Edith Cowan University
School of Accounting, Finance and Economics

Sustainability in Superannuation

(ECF5620/3211)
Principles of Superannuation and Retirement Planning

What we are doing

Students in this unit are introduced to sustainable investing through Environmental, Social and Governance (ESG) integration into the investment process from the perspective of superannuation trustees. Implementing robust management of ESG factors gives trustees a more comprehensive investment framework, rather than a set of constraints, through which to manage the investment process.

Trustees, when managing superannuation funds, are regulated by the Superannuation Industry (Supervision) Act ("SIS") and common law relating to trustees duties. Under SIS, a trustee must have regard to (amongst other things) the sole purpose test as well as the requirements of section 52 (2)(f) of formulating and implementing an investment strategy that has regard to the fund's circumstances, risk and return, diversification and liquidity. The implementation of ESG policies and practices that seek to improve risk adjusted returns is well aligned with this statutory requirement.

Therefore trustees who to take a strong approach to the integration of ESG factors into their investment process should have nothing to fear from doing so. A prominent report issued in 2005 by international law firm, Freshfields Bruckhaus Deringer, referred to in the industry as "Fiduciary I", examined all of the major jurisdictions and arrived at conclusions that were consistent with the above views. It concluded that the management of ESG factors is permitted and "arguably required" by law. A follow up report, known as "Fiduciary II", was released in July 2009. It affirmed the original report's findings and provided a legal roadmap for trustees looking to 'operationalise' their commitment to ESG integration. It made two key statements:

1. Trustees should consider embedding ESG considerations into their legal contracts with investment managers;
2. Asset consultants have a duty to proactively raise ESG issues within their advisory process.

These two landmark reports tend to dominate international views on trustees legal obligations with respect to ESG practices. They have been produced by credible practitioners and arrive at strong conclusions - but it is acknowledged that there is limited depth of this type of research in the industry, particularly in Australia. The section of this report entitled "Transparency and Disclosure" provides discussion of disclosure requirements under Section 1013D(1)(l) of the Corporations Act.

Section 1013D(1)(1) of the Corporations Act requires disclosure in a PDS of "the extent to which labour standards or environmental, social or ethical considerations are taken into account" (in the investment process).

How is it impacting students?

Students have been and are exposed to industry based guest lecturers that discuss significant issues now and for the future of superannuation with sustainability featuring highly. Students are demonstrating a genuine interest in the issue of sustainability during in class discussions and have articulated a more informed view.

Using assessment to promote sustainability

In this unit students are exposed to assessment as learning principles. Students are assessed in teams of two -three. Students are required to propose ways that you can apply principles of sustainability to superannuation. This is then published to an A1 sized laminated poster that is computer generated and is then presented in the tutorial to the class and lecturer. Students are then further assessed in the final exam on principles of sustainable investment in superannuation.