

SHAREHOLDERS PROJECT

REPORT No.2

**A QUALITATIVE STUDY OF
SUPERANNUATION TRUSTEES AND
GENERAL FINANCIAL INVESTMENT MANAGERS'
ATTITUDES TO INVESTMENT-RELATED ISSUES**

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INTRODUCTION

This is the second phase of a study conducted by Irving Saulwick and Associates in collaboration with Denis Muller and Associates, for the Steering Committee organising the *Shareholders Project* forum, planned to be held in Parliament House, Melbourne, on the 15 September 2001. It is referred to as Report No. 2.

The first phase of the study consisted of a quantitative national survey of shareholders' attitudes to investment-related issues. The findings from that phase are contained in Report No. 1 of August 2001.

The second phase consisted of in-depth interviews with superannuation fund trustees and fund managers, and with investment fund managers at major investment houses.

In this report we:

- Describe the methodology used for phase two of the study;
- Summarise the main findings, and
- Describe the findings in detail, where we quote at length from our interviews.

The questionnaires used are included as Appendix I.

IRVING SAULWICK & ASSOCIATES

September 2001

METHODOLOGY

A qualitative methodology was adopted for the second phase of this study which is reported here.

A total of sixty semi-structured qualitative interviews were obtained:

Thirty-nine interviews were secured with Trustees of superannuation funds. Respondents were drawn from industry funds, public sector funds, and corporate funds. The respondents included employee trustees and employer trustees. We are indebted to Susan Ryan and the Australian Institute of Superannuation Trustees for providing us with a sample of respondents for this section of the study.

Twenty-one interviews were secured with Investment Fund Managers at major investment houses and stock brokers. For this section of the study a snowball method was adopted. With assistance from the Steering Committee a small number of investment fund managers were identified and approached. Each was interviewed, and then asked to recommend other potential respondents.

All the interviews were conducted over the telephone by senior research assistants. In most cases, respondents were provided with a copy of the questionnaire in advance. All respondents were guaranteed anonymity.

We wish to acknowledge the valuable assistance of these respondents. Without their candour and goodwill it would not have been possible to carry out the study successfully.

Interviewing took place between 20th August and 10th September, 2001.

The questionnaires were developed by the consultants in collaboration with the Steering Committee.

EXECUTIVE SUMMARY

ETHICAL OR SOCIALLY RESPONSIBLE INVESTMENT

1. There is a change taking place in the investment market. It shows a tendency to pay more attention to the ethical and socially responsible dimensions of investment decisions. Among superannuation funds, this change is led by trustees; fund managers tend to be more cautious about it. The change is careful, tentative, at times uncertain, yet vigorous in some quarters and apparently gaining momentum. It is linked to changes in wider community values, particularly concern for the environment and for the decent treatment of people, as well as to increased demands for transparency and accountability.
2. However, there is a deep divide over this within the investment community. This is captured in the words of two respondents. One said, "Love it". The other said, "Bullshit".
3. Many – particularly among superannuation fund managers and those making decisions at large investment houses – remain sceptical about the integrity and workability of ethical or socially responsible investment. They take their responsibilities seriously. They see themselves as having an overriding obligation to do the best they can financially for their members or clients. Many say they implicitly take ethical considerations into account, but that they synthesise these with financial considerations. Some of these people see explicit ethical investment as a fad, a gimmick or a distraction. Others simply see immense difficulties in satisfactorily defining what the term means, saying what is ethical to one person may not be ethical to another.
4. On the other side of the divide are those – especially trustees in union-related superannuation funds, and investment managers with a specific mandate to make ethical investments – who are strongly committed to this ideal. For them, certain principles are starting to emerge which allow them to make judgments about whether a company qualifies as an ethical investment. Some people express this as the 'triple bottom line' – concern for profitability, concern for the welfare of the people in the organisation and concern for the effects of the organisation and its products on the environment and on society.
5. Some people see a way of straddling this divide. These people say that the industrial, environmental and social impact of a company can directly affect its profitability, so that they do take these factors into account when making investment decisions, even though they might not dress up their decision-making in the raiment of ethical investment.

6. It is not clear from the evidence to date how the potential conflict between maximising profitability and investing ethically will be resolved. Does it require a trade off and, if so, how much is legitimate or acceptable to member investors? Some argue that a trade off is not necessary – that good returns can be secured with a balanced portfolio which takes into account the need to exclude some companies on ethical grounds.
7. Definitions are difficult, and tend to be idiosyncratic. Some think that investment in gambling is not ethical; others point to tobacco manufacturing or uranium mining or logging in old growth forests or whaling or to the use of child labour as areas of concern. Others say, yes, but where do you draw the line? Do you invest in the bank that lent money to the casino, or to the manufacturing company that made the cigarette equipment?
8. Fund managers tend not to adopt explicit ethical investment unless they are instructed to by the fund that retains them – although several are positioning themselves in the market to do so, and have fashioned products accordingly. Investment houses tend not to adopt explicit ethical investment unless mandated to do so.

SHAREHOLDER INFLUENCE

9. Large superannuation funds and investment houses say they can exert influence on the policies and operations of individual companies in which they hold shares, but small ones feel impotent to do so. Those who do exercise influence gave many examples. The most frequently quoted was the decision – futile, as it turned out – to vote against the BHP-Billiton merger. Other issues on which large funds or investment houses had been moved to intervene included composition of a company's board, remuneration for a managing director, and the strategic direction of the company. The companies involved were large: Coles Myer, James Hardy, and Fairfax, to name three.
10. Sometimes funds were moved to act with other funds, sometimes they acted alone. We sensed that the move towards collective action might be slowly gaining ground, especially among smaller funds.
11. In the case of superannuation funds, these initiatives were usually taken by the fund managers and then reported to the Board, although sometimes they were initiated by the Board and then carried out by the managers. It is most unusual for a fund to consult its members before deciding to intervene. Most say it is logistically impossible and anyway trustees are put there to make that kind of decision.

CORPORATE PERFORMANCE

12. Traditional practices persist: it is argued that there is pressure put on companies to produce good returns in the short term, rather than to look to the medium or long term. Fund managers, investment managers and trustees alike speak somewhat regretfully about this, but each feels under pressure from his or her constituency or client base, and simply passes the pressure on. A few respondents said there was room for companies to take the long view, but that they needed a credible and well-articulated vision in order to carry it off in the marketplace.
13. In general, companies were seen to be communicating somewhat better with their major shareholders than in the past. Whether they were communicating more adequately with their ordinary shareholders was not a question that many of our respondents felt able to answer. However, many of those who did respond said that in general companies did not communicate as well to ordinary shareholders as they did to institutional shareholders.
14. There is general consensus that companies these days had to be, and had to be seen to be good corporate citizens. If this involved sponsorships or other community-based investment, so be it. However, sponsorship needed to be done with a sense of propriety and in a spirit of genuinely adding to the well-being of the community. Done crassly, it could be damaging. A minority of respondents said that companies had no business spending their shareholders' money in this way: they should pay out their dividends and let individuals decide whether to give to worthy causes.

FINDINGS IN DETAIL

SUPERANNUATION FUND TRUSTEES AND MANAGERS

Questions

1. As an institutional shareholder, does your fund feel able to influence the operations or policies of the companies in which it holds shares?
2. Why do you say that?

Summary

A majority of respondents felt that they could not influence the operations or policies of companies in which they held shares, although a significant minority felt that they could.

Some trustees felt removed from influence because they used fund managers, whom they felt should be left alone. Some had made a conscious policy not to attempt to use their influence.

It would seem that this is a matter which is currently being reappraised, and that in the future more might opt for intervention.

An important factor is size. Big funds are more likely to feel they can have influence on the companies in which they invest, but small funds do not feel they can have an influence.

Responses

We have no direct link with the companies we have investments with, as we deal through a fund manager.

Our board has decided that we will vote with the management of a company unless we seriously worried. We deal through a fund manager.

We have only just begun the process of direct investment and there is no policy for voting shares governing our fund, much to my horror. When you ask investment managers, "How would you vote the shares?" the answer is, "A long company policy", so you get the policy of their organisation. That is not good enough.

The BHP- Billiton was a classic in that regard. The process was extremely poor, with a lack of critical information. We raised that with our fund managers. In the end we left the decision to the fund manager because we had unresolved questions, and we see that as unsatisfactory. We think this will improve because of our input into corporate governance policy. We are creating a means to be able to conduct engagement with companies that have some sort of business risk.

The investment managers are the ones that have the opportunities to influence the company management.

We're a large fund, so some of our holdings are potentially significant if we're going to have a vote – in which case we could be of some influence.)

In the past my institution has left this issue to fund managers, but this is changing.

–Trustees

We can talk to them but it doesn't necessarily have much effect.

Our direct holdings are not large enough.

Our company works mostly through indexed funds. We can pursue issues through fund managers but we are not direct shareholders, we are one step removed.

We don't have enough mechanisms in place to do that. If it is a significant enough issue our fund managers will come to us and ask us what we want to do

We voted against BHP merger. We had a briefing from an advisor but we felt we needed more time. Don Argus called to discuss the matter, which we found encouraging.

There are a few instances where we would like to have but could not get enough information to have made a decision. One of these was the BHP merger. We tried to get information from our fund manager but they also said that they were not being given enough information from the company.

--- Fund managers

Questions

3. What, if anything, has your fund done in recent years to exert its influence, and for what reasons? Can you give me some examples?

Summary

Action has been taken where ethical or socio/political factors have been involved.

As may be seen these issues range from opinions about executive salaries to production of land mines and to questions of environmental sustainability. International factors such as ILO conventions were also mentioned.

Responses

We were involved in the BHP/Billiton merger where we combined with others to vote against it on the basis of executive salaries etc. We also sent out a message during the Timor crisis that we were unwilling to deal with companies who had Indonesian interests.

There was one issue, and it had to do with landmines. We unanimously agreed not to invest in them but we found that the various parts are made by different companies and it is not so simple to work out who is responsible for their production.

We hold board positions so it's easier for us to influence company decisions. We took action just as a shareholder during the BHP/Billiton merger. We were against it but it had no effect. If we have a significant shareholding we try to secure a seat on the board. That way we can be more effective.

We've only done it once. We did it for ethical reasons... on a company that was quite malicious in its treatment of workers.

On the issue of Rio Tinto we instructed our fund manager to exercise our votes with the recommended resolutions of the industry. The ACTU came up with some resolutions, which we adopted, on an informal basis.

In the last year the board of trustees has taken a much more active interest and has started to instruct the managers but this is still not routine. In the future there will be routinisation in the voting of shares. The major drivers for this include concern with socially based investment, environmental sustainability

–Trustees

We have an indirect influence in this area through our selection criteria for our fund managers. For example we ask them about their attitude to ILO conventions.

– Fund managers

Questions

4. Has the fund acted in collaboration with other institutional investors on any of these occasions? Why? Do you think that co-ordinated institutional activism increases shareholder wealth?

Summary

As may be seen, instances of co-ordinated action with respect to BHP and Coles Myer were quoted. As we suggest above, we have a sense that such actions may become more common as experience is gained.

Responses

Yes we did. With other like-minded institutions we picked up about 17 per cent of the no vote in BHP-Billiton. They felt (our presence).

There was one instance and it concerned Coles Myes. Our fund manager joined with AMP to put pressure on the board of Coles Myer to get rid of Solomon Lew. The fund manager did this independently of us but they did let us know afterwards.

–Trustees

Indirectly once.

We did on the BHP thing. However, we would have voted that way anyway. We are mindful of not becoming part of a mindless lobby group that is pursuing a politically correct line such as environmental issues.

--- Fund managers

Questions

5. What criteria do you think institutions such as your fund should use in deciding whether or not to exercise their influence over corporations in which they hold shares? What are the most important of those criteria? What are the less important ones? Or are you opposed in principle to exercising this influence? If so, why?

Summary

Clearly Trustees and fund managers are grappling with this question. Most say they are addressing it. Opinions range from laissez faire (no intervention or principles except the decision to invest or not invest in the stock) to intervention on social, ethical, management and/or environmental grounds.

Some Trustees argue that they should leave these decisions to the fund managers, others opt for a more interventionist approach. In this latter case policy is enunciated and the manager asked to conform to it.

Other criteria have also been developed. One, for example, is a policy which differentiates between short term and long term growth. In this case the managers are instructed as to what policy position they should pursue.

Another criterion is the competence of management in the company in which investment is contemplated.

Responses

From my point of view I think we need to have a flexible policy on good corporate citizenship. The key to it is letting your managers know that there is a policy in place. Many people I mix with believe that we should not invest in tobacco; also companies with bad safety records, accidents, industrial disease. If they have good employee working relations then you have a happy workforce and a more productive company.

Our board has developed and continues to develop strategies to deal with sensitive social or industrial issues. In the five years that I have worked here I think it has come up twice. Once there was an objection to investing in tobacco and the other time concerned uranium.

The criteria are short-term growth and secondly there needs to be long-term strategies. SRI (Socially Responsible Investment) is quite topical but I'm not sure about that whole agenda. If a company were to propose a strategy that did not fit SRI but was good for the company then I would support it.

Criteria (would be) corporate governance, management – quality & flavour of management, how they are perceived – maintaining share value/price.

Probably environment and also governance . . . what the board is doing

I am opposed in principle. I think the influence of institutions is best exercised by investing or disinvesting in the shares.

Ethical investment is most important.

We are developing policy in this area - I think it's quite a grey area.

In principle we are in favour of voting with companies. However, there would be a number of situations where we would not. These would include:

If it would cause a loss to our members.

If it placed our members investment at risk.

If it were illegal.

If it were amoral.

Finally and to a lesser extent, if our members gave directives as to how they wanted their money invested.

That is the issue we are grappling at the moment. The issues include labour practices - ILO conventions, environmental issues, so a range of social responsibility issues. Also the general issue of management of the company.

We have to work in regard to our charter which says we must act in regard to our fiduciary obligations . We see that as a wide ranging charter which must take into account factors such as environmental and labour practices. At this stage there are no expectations put on fund managers to deal with these concerns but we are now developing policy to address these issues.

We stand back and let the managers handle it. We don't care.

Criteria have got to be:

enhancing the worth of investment to benefit members;

contributing to the company acting appropriately.

We'd probably believe that if company was earning money from doing "bad deeds", then that's not appropriate and you should be prepared to take action, even if in the short term it's providing increased returns.

Creating shareholder wealth (is most important), but poor corporate governance is also important in terms of responsibility of company owner.

–Trustees

I think what we're there for is to get good returns.

This is an area that we are reviewing at the moment and developing policy towards.

This is a vexing question... I choose not to. Investment decisions should be made by the fund manager otherwise you may get divisions in trustee boards along political lines.

If we were totally opposed to something, such as something detrimental to Tasmanian forests, possibly... so environmental issues. Also excessive CEO remuneration would also prick our ears especially if it was disproportionate to the levels paid to employees. Also if CEOs and board members were getting too great an access to shares.

Issues such as corporate governance, human rights, the environment, and occupational health and safety.

Transparency -- there is not enough of it. The other important ones are accountancy standards, industrial relations and executive remunerations.

Our aim is to maximise return commensurate with risk, rather than to make judgments on environmental issues or labour issues.

– Fund managers

Questions

6. What is your view, in principle, about the fund's consulting its members about whether to exercise this influence?

Summary

It is very unusual for funds to consult their members about whether to exercise influence over companies in which the funds hold shares. Some accept it as an ideal in principle, but most dismiss it.

One important reason is logistical: how do you consult with large numbers of people on perhaps complex issues in a short time frame, and make sense of the feedback?

A second important reason is that trustees feel they have been elected by the members to make these decisions on the members' behalf and that they would be failing in their responsibilities if they were unable to take the necessary decisions without resorting to an unwieldy and expensive consultative process.

Responses

We do that somewhat now. We have meetings with our members and they get journals sent out. We get a very favourable reaction.

There is no benefit in talking to members. We are mandated to do our job. We have a total of 600, 000 members and it would be impossible to get consensus. We watch community moods in regard to social issues.

It's difficult and too costly.

Its not appropriate as the trustees have the responsibility for this. It is also not practical.

Absolutely supportive of it, because it encourages members to feel a sense of ownership in relation to their fund.

We haven't even thought about that question.

We should consult our members and we do increasingly.

–Trustees

If you've got 50,000 members it is just not practical.

In principle I think it is ok but it is unwieldy in practice.

If there was a burning issue we would consult them.

It's a good idea. In my area, which was started by unions, democracy is very important but practically very difficult

–Fund managers

Questions

7. Have you ever consulted them? Can you give me an example?

Summary

It follows that consultation with members is rare.

Responses

It's more of a general indication. We have never surveyed our members but because we have three or four general areas of investment possibility from passive to the more aggressive people can take a more active role in their investments. 90 percent of people choose to follow the board's approach. They put the trust in the board, they don't want to be more involved.

I don't know how a large fund could communicate with their members. We have hundreds of thousands of members. It would cost too much and you still might not get a consensus.

We have a constitution and an important part of that is a consultative committee. Through this we regularly monitor our members' opinions.

–Trustees

Questions

8. I'd like to briefly discuss how you think trustees and fund managers should balance their fiduciary obligations against other considerations, when making investment decisions. In particular, is the bottom line all important, or are there are factors that your fund takes into account when making investment decisions?

If other factors:

9. What are those factors?

Summary

Funds differ widely on this question. Some say they take a “triple bottom line” approach which synthesises the financial, social and industrial performance of a company.

Others say they do try to balance the maximising of financial returns alongside other considerations. These most commonly include environmental impact of the company's operations, the social impact of what it produces, its occupational health and safety record, and the way it treats its employees.

Others again say that financial returns are what they are judged by, and that it is their responsibility to maximise the benefits to their members.

Fund managers, more so than trustees, are likely to say the bottom line is all-important. However, a small number say that these other factors can affect the bottom line and should therefore be taken into account.

Responses

The triple bottom line is important, which means financial, social and industrial matters must be considered. We must make money, but must also take into account current community views and social responsibilities.

Triple line accounting standards – this is a great way to look at any company: that they're already factoring in not only financial, but also social and environment issues.

The bottom line is not of absolute importance; it needs to be balanced against ethical concerns and the morality of investments.

I think the trustees have a duty re the bottom line, but other factors do come into it. But it is dangerous if you do get too far away from the bottom line.

The bottom line is not all-important. The decision must fit into the board's investment strategy, which will balance risk against return.

I doubt the bottom line is all- important. If members found out we were improving their benefits by investing solely in tobacco etc companies, members wouldn't be happy.

The bottom line is the key thing, but you can't invest in people who are irresponsible, dishonest, or poorly governed.

When we make an investment decision we would try to consider where there might be some growth for workers. These multinationals that dig a big hole in the ground then go offshore are no good. We look for something where there is a bit of investment in the long term.

We would leave it to these specialist managers to decide where to put the dough. So we won't restrict them to particular type of equity (e.g. don't use company x because it uses child labour), but we would have overriding guidelines around asset allocation – e.g. don't allow the use of derivatives.

We do have an overriding fiduciary obligation to maximize super investments and this overrides everything else. Over time we hope to pick up socially irresponsible practices. Members have made it clear to us over past issues that they want us to maximize their investments (rather than pursue other agendas such as local investment).

The bottom line is important... we have had lots of discussions about how to make investments using other considerations. Sustainability, economic returns, social responsibility and environmental considerations. At this time we can't compromise on returns.

–Trustees

The bottom line and security are about it

We have traditionally looked at the bottom line only.

The bottom line comes first (but) we do support something that is trying to get off the ground and that is good for the development of Australia.

I think the bottom line is broadly defined. I think you would have to look at a company in a holistic sense.

The bottom line is not all-important. Or put another way I don't believe fiduciary obligations are solely equivalent to the bottom line. Investment return has to be balanced against risk. In terms of risk, all of those factors such as wider social issues come into play. For example, labour conditions or environmental issues can blow up and suddenly they are impacting on the bottom line. In this sense wider social issues need to be considered in the context of risk.

Corporate governance, human rights, the environment, and occupational health and safety.

– Fund managers

Questions

10. What are your views on “ethical investment” or “socially responsible investments”? What, if any, “ethical” considerations do you think institutions ought to take into account? Has your fund made such investments? How are they assessed, compared with the assessment applied to other investments?

Summary

Trustees' attitudes on ethical investment range from “love it” to “bullshit”.

Within these extremes there are three broad attitudinal bands:

- those who have already embraced the concept and made such investments;
- those who are assessing it or adopting a wait-and-see approach, particularly in respect of whether ethical investments under-perform the market, and
- those who reject it out of hand.

Fund managers tend to be more restrained in their comments.

Some are introducing an ethical investment option.

Others are sceptical about the workability of an ethical investment strategy, saying that it is difficult to know where to draw the line: for example, if you decline to invest in a casino, do you invest in the bank that lent money to get the casino started?

Others see definitional difficulties: what is the basis for declaring an investment ethical or unethical? Will that basis shift from time to time? Is it possible to get everyone agreed on what an unethical investment is?

On the other hand there is a recognition that some members have a genuine attachment to the concept and that there needs to be a response to their wishes.

Responses

Yes we have made such investments... we have an asset consultant linked into SAM (Sustainable Asset Management), the people there do the criteria testing on companies then they come up with the top three companies based on their principle of sustainability. We then give our members the option of investing in these companies.

Very important. We won't want to be seen investing in things that are contrary to the social fabric of society. For example, it's good to invest in recyclable (industries); it's not a good area to be too heavily weighted in casinos.

As from 1 July we have gone into super funds which do offer these options for members.

Love it. I am very interested in it and it is an area members are very interested in and it's a burgeoning industry. We haven't made any such investments we are just going into it now: our board meeting is tomorrow. Our members have expressed a very clear interest in it.

There's a place for them, members should be given choices to invest in them, though they should be required to perform like any other investment and be measured accordingly.

Stocks like tobacco companies and casinos should be excluded, and stock that include replacing trees and other investments should be included.

We have waited to see if they can earn as much as other investments. We are still involved in researching this.

Have no policy on socially responsible investments at this stage – it's on the agenda for the board. Members have not driven any level of interest in it.

The world is becoming more aware of corporations via the media and unsound practices will eventually come back to haunt you.

We have not looked into that area.

Ethical investments we have a regard for. SRI we have less idea about. It seems to be flavour of the month but we're not sure.

The risk is that we don't know yet whether such investment option could significantly under-perform, and leave those members worse off than other members who didn't choose this option.

We believe that you can't say they will make a poorer return. There is some debate about that. The performance over the last 6-10 years doesn't show that. There is a risk in narrowly based mandates.

It varies depending on members' views. An extreme example is a fund whose members are largely Catholic, that fund does not invest in companies that produce contraceptive devices. They define ethical investment in this way. The views must reflect members' views not those around the board table.

Ethical investment is a load of bullshit. If you went to your members you would get a different screen from every one of them. Some would say gambling out, some liquor companies and some would say they are alright because they are supporting rural communities. As a fund we will put an ethical option in but I think it gives people the warm and fuzzies without much else.

We don't make it a priority. First and foremost is the benefit of members' funds, therefore ethical investment is not specially a consideration.

I'm not a fan of those terms. As a positive statement I am quite comfortable with the decision, for example, not to invest in tobacco companies but I don't want to invest in a fund that says "all our investments are ethical".

–Trustees

I have no view. I can't think of any ethical considerations a fund should take into account.

We are watching it with interest, and the key issue is understanding the definition.

It is something we have tabled to look into in the future. We are introducing a member investment choice option and this is something we will introduce within the next 12 months. We are yet to decide the exact form that the SRI component will take.

Two thirds of our survey respondents showed interest in ethical investment options but it is a moving target. What is ethical one year changes to the next. If you don't invest in gambling do you invest in the National Bank, which lends money to Crown? There are significant practical difficulties.

We have just surveyed our members and there is a significant interest in ethical investment.

I don't support ethical investment because I don't think there is an agreed definition.

You shouldn't deal with companies that have breached environmental laws, or that trade with undesirable countries, or are involved with arms and weapons sale and things like that.

Sixty per cent of our members are health and educational workers. These issues are important to them. We have a duty to make this an option for them. It is their money and their choice.

We haven't put together a fund of ethical investments but it is something we would consider doing.

I am up in the air about those. The jury is out on SRIs. We are starting to get a few members raising the issue, though. I have a problem with them: where do you stop? For instance, if you don't want to invest in the tobacco industry do you not invest in the companies that make the machinery? Our fund hasn't made such investments but we are evaluating the possibility.

We see socially irresponsible investment as a posing a risk to investment. In terms of offering SRI as a member option we don't have plans to do this as our fund is not set up in this way.

One person's ethics is another's immorality. There is no one type of socially responsible investment and with this there is a danger of trustees getting involved in social engineering. A lot of it is just marketing anyway.

I think there is a place for it, because a number of our members think it is important. It will be the way of the future.

– Fund managers

Question

11. Is there really more attention being paid these days to ethical considerations when making investment decisions, or do these considerations carry about the same weight today as they did in the past?

Summary

There is a widely held perception that more attention is being paid to the issue of ethical investment now than in the past.

It is also widely perceived that this is a trend that will continue.

Responses

The fund managers don't like to be distracted from the business of making money. They need firm guidelines.

There is more awareness. They carry more weight and that weight will continue to grow.

You read allsorts of comment now. Ten years ago you read nothing

There is a growing awareness and major corporations need to be mindful of that.

Certainly fund managers are creating new products out of this heightened awareness. In the long term there will be a merger between a standard fund and an ethical one.

I have been in the industry for about 15 years and when I started the only thought was for the maximization of returns. In terms of investing we are now getting a bit of a conscience about investing.

I don't think there is in Australia. People are thinking about it but Australian super funds are very conservative and they are just paying lip service to it.

It's more into the market place than it has ever been.

Absolutely no doubt, and this trend is gathering momentum.

–Trustees

There is a much greater emphasis. People are wanting to know much more about them. If the performance does not match the expectations though, people will start looking for something else.

A lot of funds are considering it in regard to investments

– Fund managers

Question

12. As far as you know, do institutional shareholders put too much pressure on companies to produce short-term profit at the expense of long-term development, or is there still plenty of scope for long-term development?

Summary

It is widely agreed that short-term considerations tend to override long term ones, and that this is generally unfortunate.

Many trustees say that they feel pressure from their members for high returns year by year and that they in turn put pressure on fund managers to deliver. This ultimately leads to fund managers and institutions putting pressure on companies for short-term gains.

Fund managers agree.

Responses

There is pressure on you to keep producing at the expense of long-term investment.

Absolutely. Companies are reluctant to risk their short-term interest because as soon as you lose for a year people dump you.

The board is only remembered by last annual report. Have one bad year, and that's the year members remember.

Overall I think shareholders are patient with companies if they can articulate a longer-term vision.

Short-term horizons are in vogue. At the moment everyone looks at the monthly or three-monthly returns.

I sometimes suspect it is the CEOs and the MDs that put the pressure on in terms of maximizing their performance bonuses.

No, I think the boards are generally able to balance short term and long term gains, otherwise investors would sell their shares.

–Trustees

Yes they do, but that is done because that is what our members want. If we are getting a return of 10%pa from investments with great long term prospects and another fund is getting 15%, our members will walk.

– Fund managers

Questions

13. Do companies communicate effectively with you as an institutional investor?
How, if at all, could it be improved?

Summary

Trustees have mixed views on the quality of communication by corporations to them.

Fund managers on the whole tend to say that the communication is all right.

Responses

The level of reporting in this country is appalling. Boards need to be much more articulate and truthful about what they are doing with the company.

Yes every prospectus that is brought to the table is fairly well laid out.

No. For a start they could tell us where things are going wrong -- if they are -- instead of just giving us glowing reports.

-Trustees

Questions

14. And what about the way companies communicate with ordinary shareholders: as far as you know, do they communicate effectively with ordinary shareholders? How, if at all, could it be improved?

Summary

Trustees say that the quality of corporate communication to ordinary shareholders is generally poor, and not as good as it is to institutional investors.

Responses

(The single shareholder) would find it a very lonely place. If I turned up as a small investor to find out more, they'd tell me to piss off. They treat small investors very differently to institutional investors.

No. You get the glossy, glossy presentation but if you could understand some of the words it would help. Holding their meetings in accessible places would help too, and not hiding from issues.

Its pathetic. It wouldn't take much to improve.

–Trustees

Questions

15. Finally, I'd like to ask you about corporate community involvement. Should corporations involve themselves in sponsorship or financial support of community activities only to advance specific corporate objectives, or should they do so in order simply to enhance their position as "good corporate citizens", even if there is no immediate connection with corporate objectives? Should they consult their shareholders about this, or is it really a matter for board and management?

Summary

Most trustees and fund managers say that corporations ought to involve themselves in sponsorship as part of their role as good corporate citizens.

Some say there needs to be a direct connection between the sponsorship and the corporation's strategic objectives; others say that there is an element of mutual

obligation which should be fulfilled whether it has a connection with corporate strategy or not.

Some say that being a good corporate citizen itself contributes to enhanced performance.

Some deprecate forms of sponsorship which are accompanied by aggressive advertising or promotional activities.

It is generally agreed that this is an issue for the directors and management, and does not need to be referred to shareholders.

A minority say that corporations should not spend shareholders' money like this: they should pay their dividends and let the shareholders individually decide what, if anything, to give by way of charity.

Responses

Provided there is transparency at board level then I believe in community sponsorship.

A lot of corporate involvement is abused. It is done in an "in your face" way. Like in America with Coke funding schools but making it dependant on consumption. They should do it to be good corporate citizens but many just don't understand it.

Yes they should but they have to be aligned involve themselves but they have to align it with their activities so they can get a bang for their buck.

They don't have to have distinct corporate objectives. Recently Rio Tinto handed over \$6 million worth of art to an art gallery without any strings attached. This seemed to be a good example of that.

They should have a social conscience. The gains have to be given back to the community in the longer term.

I think they should act in terms of enhancing profitability and advancing specific corporate objectives.

They should not just do it to just meet corporate or business targets. As governments have less money it should be incumbent on business to be more involved.

What they should be doing is investing in the community in support of social objectives rather than just focusing on straight economic returns or on enhancing themselves as "good corporate citizens".

There is some value in corporation being involved in community, positive perception issue there. There's also advantage to the corporation in terms of staff morale and involvement in the community, so people feel like the corporation is giving something back.

They need to take on board that being in a broader community is in their best interests.

Should be good corporate citizens – it's a leadership thing.

–Trustees

Even if there is not a direct benefit, there is always a spin off from being seen as a good corporate citizen, an intangible benefit. Therefore it makes sense from corporate point of view.

There should be clear-cut policies. For example, the sponsorship of the Liberal Party: HIH was a huge sponsor and many shareholders don't agree with that. There should be an approval process.

I want to see corporations being good corporate citizens. I think that corporate involvement is often not as good as it should be. I think it is ludicrous having Westpac spending millions of dollars sponsoring that Olympics. I find blatant commercial advertising like that a turn off. I would rather they were to sponsor something like youth netball which is beneficial to the community.

– Fund managers

INVESTMENT MANAGERS

Questions

1. As an institutional shareholder, does your institution feel able to influence the operations or policies of the companies in which it holds shares?
2. Why do you say that?

Summary

A large majority said they did feel able to influence the companies in which they held shares, but larger institutions were much more likely to feel they could than were smaller ones.

Their intervention seems to be more on a person to person basis: they imply that they use their personal contacts with industry in an attempt to offer an opinion or to influence policy.

There is also a belief that if an institution is propounding a view held by other institutions too, this is more likely to have an effect than if it is a minority view.

Small institutions feel impotent to influence companies in which they invest.

Responses

We are not a huge investor, we would not be a lot bigger than some private investors. At the end of the day we are not going to make them shake in their boots.

Certainly if we are a large shareholder in something, but we recognise that our influence is limited.

We're not big enough.

Yes to some extent. We do this partly through talking to company management and partly through voting at AGMs.

*We are an investment house so we can provide a stakeholders' perspective but we don't own shares. We can't make them change but we might be able to provide influence.**

I would feel that the companies are always prepared to listen. As to how much impact it has I'm not sure. If it is a view held by a number of institutions – then I would say yes. If it's a minority view - then no.

In terms of operations you don't have much influence. As far as policies go we have we have more influence on policies that we can vote on.

No not directly, because of our size – we're at the small end.

Questions

3. What, if anything, has your institution done in recent years to exert its influence, and for what reasons? Can you give me some examples?

Summary

Our investment management respondents were quite pro-active on a number of fronts.

Large institutional investors gave a number of examples where they had directly attempted to influence company policies, not always successfully.

The BHP-Billiton merger was most often mentioned in this context, but other companies were also said to have received direct representations over various issues, including Coles Myer, Fairfax and James Hardy.

Issues were wide-ranging, including questions of fees, risk management policies, financial and management competence, the continued presence of a director, strategic directions for the company, and the remuneration of the managing director.

Clearly these people believed they had clout and were prepared to use it to further what they saw as their interests or the interests of their clients.

Responses

In the case of the BHP merger we voted against it.

We are a major shareholder in Sabre, they came out with a product called Suicide we came out strongly against that. We are an ethical investor. I think it's a matter of time before they change their mind. We have also been behind the scenes in other companies in which we hold shares including Reac Insurance, PMP, Kresta Blinds.

Everywhere we go we try to quietly influence companies if things are going wrong and if things are going right we let them know rather than just sitting back.

The Macquarie Infrastructure Group recently announced that they will lower their fee on the funds they manage in certain cases. This was something we lobbied for.

Perhaps unlike other organisations we do have a reasonable representation in the smaller end of the industry. We exercise aggressive risk management policies. We tell them what we think – we see it as a collaborative effort and we expect them to respond to our concerns.

Management practices. Setting challenging hurdles for any executive bonus schemes. Environmental practices.

We try to put issues on the agenda. In our one-on-one meetings with management we will raise it or we will write a letter. We did it with BHP-Billiton, DLC structure, Fairfax, WA News, the Woolworths management change, NSW TAB execution of strategy.

In one instance where a company was about to sell off an asset there were aspects we were not comfortable about and we wrote to them. In another instance James Hardy were going to grant options for the MD and we lodged a proxy vote against it.

*We will pull a management team in and get them to present to us so we can ascertain their financial situation.**

*Because we are a large shareholder they are quite open with us.**

We take voting at annual meetings seriously. We study the notes for all of the companies we hold shares in. In years gone by, we wouldn't vote on something we disagreed with. We would abstain. These days we would be likely to vote against it.

We've been active on boards, for example, Coles Myer. If we're forced to get involved, it's a last course of action. It's only when it's a very serious situation.

Questions

4. Has the institution acted in collaboration with other institutional investors on any of these occasions? Why? Do you think that co-ordinated institutional activism increases shareholder wealth?

Summary

These investment managers act, when they do so, unilaterally. There is very little evidence (one case only) of them acting in concert.

Any collaboration tends to be informal, and to occur among smaller institutions.

Responses

Legally no, but I think maybe chats over cups of coffee do occur. In most cases we seek the opinions of other major shareholders but we do run our own race.

Coordinated shareholder activism usually occurs when the share price is doing very badly. They only do something when it is very urgent. Generally institutions are very apathetic.

Not in collaboration. But I do believe that at the smaller end of the market there is a consistency of views. So there is no collusion or collaboration but we do talk to each other. There is a uniformity in the views that we have.

- *We all want companies to grow*
- *we all want them to manage capital efficiently*
- *to demonstrate management competence*
- *to demonstrate responsiveness to our concerns in the event that something goes wrong.*

Questions

5. What criteria do you think institutions such as yours should use in deciding whether or not to exercise their influence over corporations in which they hold shares? What are the most important of those criteria? What are the less important ones? Or are you opposed in principle to exercising this influence? If so, why?

Summary

Here too the criteria vary:

Some see their main, indeed their overriding objective, as being to increase shareholder wealth or value. This is perhaps the traditional, and certainly still a widely held view.

Others emphasise the 'triple bottom line', or other moral imperatives.

Others again say that they are the servants of their clients and are there to do their bidding – to carry out policies defined by them.

Responses

The criteria are based on financial objectives and protecting return.

Areas such as the moral and ethical outcomes of investments. The market can determine factors such as the quality of management team.

The only one is what is best for our clients. The only change would be if our clients take an ethical stance, then we would listen to our clients.

Broadly speaking we use the blue book – which is Corporate governance guidelines developed by IFSA, and at the end of the day what makes economic sense.

What's in the best interest of all shareholders is maximising shareholder wealth over the medium to long term.

We are not mandated to make any ethical or social decisions on behalf of our clients. The ethical and social issues are less important for us unless they affect the financial situation.

Really the only criteria we use are those that impact on the value of the investment. We did have an ethical fund which had a different mandate.

*It should be about the “triple bottom line”. That is: the financial situation, economic growth, social perspectives; how a company treats their employees and their customers etc; the environmental perspective – recycling, renewable energy etc.**

Basically the main criteria are profits and dividends. If we're not happy with the outlook of profits and dividends we'll sell the shares. If we like the company but have problems with aspects of the company's behaviour, we'll pass those comments on to the company and if no action is forthcoming we will generally sell the shares.

Shareholder wealth. It is our duty to maximise wealth.

We invest in accordance with the wishes of our investors we create a product that investors can choose and then see how many take that option.

At the end of the day we would be neglectful of our clients if we were not to provide the best return possible. The dilemma is that morality must enter at some stage – but we don't screen anyone on moral grounds.

Questions

6. I'd like to briefly discuss how you think investment institutions should balance their financial objectives against other considerations, when making investment decisions. In particular, is the bottom line all important, or are there are factors that your institution takes into account when making investment decisions?

If other factors:

7. What are those factors?

Summary

Investment managers generally say the bottom line is all-important. If there are other considerations such as social or environmental issues, then it is likely that they will be reflected in the bottom line as well.

However, as becomes clear in the next question, investment managers who have a specific mandate to conduct ethical investments have a different view.

Responses

The bottom line is the most important, but we have to look at the reasons behind the figures. Other factors have an impact on the bottom line and must be considered eg environmental factors

As soon as you start investing for reasons other than the bottom line you run into trouble. It is not our place to make these decisions but sometimes they interrelate (the bottom line and other considerations). In my view the pure economic imperatives and social responsibility are not usually that far apart but we have to invest for returns.

I am not anti the concept but when you invest for reasons outside market forces it is a recipe for disaster. Who's to say what is socially responsible? What's it achieving? I'm not really sure. I'm cynical about the whole thing.

The bottom line is it. Within the letter of the law.

Really the bottom line, that is what we have been mandated to do unless we get very clear instructions to do otherwise.

Price is the only thing.

In most circumstances we wouldn't bring in external factors into the equation. Perhaps one instance was Ok Tedi. Sustainability is part of the equation, but it is mainly based on return. The people who are at the forefront of this sort of involvement are the union-based funds.

*I would say that the bottom line is the all important issue, and issues such as the Esmeralda mine fiasco in Romania and Ok Tedi, to name two examples, are brought to bear in the bottom line analysis. Companies can't get away with this any more. Consideration of these factors is now a normal part of our analysis.**

*It should be all financial but (ethical and social considerations) should be imbedded in their analytical approach. There should be three bottom lines.**

The financial aspects are paramount, but we do take other factors into account. For example, we don't hold shares in casinos or gambling institutions.

In our group there is a lot of community involvement. We help to make our customers successful. We feel that if our customers don't survive we won't continue to be here, so whilst the bottom line is important genuine engagement with the needs of our customers and community is essential.

Questions

8. What are your views on “ethical investment” or “socially responsible investments”? What, if any, “ethical” considerations do you think institutions ought to take into account?

Summary

Investment managers tend to be polarised on this question.

Those who have a mandate to conduct specifically ethical investment funds say that this is a growth area, and that a wide range of issues is taken into account.

These issues include environmental impact, nature of product, and human rights.

They use “positive screens” and “negative screens”. The positive screen includes a company in the category for investment because of certain desirable attributes. The negative screen excludes a company from the category for investment because of certain undesirable attributes.

Those who do not have a mandate to conduct specifically ethical investments express some scepticism about the concept.

Some say it is difficult, if not impossible, to define what the term means: that it can mean different things to different people.

Others say it is just a gimmick.

Many say that while they don't claim to be specific "ethical investors" they do take into account the way a company operates because this can have an effect on its financial performance.

Some say that so long as a company's activities are legal, they see no reason not to invest in it.

Some say that they have a moral responsibility to provide the best possible returns to their shareholders or clients.

Responses

What is ethical? It needs to be defined. It depends on your ethnic background or your stage in life.

As long as you are not robbing others we are okay with it.

Ethical considerations are related to the profitability of the company – it's not a choice independent of financial considerations.

We don't have any ethical investments made on ethical grounds alone. If we have a choice between ethical and non-ethical, all other things being equal, we'll choose ethical.

We take on the moral considerations of our investors? Who determines what's ethical? For example, gambling is not bad per se – there are many nuances to these areas and I don't have the answers. Ethics are in the eye of the beholder. I think it would be immoral to not give our clients the best set-up for their retirement years that we can.

We look to clients to advise us. We don't take an ethical position. We sink or swim on investment performance – so we'll invest in environmentally friendly stocks if they are a good investment.

All equities are viewed on the same basis. There are no special filters for ethical investments.

Your ethics and my ethics are not going to be the same. Whose ethics are right? As companies we should take a neutral stance.

Assessments are all based on financial fundamentals. They are purely financially driven unless the client directs otherwise. We don't have an ethical fund here in Australia, but we manage clients that have ethical guidelines.

It is a critical issue for me personally but as far as managing clients' funds go, I don't have the mandate and it is unclear what the limits are with ethical investments. With ethical considerations it ultimately comes down to sustainability. If it is a true social issue it will eventually manifest in the bottom line.

I've run ethical funds and I'm not a fan of them. It's an "in the breeze feel" depending on what is in fashion. In the long-term they don't work. Investment has to be socially responsible though. We look at all a company's operations, for example, Pacific Dunlop with the pacemaker issue. They handled it well.

We ran a small ethical fund and I always found it a little difficult to run as everyone had a different idea of what it should be about. Our method was to use an ethical overlay supplied by a third company. We researched the top 200 companies and the third party assessed them and told us what was off-limits and of those that remained we assessed them in the same way as we normally do.

We are in favour of this sort of investment but my own view is that you need to have a fund with a particular mandate so that people can choose whether they want this sort of emphasis on where they put their money.

Ethical and socially responsible investment are totally different. Ethical investment requires negative screens and we try to create products that meet these investor requirements. In terms of socially responsible investment, we believe there is an increased interest from investors who wish to encourage companies to behave in a socially responsible manner.

The industry is thinking more about the issues. It has definitely grown in profile but I don't know if it has grown in action.

I think it's coming, but a lot of people are just doing it to catch the wave. I am not worried about it. As I say I think it's coming, so in the end we will have the right outcome for the wrong reasons.

We've always taken into account ethical considerations. Our job is to manage funds for our shareholders. We would think that as long as companies show a responsible attitude to the environment or society, or a commitment to improving, we're prepared to hold shares.

Our view is that it is a client-driven issue. Some religious groups don't want to invest in gambling or another group will be focused on health and safety. These issues will be increasingly important. The thing is whether the client applies positive screen or negative screens.

There is a bit of an interest in ethical funds. However the definition of ethical needs to be stated. One person's ethical is another person's unethical.

We are ethical investment managers. We have a negative screen for tobacco, gambling, uranium, knocking down old growth forests, armaments, intensive animal husbandry. BHP/Billiton is now a uranium miner and we will not hold stocks in them although other so-called ethical investors will. We are "light green". We have no positive screens.

There were 12 different ethical funds in May, by Christmas there will be 20. It is a very strong growth area. There is a billion dollars invested in non-charitable ethical funds now. By 2020 there will 40 billion. The mainstream is joining in, including AMP, Rothschilds and others.

I see the value of strengthening the community. We don't make direct investments, we make loans to the community. In that sense we are directly strengthening the fabric of the area where we live by supporting businesses to grow.

When we move into funds management we will develop an ethical fund so people can make a choice if they want to invest in a so called SRI.

We have an Eco share fund. We run the normal investment overlay and an independent third party does the ethical and social and environmental overlay.

We have two sustainable funds. We have a number of negative screens including gambling, uranium, child labour, and if companies have more than 5% of their activities involved in any of these we don't invest in them. We also have a number of positive screens including employee relations, the environment, communication and waste practices. Where everything else is equal we will choose to invest in companies which do well in these screens.

*Ethical investment is about establishing a mindset change in the way management see their role. Ten years ago the dumping of waste just was not an issue and now it is unthinkable.**

*As long as it's transparent it should be supported. I don't have a prescriptive view. It can vary for everyone as long as it goes to making a broader understanding of risk and opportunity.**

If investors want to invest that way they should be given the choice. If an institution is going to offer this then the important factors are environmental issues, human

*rights, uranium mining, weapons. Alcohol, gaming, tobacco, these come a bit further down the scales based on our research.**

It should be considered on 3 fronts:

- *A negative screen approach which singles out companies that are not acceptable on ethical grounds, for example, gaming.*
- *A positive approach which focuses on the companies with good social and environmental practices*
- *Integrating the above two approaches into a single approach: to exclude certain companies according to their practices and include others that combine best practices with ethical considerations.*

Questions

9. Has your institution made such investments? How are they assessed, compared with the assessment applied to other investments?

Summary

Investment managers with a specific mandate to conduct ethical investment funds were able to give a considerable number of examples of how they had invested clients' funds.

Responses

*Resmed manufacture medical equipment that is used in the prevention of sleep apnoea. Also Renewable Energy Australia which reuses gases from landfills etc as a source of power generation, also wind energy companies. They are assessed using positive and negative screening based on the perception of our clients. The negative screening includes: any EPA convictions, discrimination, alcohol, tobacco, gambling, weapons and uranium. This takes out 17% of all potential investments. Our positive screens include: renewable energy (creating it or using it), recycling, eco tourism and social benefits. The companies that come out of this screening are then put through our normal financial profiling. They have to be a good investment.**

Across the board yes. For example, in one of our board meetings we gave consideration as to whether to hold shares in Fosters because of the hotels it controls where they have poker machines.

We will prioritise ethical over non-ethical if everything else is balanced. We won't choose on ethical grounds only.

We don't exclude companies because they associate with gambling or alcohol. If it's legal, we'll invest.

Question

10. Is there really more attention being paid these days to ethical considerations when making investment decisions, or do these considerations carry about the same weight today as they did in the past?

Summary

It is generally agreed that more attention is being paid to the issue of ethical investments these days, and that there was the increased awareness and demand from the investing public for opportunities to invest on an explicitly ethical basis.

Responses

There is a much greater awareness especially on sustainability issues. There is a broad move in this direction and we need to be more aware.

There is a little more. We are lagging behind Europe.

It's growing definitely. It is demonstrated in the directions we are getting from our clients.

There is more and it is increasing because of an increased awareness of these issues which is being driven by the investing public and trends off-shore in Europe and particularly in the U.S. And an acknowledgment that you don't have to sacrifice returns for ethics.

Question

11. As far as you know, do institutional shareholders put too much pressure on companies to produce short-term profit at the expense of long-term development, or is there still plenty of scope for long-term development?

Summary

It is widely agreed that there is a strong emphasis on short-term gains, and that this may have gone too far.

There is a lot of pressure on us for short-term return by other parts of the industry and possibly we are pushing that too much onto the corporations.

My criticism is particularly of the wholesale end of town which has an obsession with tracking error against the all ordinaries index. If NewsCorp makes up 13% of the market then they have to own at least 12% of NewsCorp even though they might hate the stock and Rupert Murdoch might be completely untransparent. There is not a lot managers can do. There is a lot of money going offshore and this is going to increase very dramatically, in my opinion.

I think it has increased in terms of short term demand. There is a greater emphasis on short term. A lot of long term decisions of the past were just crap – were unsuccessful. When I started in the industry everything was geared around long term timelines – perhaps it's now drifted to the opposite extreme. The short term time frame may have shortened too aggressively.

We want both! We explain to our members that they should focus on the long term. However, there will always be short-term pressure to at least match your peers.

There is a strong focus on the short-term. This is driven by pressure placed on fund managers to perform consistently. It's a bit of a vicious circle (because) long-term scope is absolutely critical.

Definitely (focus on short term). They look at sacking management and staff, selling loss making ventures. The market pushed Fairfax into the F2 site and that has cost them \$100 million. There are a number of ways the market does this. Once everyone thinks something is a good idea you have to get on board or they vote with their feet.

I think the institutions are the meat in the sandwich. We are all a bit uncomfortable with the emphasis, but the pressures comes from the clients and therefore gets transmitted to companies.

I think that as long as companies explain their strategies that there is considerable scope for long-term development.

There are two parts of the market. One part is chasing short-term results and the other part demands long-term sustainable returns. The market is fragmented and they are chasing different stocks. Right at the moment there is pressure for short-term results.

Everyone in the industry has a short-term focus.

Questions

12. Do companies communicate effectively with you as an institutional investor?
How, if at all, could it be improved?

Summary

Investment managers have mixed views of the quality of corporate communications with them.

Responses

Most bend over backwards. They do a good job.

*Not as effective as we would like. More transparency.**

Questions

13. And what about the way companies communicate with ordinary shareholders: as far as you know, do they communicate effectively with ordinary shareholders? Probe: How, if at all, could it be improved?

Summary

Institutional investors see there being considerable scope for improvement in the way corporations communicate with ordinary shareholders.

Many suggest that more extensive use could be made of IT technology and the Internet to communicate more widely with ordinary shareholders.

Responses

There has been criticism that they give institutions more access than private shareholders. Now there is IT technology there is more access. I think there is room for improvement -- Internet presentations, phone link-ups.

All profit announcements should be webcast these days so that shareholders get the same information and communication as institutions. One thing that does upset me is share placements. This makes the sharemarket unequal. The little bloke gets no look in. You have to offer the same to everyone.

They do a better job with industry than with ordinary shareholders. The Internet has helped somewhat to provide ordinary shareholders with more information.

My observation is that they try. But I'm surprised how little interest most shareholders have. It could be improved] by continuing the move toward shorter, simpler reports for non-institutional shareholders. A one- to two- page plain English report would be of more use to people.

Questions

14. Finally, I'd like to ask you about corporate community involvement. Should corporations involve themselves in sponsorship or financial support of community activities only to advance specific corporate objectives, or should they do so in order simply to enhance their position as "good corporate citizens", even if there is no immediate connection with corporate objectives? Should they consult their shareholders about this, or is it really a matter for board and management?

Summary

There is widespread support among institutional investors for corporate good citizenship as expressed in sponsorship.

However, respondents say that sponsorship should be done transparently and for the right reasons.

They say these are decisions for corporate boards and management, not for shareholders.

Responses

Companies need to be a good corporate citizen. Ultimately if you don't support the community it won't be there.

The indirect benefits of good corporate citizenship can be very valuable.

We donate 5% of our profit to charity and that's in our prospectus. A lot are becoming good corporate citizens.

They should be good corporate citizens. The view is that companies don't act in isolation, they act as part of the general citizenry and as such they have obligations. Ing takes an active role in supporting certain charities but not to improve its profile.

It is a matter for board and management. There is a growing understanding that being a good corporate citizen will add to the bottom line in the longer term. Reputation adds to the share value and a big part of that is good corporate citizenship.

Their primary function is not to support community activities.

If you go and do something completely cynically – it will be transparent and won't build sustainable advantage.

It's a matter for business and management. It will affect the perception of the organisation and their ratings on the share market. You can't continue to be bad corporate citizens and stay in business. The customers won't keep coming back.

Companies may have a very small discretionary budget. Any broad campaign should be subject to approval by shareholders.

No. It's not their money; it belongs to shareholders. They should pay the money to the shareholders and if they want to support charities they will. It shouldn't be at the whim of the managing director.

If you have your factory in Bankstown you should support Bankstown.

*It is a loaded question. There shouldn't be a dichotomy; this suggests a flaw in the way we analyse. Corporates should realize that social investment is also good for the bottom line.**

My view is that companies don't have the right to invest shareholders' money on charitable activities. They could provide a facility for shareholders to invest dividends in charitable activities. If community activities are in the company's interest, they will also be in the shareholders' interest.

That sounds like a loaded question. It's a decision for the companies. As an investor you never like to see a company fritter money away. There needs to be some kind of pay back and that's not necessarily financial.

APPENDIX I

DISCUSSION SCHEDULES

SHAREHOLDERS FORUM

DEPTH INTERVIEWS WITH INVESTMENT MANAGERS

INTERVIEW SCHEDULE

1. As an institutional shareholder, does your institution feel able to influence the operations or policies of the companies in which it holds shares?

If no:

2. Why do you say that?

Now go to Q5.

If yes:

3. What, if anything, has your institution done in recent years to exert its influence, and for what reasons? Can you give me some examples?

4. Has the institution acted in collaboration with other institutional investors on any of these occasions? (Whether yes or no): Why? (Probe: Do you think that co-ordinated institutional activism increases shareholder wealth?)

Ask all:

5. What criteria do you think institutions such as yours should use in deciding whether or not to exercise their influence over corporations in which they hold shares? What are the most important of those criteria? What are the less important ones? Or are you opposed in principle to exercising this influence? (If so, why?)

6. I'd like to briefly discuss how you think investment institutions should balance their financial objectives against other considerations, when making investment decisions. In particular, is the bottom line all important, or are there are factors that your institution takes into account when making investment decisions?

If other factors:

7. What are those factors?

Ask all:

8. What are your views on “ethical investment” or “socially responsible investments”? What, if any, “ethical” considerations do you think institutions ought to take into account?

If NOT an ethical fund:

9. Has your institution made such investments? How are they assessed, compared with the assessment applied to other investments?)

Ask all:

10. Is there really more attention being paid these days to ethical considerations when making investment decisions, or do these considerations carry about the same weight today as they did in the past?

11. As far as you know, do institutional shareholders put too much pressure on companies to produce short-term profit at the expense of long-term development, or is there still plenty of scope for long-term development?

12. Do companies communicate effectively with you as an institutional investor? (Probe: How, if at all, could it be improved?)

13. And what about the way companies communicate with ordinary shareholders: as far as you know, do they communicate effectively with ordinary shareholders? (Probe: How, if at all, could it be improved?)

14. Finally, I'd like to ask you about corporate community involvement. Should corporations involve themselves in sponsorship or financial support of community activities only to advance specific corporate objectives, or should they do so in order simply to enhance their position as “good corporate citizens”, even if there is no immediate connection with corporate objectives? Should they consult their shareholders about this, or is it really a matter for board and management?

SHAREHOLDERS FORUM

DEPTH INTERVIEWS WITH SUPERANNUATION TRUSTEES AND FUND MANAGERS

INTERVIEW SCHEDULE

1. As an institutional shareholder, does your fund feel able to influence the operations or policies of the companies in which it holds shares?

If no:

2. Why do you say that?

Now go to Q5.

If yes:

3. What, if anything, has your fund done in recent years to exert its influence, and for what reasons? Can you give me some examples?

4. Has the fund acted in collaboration with other institutional investors on any of these occasions? (Whether yes or no): Why? (Probe: Do you think that co-ordinated institutional activism increases shareholder wealth?)

Ask all:

5. What criteria do you think institutions such as your fund should use in deciding whether or not to exercise their influence over corporations in which they hold shares? What are the most important of those criteria? What are the less important ones? Or are you opposed in principle to exercising this influence? (If so, why?)

6. What is your view, in principle, about the fund's consulting its members about whether to exercise this influence?

If support principle:

7. Have you ever consulted them? Can you give me an example?

Ask all:

8. I'd like to briefly discuss how you think trustees and fund managers should balance their fiduciary obligations against other considerations, when making investment decisions. In particular, is the bottom line all important, or are there are factors that your fund takes into account when making investment decisions?

If other factors:

9. What are those factors?

Ask all:

10. What are your views on "ethical investment" or "socially responsible investments"? What, if any, "ethical" considerations do you think institutions ought to take into account? (Probe: Has your fund made such investments? How are they assessed, compared with the assessment applied to other investments?)

11. Is there really more attention being paid these days to ethical considerations when making investment decisions, or do these considerations carry about the same weight today as they did in the past?

12. As far as you know, do institutional shareholders put too much pressure on companies to produce short-term profit at the expense of long-term development, or is there still plenty of scope for long-term development?

13. Do companies communicate effectively with you as an institutional investor? (Probe: How, if at all, could it be improved?)

14. And what about the way companies communicate with ordinary shareholders: as far as you know, do they communicate effectively with ordinary shareholders? (Probe: How, if at all, could it be improved?)

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