

Shaun Mays, Managing Director
"The Finance Sector as Drivers to Sustainability"

Enviro 2002
Melbourne Convention Centre
9 April 2002

Opening:

Thank you and welcome.

- We are here today to discuss the role the finance sector can play in promoting sustainable development.
- I will talk mainly about the investment side of the equation although my comments do apply to credit and insurance also.
- The investment industry is dominated by superannuation saving. My company, Westpac Financial Services has the privilege to invest monies on behalf of Australians saving for their retirement.
- We therefore need to think of sustainability on two fronts.

1. Are the investments we are making which must match the savings horizon for an individual, say, 20-30 years, safe over that long term period from any Financial, Social or Environmental timebombs, so that we make an adequate financial return for our investors and;

2. given that we are in the privileged position of influencing the lifestyle of our investors in retirement – should we consider environment and social factors alongside the financials? We should.

[Slide 1]

- This leads us naturally to the Triple Bottom Line approach of investing – here is how I see the rating of the companies in which we invest:

AA – for financial performance

E1 - for environmental performance

S2 – for social performance

- Our investment portfolios which use this approach are now over \$2.5bn up from \$75m a year ago. We have around \$27bn in total to invest.

- In fact, the Superannuation Industry has over \$700bn to invest – this is about the same as the value of all the companies listed on the ASX.

Yes, News Corp, BHP, Coles Myer – all of those put together – not an insignificant industry.

- Recent changes to the legislation covering our industry now mean that a Triple Bottom Line approach will need to be applied to buy, sell and hold decisions covering the whole \$700bn.
- Some commentators fear this approach will jeopardise the financial future of our retirees – no point in being financially well off if there is social chaos and environmentally horrific pollution. I do

not think too many people in the Middle East are concerned about their financial future at the moment.

Investors have nothing to fear.

[Slide 2]

- Our testing shows that a Triple Bottom Line investing approach delivers significant additional value over conventional financials only – one dimensional methodology.
- You probably all know of examples of analysts and fund manager who use only financial analysis who have come up with totally inappropriate investments.
ONE-TEL, HIH, Esmerelda Gold
- The red section here is the amount of extra investment return you get from using a Triple Bottom Line approach rather than a simplistic financials only approach.

Investors are demanding greater sophistication.

- It is no longer acceptable for investment managers to hide behind a veil of financial secrecy to justify their inadequate decision-making.

[Exhibit 1 – No Nukes: Ethical Investor Magazine. Consumers demand more clarity.]

- Here is an example:

Ethical Investor magazine which I notice you have in your packs for the Conference.

Here is a recent edition:

Is your fund “Nuke Free?”

Ethical fund that has delivered 24% pa for 7 years running?

Consumers are demanding a new approach! Get ready!!

[Slide 3]

- Obviously this is a big change in the reporting and disclosure that is required from Australian companies.
- It is a big change of mind set not a big change in the level, amount and quality of the environmental and social factors reported.
- Companies are doing this reporting already - OH&S, pollutant inventories, Greenhouse Challenge etc.
- We need to take stock, look at what is there now, we need to:
 - * Rationalise
 - * Consolidate between Federal and State entities
 - * Look for the underlaps
 - * Eliminate the overlaps
 - * Then filter the data to produce the Triple Bottom Line

- This is an important new initiative that will reduce the cost of compliance for companies.
- Bring greater clarity to investment and credit decisions.
- Focus investment managers on the long term performance of the companies in which they invest.
- And deliver greater access to capital both debt and equity for smaller companies.
- A Triple Bottom Line approach is the only viable approach.

[Slide 4]

At the moment, reactive, backward-looking companies complain about prohibitive costs – additional increases to the cost of disclosure.

- They do not see the new markets out there – consumers demanding higher standards presents an opportunity.
- They do not see that capital is scarce and goes to those with a visionary and proactive approach.

[Exhibit 2: Westpac Annual Report]

- At Westpac we are trying to balance the needs of our shareholders with those of our staff and the community. * Look at the press today.
- We know that a bank's license to operate is threatened by rural branch closures. Here is our annual report where we are starting to confront these issues.

“A juicy result”

versus public resentment

- The work we are doing on our own Triple Bottom Line reporting we believe is reducing our cost of compliance and bringing great opportunities for the future of Westpac.

[Slide 5]

We are trying to improve on all sides of the diamond:

- Environmental
- Workplace
- Human rights/Community and;
- Corporate Governance

- The first element to improving is recognising that things have changed. If you want things to stay the same, then you must change – improve, develop, be visionary.

[Slide 6]

- The Triple Bottom Line approach to investing is here to stay. Get used to the idea, get ready.

[Slide 7]

It does deliver a better financial outcome for investors – a Triple Bottom Line approach is a more holistic approach to determining the financial viability of your investments.

[Slide 8]

I am privileged to work in an industry which can fundamentally affect the lifestyle of our investors in retirement but there is no point in dreaming of fishing on a beautiful lake in retirement – if all the fish are dead from pollution.

The Triple Bottom Line is a fundamental improvement in the fund manager's approach to investing.

If your companies require debt or equity then you need to develop your Triple Bottom Line reporting now.

Thank you