members to feel confident that they're investing in a better future."

The carbon aware investment portfolio is diversified across all industries; companies were selected based on research and analysis conducted by Trucost Plc, a London-based environmental research organisation which advises companies and investors on the environmental impacts of business activities.

VicSuper Chief Executive Bob Welsh

Trucost Plc Chief Executive, Simon Thomas, said: "By including companies from all industries, rather than excluding industries which are carbon intensive such as mining and resources, the fund encourages and rewards better performance because capital is directed to companies which outperform on carbon efficiency."

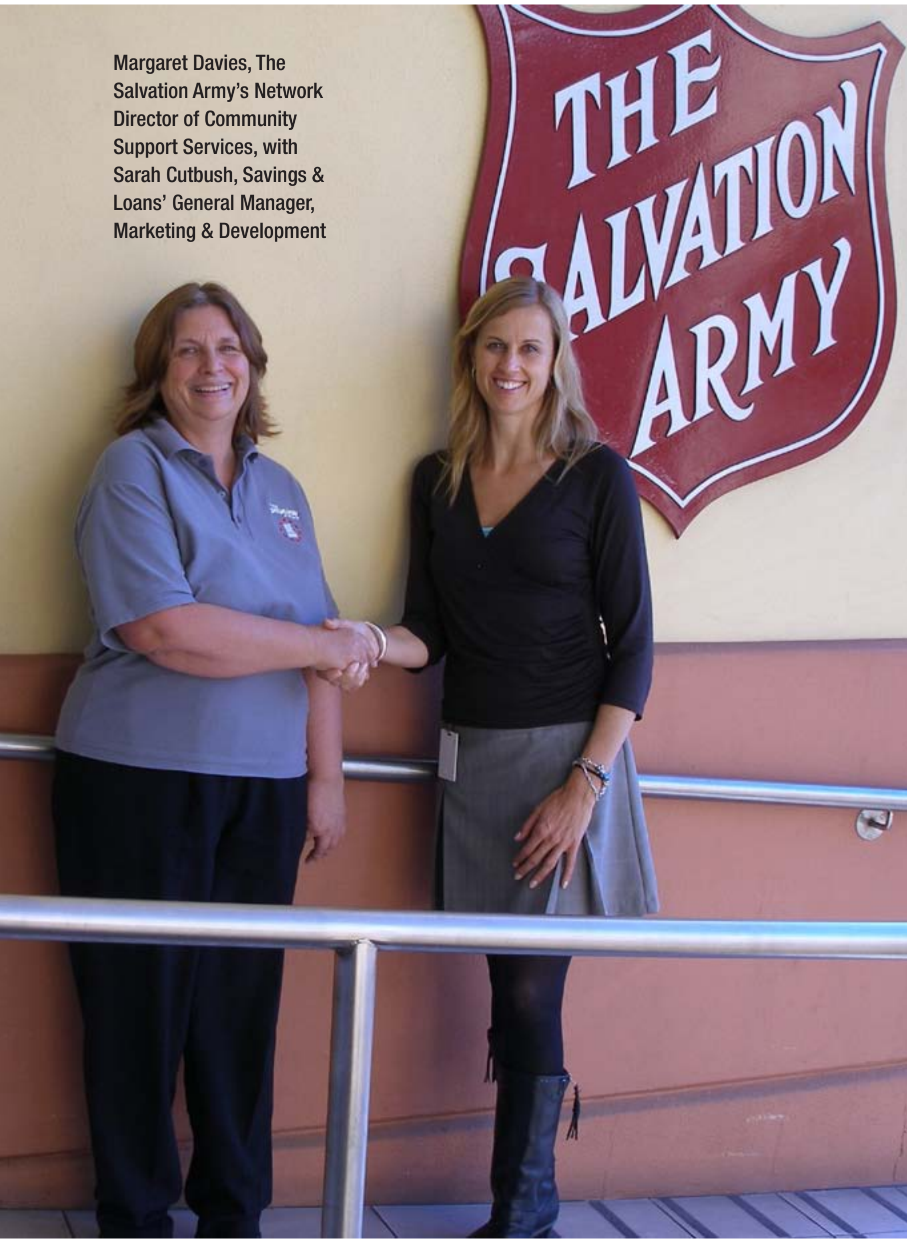
According to Vanguard, the portfolio is designed to be index-like by targeting a similar risk/return profile as the MSCI World ex Australia Index, while providing 50% less carbon exposure than the index.

For further details on the fund, visit www.vicsuper.com.au.

Helping the Salvos provide sustainable debt crisis solutions

UNEP FI signatory Savings & Loans Credit Union has partnered with The Salvation Army to provide no-interest loans to people going through financial difficulty.

The Positive Impact Loans program allows the Salvation Army to advance small value, no-interest loans to disadvantaged people, along with financial counselling and budgeting advice. The loans are primarily used to purchase household items like washing machines and refrigerators.



Margaret Davies, The Salvation Army's Network Director of Community Support Services, with Sarah Cutbush, Savings & Loans' General Manager, Marketing & Development


Interviewing a client

Margaret Davies, The Salvation Army's Network Director of Community Support Services, said the key to the program is that clients are provided with the tools to help them stay on top of their finances, rather than simply given a loan.

"The Salvation Army only provides the loans only in situations where our client has met with an accredited financial counsellor and established a budgeting plan," she said.

The Positive Impact Loans are designed to help people stay away from "payday lenders", who charge high interest rates on loans. The large repayments on these loans can lead many people into a spiral of debt that is hard to escape.

"Even though some lenders charge exorbitant fees and interest rates, sometimes people have no choice but to take that option because they have urgent expenses," said Sarah Cutbush, Savings & Loans' General Manager Marketing & Development.

"The Positive Impact Loan program could give them the help they need, depending on their income and credit history.

"As well as giving people access to affordable credit, the Positive Impact Loans program equips people with the skills they need to stay on top of their finances and plan for the future.

"Many of The Salvation Army's clients wouldn't qualify for credit with Savings & Loans or other main-stream lenders. The Positive Impact Loans enable us to provide finance to this section of society while ensuring that our credit quality remains high."

Positive Impact Loans have been used to help people settle these payday loans, meet education expenses to help secure employment and purchase energy efficient household appliances to reduce energy bills.

Savings & Loans provides the funding for the project while The Salvation Army writes the loans for its clients and provides support services.

A new initiative, a familiar objective

ESG Research Australia is a new initiative, launched this year, with a single objective: to increase the amount and quality of sell-side ESG-inclusive research in Australia.

By **Robert Fowler** (pictured below), Executive Manager Investments and Governance, HESTA, and **Richard Fuller**, Investments Analyst (PRI), HESTA

ESG RA became an association under Australian law in June 2009, and now has 35 members including fund managers, superannuation funds, and asset consultants.

If ESG RA's objective sounds familiar, that's because it is identical to that of the Enhanced Analytics Initiative which started in 2004, and which has now joined forces with the UNPRI Research Database. Further, the idea itself is covered more generally by the UNPRI and ESG RA will complement the new UNPRI Research Database. As a concept, then, ESG RA is hardly new – so why introduce a start-up initiative in the same field?

To answer this question we need to go back to some discussions between HESTA Super Fund and Vicsuper. As superannuation funds interested in the field we were both concerned that there was so little ESG-inclusive research being produced in Australia. This in turn led to a series of workshops held in late 2008 and attended by fund managers, superannuation funds, brokers and asset consultants.

A number of key themes and conclusions emerged from these workshops.

- We considered there needed to be a specifically Australian initiative to effectively encourage ESG-inclusive research in Australia.
- As effective as the EAI clearly had been, the consensus was that the design of EAI would not be as effective in Australia as it had been in Europe – the plant would not flourish if it were to be simply transplanted. Some design changes were necessary.
- A key lever for change was brokerage flows to analysts who produce ESG-inclusive research – if ESG was to progress it was essential that it was valuable in an economic sense to brokers, not just a "nice to have".
- Although we wanted significant incentives for ESG-inclusive research, we did not want to mandate a particular level of allocation to ESG research (this itself was a significant variation from the EAI which required an allocation of 5% to ESG research).
- Related to the above, we had to shift ESG from a niche activity to a mainstream or core business activity, for all players in the investment chain.

At the same time we considered what sort of organisation we wanted. One consideration was primary. In the current circumstances, we could not afford to make this an expensive exercise. We addressed this by making ESG RA zero cost in terms of dollars (or as near as we could given some legal constraints) – the contribution required will be in the form of intellectual capital and time. Consistent with that, we wanted to organise ourselves so that all members could be actively involved, so we have structured ourselves in terms of working groups.

So, what will ESG RA actually <u>do</u>?

Consistent with the outcomes of our discussions, we see five key areas for ESG RA.

- To encourage fund managers to incorporate ESG into their panel structures as the key means by which fund managers assess and pay for services by brokers. The intention is twofold: to shift ESG from a niche activity to the mainstream, and to place ESG at the heart of the economic relationship between fund managers, brokers, and superannuation funds as asset owners.
- To raise the profile of ESG research throughout the investment chain. To do so we thought we should acknowledge excellence in ESG research and also (for example) seek to have ESG included as a factor in key industry surveys of broker and fund manager performance.
- In order to acknowledge excellence, we thought it necessary that we determine a methodology for evaluating the research that is produced.
- Collect data to benchmark our progress year-on-year.
- Work closely with the UNPRI Research Database to further the aims of ESG-inclusive research on an international basis.

It is early days and ESG RA is still in its formative stage. We have been more than pleasantly surprised by the degree of commitment to ESG RA's objective. Clearly, the program will evolve (and evolve fairly quickly) particularly as the working groups become active. We look forward to the journey.

Biodiversity offset: a world first

Protecting the Red-tailed Black Cockatoo, Victoria's most endangered bird, doesn't sound like a job for a financial institution. But mecu, one of Australia's largest credit unions, has a Conservation Landbank which is doing just that. Alexandra de Blas reports.

Buloke grassy woodland is the most endangered habitat type in the region but it is a vital food source for the Red-tailed Black Cockatoo

BROOKE OTTLEY • WWW.SCARLET-RAIN.DEVIANTART.COM

The biodiversity offset in the Conservation Landbank is a world first and a key step in mecu's quest to become Australia's pre-eminent socially responsible bank. The credit union was one of five organisations to receive the Victorian Premier's Sustainability award last month.

The Landbank has two key functions biodiversity protection and climate change mitigation. It offsets the business of banking by protecting threatened plants and animals, and revegetating with native species.

Landbank costs are met from a percentage of mecu's annual profits.

Each time mecu funds a loan to build a new home an area of prime conservation land, the size of the house block, is protected. If the new house is built on a 650sq/m block an equivalent land area is allocated for protection or revegetation in the Landbank.

The free biodiversity offset on the home loan is just one of a suite of features designed to mainstream environmental and social values into mecu's everyday banking products.

"Minimay", a 201-hectare block in the west Wimmera, is the Conservation Landbank's first property. It is managed by Landcare CarbonSMART while local farmers from the Kowree Farm Tree Group do the hands on revegetation work. The group has an impressive record of landscape regeneration and plans to involve the community and local schools in the project.

Tree planting will offset the credit union's carbon emissions as well as the car loans it finances. mecu is the first car loan provider globally to offset the CO_2 emitted from its entire financed motor vehicle fleet. The Landbank will help the organisation achieve carbon neutrality by 2010.

The purchase of Minimay was highly strategic. Buloke grassy woodland is the most endangered habitat type in the region and the property has a decent chunk of it. Less than 2% of original cover still remains and it is a vital food source for the Red-tailed Black Cockatoo. All properties deposited in the Land-bank will be protected from development by Trust for Nature covenants.

Working with partners is enabling mecu to achieve greater conservation outcomes than if it was working alone. Minimay was one of the first conservation properties purchased under Habitat 141; a visionary project restoring and reconnecting iconic landscapes

for mecu

across 700 km from the arid zone to the coast across three states – South Australia, Victoria and NSW.

Ron Dodds, Regional Manager for Greening Australia (GA), says, “It’s a really exciting development to have a commercial entity such as mecu coming on board. It fits so well with what’s happening at Nurcon [a 186-hectare GA block, 50 kms to the east] where a mallee woodland property is also being regenerated. The value of mecu’s involvement is that it is really enabling us to work at scale.”

By leading the way with the Conservation Landbank mecu hopes to encourage other businesses to see the benefits of investing in conservation projects. Rowan Dowland, mecu’s Manager of Development, says “Being sustainable not only delivers dividends for the environment and community but for business as well.”

The establishment of the Landbank fits within mecu’s overarching approach to sustainability which is fundamentally about understanding and managing risk.

“Biodiversity will become an incredibly important issue for Australia,” says Dowland. “If you get your sustainability model working right you are able to see the big issues beyond the horizon, whether they be financial, social or environmental – this insight allows the business to transform its risks into opportunities.”

Another area where mecu is ahead of the curve is affordable housing. It is currently amongst the most proactive financial institutions working in the sector and is in the process of evaluating more than $100m in project finance.

Despite the Global Financial Crisis, mecu continues to grow. If its announced mergers with Victoria-based RegionalOne and Maroondah Credit Unions go ahead its members will exceed 145,000 and its assets will grow to more than $2.2billion.

“mecu takes the business of socially responsible banking very seriously,” adds Dowland, so it’s no surprise that it’s Australia’s first credit union to be assigned a long and short term credit rating from international ratings service Standard and Poor’s.

For more information visit www.mecu.com.au

View the Conservation Landbank Video at http://www.mecu.com.au/About-mecu/news-and-media/mecu-Conservation-Landbank-Video-Presentation.html

NAB launches innovative matched-savings product

NAB has launched an innovative matched-savings program for Australians living on low incomes – the AddsUP Savings Plan.

In partnership with Good Shepherd Youth and Family Service, the program provides both support and a financial incentive for participants to save.

“We designed this product for people living on low-incomes who have repaid their no-interest loan (NILS®) or low-interest loan (StepUP) and would like to start saving,” said Richard Peters, NAB’s Head of Community Finance & Development.

“Once an individual has saved $300 in an AddsUP Savings Plan, NAB will match their savings to a total value of $500.

“For example, a person who saves $400 in their account will receive an additional $400 from NAB, taking their savings balance to $800.

“We know that 95% of NILS and StepUP clients repay their loans in full; and that means people have built budgeting and repayment skills that can be applied to a savings product.

“AddsUp builds on these skills and provides a supportive and rewarding savings opportunity,” added Richard.

Matching will only happen once in the lifetime of the account.

Michael Yore, Executive Director, Good Shepherd Youth & Family Service added that AddsUp is an opportunity for people to save for the things that matter to them and be supported in the process.

“Whether people choose to save for school costs, gifts, transport, a rainy day or simply the “peace of mind” that comes with having “emergency” money for times you can’t plan for; the AddsUp Savings Plan will make a difference to people’s lives,” said Michael.

Launched at the Echuca Indigenous Community No Interest Loans Scheme (NILS®), the program will roll out to 50 communities across Australia over the next 12 months. By the end of 2009, NAB anticipates over 1200 individuals and their families will have access to the AddsUp Savings Plan.

Leveraging NAB’s fee-free Concession Card Account, AddsUP is another important step to address the issue of financial exclusion in Australia; a focus for NAB and outlined in NAB’s Reconciliation Action Plan (RAP) and microfinance strategy.

Since 2003, NAB in partnership with Good Shepherd Youth and Family Service, has worked with local community agencies and government, providing innovative microfinance solutions to help low income Australians access fair and affordable financial services.

NAB’s microfinance commitment includes a pledge of $130 million in capital ($30 million announced in April 2006 and $100 million announced in October 2009) to support lending to low income groups. Within this pledge, NAB has recently allocated $5 million to expand the NILS® network, taking the allocation for NILS from $10 million to $15 million.

For more information visit www.nab.com.au/microfinance

United Nations Global Compact Networ

The Australian Network of the UN Global Compact was formally launched at the 10th National Business Leaders Forum on Sustainable Development at Parliament House, Canberra, on 28 May 2009 by Senator the Hon Nick Sherry, Minister for Superannuation and Corporate Law, and Georg Kell, Executive Director of the UN Global Compact.

Just what is the UN Global Compact?

Launched in 2000, the UN Global Compact (UNGC) revolves around 10 principles for business on human rights, labour, the environment and anti-corruption. The principles are derived from international instruments that enjoy widespread government support, namely the Universal Declaration of Human Rights; the ILO Declaration on Fundamental Principles and Rights at Work; the Rio Declaration on Environment and Development; the UN Convention against Corruption.

The Global Compact is the world's largest voluntary corporate citizenship initiative – with over 5000 business participants from more than 130 countries around the world committing to work towards the principles and convey on an annual basis their 'Communication on Progress' to their own stakeholders (letter signed by CEO, endorsed by the Board and sent to the UN Secretary-General).

Georg Kell: "Country networks are absolutely key for the UN Global Compact and increasingly are actually defining what the compact is."

Recent Australian signatories include Woolworths and Drake International. They join long-standing Australian participants such as Westpac, BHP Billiton, Foster's and Allens Arthur Robinson. Companies sign on for their entire corporate group – thus there are hundreds of other Australian companies that are subsidiaries of international companies that are already participants. These businesses are now becoming activated through the Australian Network e.g. BP Australia, Nestle, Unilever, Cadbury Schweppes, Microsoft and UBS. Australia is the most recent country to establish a Network.

Speaking at the Tenth National Business Leaders Forum on Sustainable Development at Parliament House on 28 May 2009, Senator the Hon Nick Sherry, Minister for Superannuation and Corporate Law, said: "I congratulate new and long-standing Australian business participants in the UN Global Compact for their commitment to responsible and sustainable business practices."

The UNGC is closely connected to the UN Principles for Responsible Investment. According to Donald MacDonald, Chair of the PRI initiative and Trustee of the BT Pension Scheme:

"The UN Global Compact is an extremely important tool for helping companies to achieve long-term business success while also fulfilling society's expectation that they should operate responsibly. It provides companies with a framework of widely accepted standards to use in their management of environmental, social and governance (ESG) issues. Participation in the UN Global Compact sends a strong signal to investors that companies are both alert to the business implications of ESG issues, and taking active steps to incorporate them in their strategy and risk management."

The UN PRI has called on chief executive officers of approximately 9000 companies to commit to the UN Global Compact and its ten principles.

With the launch of the UN Global Compact Network in Australia (housed by St James Ethics Centre and made possible through funding from the Federal Government – Treasury) the number of companies becoming signatories to the UN Global Compact is expected to grow.

Rosemary Sainty, Head of Responsible Business Practice at St James Ethics Centre, foresees an active role: "St James Ethics Centre will work with Australian business signatories to establish a vibrant inclusive

k launched in Australia

Australian Network of the UN Global Compact, and offer practical help for organisations to integrate and operationalise the principles into their business practices, drawing from the Global Reporting Initiative, also housed at the Centre.

"In addition we are provided with an excellent opportunity to 'connect-the-dots' between those businesses reporting on the 'CSR' of their operations and the investment community's ability to analyse their 'ESG' portfolios more deeply."

To this end the Centre will be working closely with the Responsible Investment Association and its recently funded Academy as well as building strong linkages with the UN PRI and UNEP FI secretariats in Australia.

For more information, contact the Australian Focal Point to the UN Global Compact: Rosemary Sainty, Head, Responsible Business Practice, St James Ethics Centre

rosemary.sainty@ethics.org.au

www.thehub.ethics.org.au

Interview: Georg Kell

To commemorate the launch of the United Nations Global Compact Network in Australia Georg Kell, Executive Director of the United Nations Global Compact, visited our nation's capital to speak about his hopes for the Network and to advocate the role the investment community plays in leading the charge towards greater corporate citizenship.

Georg Kell spoke with Amanda Armstrong of St James Ethics Centre

The development of a Focal Point in Australia for the world's leading voluntary corporate citizenship initiative will offer business a vibrant, relevant and inclusive network. St James Ethics Centre's Head of Responsible Business Practice, Rosemary Sainty, says this Network will reflect a uniquely Australian perspective on the Compact's principles and provide practical help for Australian companies to integrate into their business practices.

While talking about the aspirations he holds for the future of UN Global Compact Network in Australia, Georg Kell mirrored these sentiments and went further to suggest that the creation of this Network will not only be good for Australian businesses, but will be beneficial to the UN Global Compact as a whole. Beyond acknowledging the importance of having infrastructure at a country level to support growth and promote action for corporate responsibility on the ground, Kell suggests that each Network provides something unique back to the UN Global Compact and contributes to the strengthening of the initiative.

"Country networks are absolutely key for the UN Global Compact and increasingly are actually defining what the compact is. The amount of activity that is now generated by the 5300 corporate participants and 1000 non-corporate participants around the world is increasingly driven from the bottom up – where innovation is generated by collective action that is organised and taking shape and where the interface with public policy making occurs." says Kell.

Already there is a noteworthy expectation that the newest Network will make a significant global contribution. By applying Australia's own culturally specific dimensions, the vision is that this Network will offer insight and expertise towards the strengthening of the UN Global Compact. For Kell it is Australia's deep connectivity with natural issues, opportunities for advanced technological progress and strong regional positioning that places this Network in good stead to embrace the values based principles and become a leader. Further he remarks that it is Australia's propensity to be honest and open when commenting on the state of global affairs that will positively contribute to the broader agenda and drive progress.

It is impossible to know where this progress will take the UN Global Compact over the next decade, but looking back over the last nine years Kell has already seen an evolution. He suggests that initially corporate citizenship was more involved in notions of

Continued on page 8

> **"The amount of activity generated by participants around the world is increasingly driven from the bottom up – where innovation is generated by collective action where the interface with public policy making occurs."**

Georg Kell interview *Continued from page 7*
legitimacy and obtaining a license to operate, where as today global conditions have added the driver of sustainability – specifically the impact of climate, water, food and so forth.

Even though it is difficult to predict the next evolution of the UN Global Compact, and indeed the global circumstances in which it will operate, Kell suggests that the one known factor vital for success is the necessary engagement of the investment community with the United Nations Principles for Responsible Investment (UNPRI) playing a critical role.

Kell believes that in order to progress the corporate citizenship agenda we must connect the investment community with the principles of corporate citizenship and create awareness that non financial issues matter. The role, and influence, of the investment community becomes instantly apparent when Kell explains that the 400 institutional investors that support the UNPRI represent over US$18 trillion, accounting for roughly 10% of global liquidity. Looking at that statistic alone it is clear that integrating responsible investment into mainstream thinking and the decision-making processes of investors, asset owners and asset managers will have, and does already have, a truly significant impact on the community.

But while those who have adopted the UNPRI have made a significant contribution to corporate citizenship Kell suggests there is still a way to go.

"The truth is, and I think it is fair to say, that the investment community, is still lagging behind the business community. The business community, because of its exposure to the real world and the lessons it had to learn, has developed many tools and many good practices that the investors don't yet know enough about. It is very important to bring United Nations Global Compact Networks and investors together so that they better understand and learn from business...." says Kell. The positive news is that with the UN Global Compact Network formally launched in Australia, the opportunity for this level of broad collaboration is greater than ever before.

For Georg Kell it is this notion of collaboration, and strong, considered leadership that constitutes the fundamental elements for success. For Kell leadership at its core is simple. You need a clear long term vision, recognise you have choices and, perhaps most astutely, you need to be aware that in making those choices there is a right and wrong – a moral and ethical dimension. It is the last point that seems to most often be forgotten, overlooked or swept under the carpet. But for Kell it is absolutely essential.

"No markets can flourish without sound ethics. Ethics underpin markets in every respect."

For Kell, these decisions are not just the domain of CEOs, senior executives and board members alone. To him we all have a hand to play in ensuring ethical leadership is at the forefront of our businesses and organisations. As Kell says, "To me it boils down to something simple – how you want to live your life. Be aware you have choices and make the right choice."

Perhaps in this bleak time of lack of corporate trust and transparency, the launch of the Australian Network has presented an opportunity for many of us to take on a leadership role and make significant practical steps towards inclusive integration and cooperation in efforts to achieve greater corporate citizenship.

Georg Kell with Rosemary Sainty, Head of Responsible Business Practice at St James Ethics Centre

EPA VICTORIA

Victoria The Place To Be

EPA Victoria is an independent statutory body charged with the protection of the Victorian environment. EPA signed a Memorandum of Understanding (MOU) with UNEP in 2000 to coordinate and promote its Finance Initiative activities in Australasia to ensure that Australasian financial institutions are assisted in managing their environmental issues. Learn more about EPA at www.epa.vic.gov.au/bus/UNEP/default.asp.

If you would like to submit an article, receive a copy of the Briefing or learn more about UNEP FI's Australasian activities then please contact us on the details below.

EPA Victoria
GPO Box 4395QQ
Melbourne
Victoria 3001
Australia

Telephone
+61 (0)3 9695 2543
Fax
+61 (0)3 9695 2578
e-mail
unep.fi@epa.vic.gov.au

Designed and produced by Rebus

Printed on recycled paper