

Dear readers,

I have been contacted by Howard Pender who works for AEI Ltd who gave feedback on my article (which I pasted into an ATA Forum). Now thanks to the ethical.org.au team, the debate can continue here

I will ask the ethical.org.au team if my full response to Howard (sent on Feb 5th 2011) can be made available (not enough space in the comments section)

Dominic
Feb 5th 2011
Inverloch

Hello Howard,

I am pleased to be able to inform you that I have replied in full.
The reply is in two part - the first is immediately below, the rest is embedded in your written reply to my article of 22/12/2010 (bottom section of this email, marked DG - my initials)

My article has been recently published in one of the several public resources of the Melbourne Ethical Consumer Group - their excellent website ethical.org.au (Thanks to Nick Ray)
Refer: <http://www.ethical.org.au/articles/?article=8>

I have not created any updated versions of this article since the original stands up very well having now absorbed, investigated and responded to your feedback (on some of the points I made in article)

I have explored the two references you provide...

Re Your two references on overseas Shareholder Activism (SA) :-

- ICCR (USA) - has not displayed a list that shows their successes, failures and to-be-continueds on their website. A poor resource. I will download their most recent listed annual report - 2008.
- In contrast FairPensions (UK) provides their definition of success as a list of claimed successes (some are pending) at <http://www.fairpensions.org.uk/RI/successes> plus an summarized SA history in the UK retirement fund market, with references at <http://www.fairpensions.org.uk/RI/history>

(I note that the FairPension's Access to medicines (Novartis, 2007) campaign is a definitive success but that the Tar Sands (BP & Shell 2010 onwards) campaign is listed prematurely as a success, though progress has occurred.)

Sadly, and as my 2010 article indicates, >forty years< of FairPensions activity plus the 'moral conversion' of several UK/EU Pension Funds in appearing to adopt (UN) ethical investment guidelines, failed completely to halt dangerous climate change dominated by players like BP and Shell. Neither company is transformed - BP has acknowledged it reverted back to a Petroleum agenda, placing a hold on the expansion of its renewables business, & deepening & widening oil extractions knowing there are greater social and ecological risks.

This is a failure of UK SA movement to create the scale of shift required in companies they have a direct relationship with. The BP horizon mega-disaster is another reminder of the failed SA trajectory.

It is very clear that "big oil" - the tar / coal / petroleum corp-govt behemoth, have shaped the global economy and most of the economic theory taught in education systems to their benefit with no serious regard of basic ethics (in partnership with Unions and industry groups)

I am even more sure now having explored your references, that SA can be seen as at best providing an occasionally useful stalling mechanism, that doubles as a way pension fund contributors can feel better about themselves for taking their individual cut of the large annual corporate profits in these most damaging industries.

Meanwhile, proactive selection of 'new economy' investments (that AEI uses with most of its Trusts) completes the holistic, bottom-up transformation of communities. Alleluia.

Modify or Re-design ?

At least two analyses of global shareholder activism (since 1970's) needs to be digested to grasp whether the successes in global shareholder activism have been greater than the growth in the types and total incidences of

destruction of human communities and their ecosystems.

If the economic system is unable to be "mended" by shareholder activism (as is argued by many economists, policy people, The Greens, etc)

then the economic system needs to be re-designed and re-built - which clearly started back in the 1970's (alongside SA) - ecological economics, Permaculture movement a revitalised Geonomics movement, relocalisation of taxation & governance, Transition Towns

Revealing independent sources of AEI's analysis of SA

Independent third party research (Uni based) is required to gauge whether SA has the capacity and successes needed to "mend" the broken

& highly decayed global economic structure and processes - perhaps some global analyses exist on SA's ability to reform economics;

The list of independent analyses (names of the publications, date and authors) used to conclude that CAF is the way to go for AEI

need to all be made available to the public in AEI's website, in a feature article in the Alm High newsletter, and in Ethical Investor magazine.

On 22/12/2010, at 9:12 AM, Howard Pender wrote:

Dominic, as discussed, you might also wish to google fairpensions in the UK, happy xmas, Howard

Re: Dancing the Climate Waltz with Australian Elephants

Dominic

Thank you for your long and thoughtful blog on our Climate Advocacy Fund. Thanks also for your long time support for some of Australian Ethical's other funds.

I wanted to clarify a couple of issues & misconceptions about the Climate Advocacy Fund in the material you have written on the ATA site.

1. What is ethical investment?

Around the globe it is usually described as three things:

- Screened in portfolios;
- Advocacy;
- Community finance.

In Australia we have mostly known it as just screened portfolios because our Corporations law is loaded against advocacy and because we have a fairly well banked community, so community finance is not as big an issue as it is in other countries.

DG: Re definition - I agree re Community Finance, not Advocacy. We are not the USA and can define Ethical Investment the way we see fit.

(Note I went to about seven places in USA in Nov/Oct 2009). The rest of the world I cannot comment on as yet but am skeptical that advocacy via shareholder resolutions via investment in highly polluting, very unethical companies is globally defined as Ethical Investment.

HP I would encourage you to have a look at the website of the US based Interfaith Centre for Corporate Responsibility www.iccr.org. Australian Ethical is a member of this organisation and we have been aware of its activities since inception of our company. It's members pioneered ethical investment in the US - both screened portfolios and advocacy. For over forty years members of the ICCR have sponsored resolutions to US companies. An observer familiar with the activities of the ICCR would not see a move into advocacy as in any way "downgrading ethical investment".

DG: Having explored this organisation's website - I cannot (yet) see any history of their outright successes, failures and to-be-continued's. Again this is a USA perspective and a sad example to hold the light up to. (Note: I enjoyed my time in the USA, and made friends but could see some signs of the effects of the increasing power and unethical actions of "corporate America"). It is not a co-incidence that the BP oil rig catastrophe disaster occurred under the USA's branch of BP.

HP Certainly the advocacy approach is not for everyone. Some people want to ensure their money is managed consistently within a screen consistent with their ethical or environmental concerns "be good themselves". But others are concerned to have an effective voice "encourage others to do good".

DG: One can do this without investing in an mining company (via a Fund) as an activist, but as I acknowledged in my article, activism can work (as FairPensions of UK shows) but it is highly inefficient and so slow that the progress is easily offset by new setbacks. This is how corporate America brought millions of innocent people to their knees when they created a sudden financial and housing collapse. Emissions-intensive businesses batted away nearly all significant change that would affect business as usual. Only now that USA automakers are mostly owned by the Federal Government (temporarily quasi-nationalized throo Fed Govt equity) has the USA auto industry began to shift to low/no emissions vehicles. So corporate collapse appears to have been the most effective 'tool' for emissions reductions, in auto-making and across the whole USA since a 'cooling economy" (or by choice a non-growth based sustaining economy) is a sure way to keep a lid on emissions.

HP Outside Australia many do both.

DG Yes, outside. We here can set the bar for others to follow.

HP

2. The voice will be lame

Evidently this is a matter that only the future can tell. Nevertheless in 2010/11 we have endeavoured to put four resolutions to Australian companies on climate change issues. No similar resolutions have been put to Australian companies in the last seven years. None before on climate change issues. Already two companies have had to distribute material to all their shareholders describing estimates of their carbon footprint. One company has already, fairly readily, agreed to produce a carbon disclosure project "CDP" report. The other has called us "eco terrorists". I don't see this as lame.

DG I did not use the word lame in my entire article (I just checked twice). You must be confusing my writing with someone elses. Lame is not the same as 'way too slow', which I maintain the CAF "Advocacy" strategy is. (I will now tentatively add "semi-discredited" - see below)

HP

3. Misconceptions

(a) You write "a fund which piles up securely in a bank account". I want to make clear this fund is an index fund. It holds almost all the ASX 200 shares. It's only difference from a standard index fund is in the weighting. It uses economic footprint rather than market cap weighting.

DG I understood that money received from investors in CAF is firstly deposited into a bank account, then it is deployed to buy shares. Even if I am not accurate about the AEI's investment procedure, this is a distraction from my summary of how SA is supposed to work
written for the benefit of my readers who need to grasp the concept in just one paragraph.

HP

(b) Composition of emissions

You ask why the ASX 200? stating "one half of Australian's emissions could be tackled from the other half of companies which lay outside the ASX 200?" This is inaccurate. The balance of emissions is produced by individuals, governments, smaller listed & unlisted and foreign owned companies. The first 2 emitters & the latter 2 sorts of companies can't be addressed by shareholder advocacy in Australia.

DG Yes, I could have been more accurate and - my point would then have been the same: "Why not focus on the other half of Australia's most carbon intensive emitters who are not dysfunctional institutions incapable of structural change?" - All spare money can be invested (not just in the ASX ^(^) For potential CAF investors, more secure climate action investments include: keep adding photo-voltaic panels to their rooves (or micro wind turbines) ; sell the family's second (petroleum burning) car & join a commercial carshare group - use their Hybrids; use the spare money from car cost savings to retrofit gardens for food procuton - home food production uses a small fraction of the fossil fuels that commercial farming does (even organic farming) .

My analysis as to the why the ASX 200 has been targeted by AEI still stands - the range of motives for AEI

entering the ASX200 need to be fully acknowledged by AEI. Further, it is good citizenship from me to warn Australians of the consistent failures of AEI to get decent or good returns with large company investments.

Many of my most important points remain unreplied to - so I reprint two of them here....

Where is the six year plan?

The Commonwealth of Australia's head scientist stated recently that the world has six years to turn around our attitude and practices regarding carbon emissions. It is very unclear from the CAF PDS how the fund managers and partnering shareholders can deliver the big chunky changes needing to happen within six years in a critical mass of ASX 200 companies

AEI and its CAF partners are asking us to believe that a brand new untested model, of small size can achieve huge policy changes in a critical mass (let's say thirty companies) of ASX 200 companies - all in a few years - allowing another few years for the other 170 ASX companies to follow these first thirty. This is a massive ask for Australian industry operating in a wishy washy washing machine of government policy, more massive since it needs to maintain its very low fee model and high-end ROI.. Yes, there is an outside chance - but the odds drop further when AEI does not have a time frame for success. [or for dealing with FUMES - see next point needing a response]

DG (cont.)

FUMES

Sadly, large scale atmosphere destabilization is not the only global emergency that is likely to arise in the next ten years. We have entered an age of F U M E S - a Festering Urgent Mass of Emergencies which requires strategies that are much more ambitious, an approach which appears not to be built into the Climate Advocacy Fund.

'Nature depletion' is the emergency described as more important than climate change in a United Nations big report soon to be released. Depletion and outright vandalism of the Earth's life-support systems - ocean fisheries, soils, phosphorous, fresh water aquifers and forests has begun to create a series of emergencies that will likely overwhelm any plans for gradual change by the Climate Advocacy partnership

HP

(c) Identity of the nominees

There is no secrecy about this. Most of the nominees are investors in our funds. The arrangements with these nominees are securely in place.

DG On three occasions, most recently today, no information on the nominees was listed on the website. Clearly these people exist to be able to go through the resolution processes that are clearly occurring, but some stat's are needed.

(no names need be given) Quantity. Residency (State would do) . Vested interests (incl Size of their Shareholdings & Unitholdings in AEI Ltd)

HP

(d) Incremental change not enough

I agree with much of your sentiment in this section particularly in regards nature depletion. Major changes in public policy are essential to solve these problems. Where I disagree with you is in the notion that it is inappropriate for investors to stand up, be vocal and contribute.

DG Again, I did not use the word inappropriate re individuals - if I did give advice to individuals, it would be that SA is the least wise option if one wishes to make ones spare dollars work hard to 'do good'. Most of my article is focussed on the appropriateness of AEI moving away from core business into a very risky area (SA) and whether SA can achieve much in the next six to ten years - the timeframe agreed upon as necessary to avoid dangerous climate change.

HP

Regards
Howard Pender
Climate Advocacy Manager
Australian Ethical Investment

and member of the AEI Investment Committee that approved a loan many years ago that helped with the growth of the ATA .

DG This is the sort of ethical investment really needed - low interest loans for great initiatives that make a immediate and clear big difference [without the gross perversions of overcentralised governance] - do AEI still fund such work? Hint: I know of three proposed continent wide projects that could do with a similar offer combined with a one off grant ...

HP

PS Please let me know if you are ever in Canberra. I would be very glad to take you on a tour of our six star green building, the third of its kind in Australia.

DG I might take you up on this. Canberra not on radar at present, though enjoyed myself a lot when there circa 2006. Hope your building captured a lot of the huge rains I learn have come to Canberra [from the climate change driven Cyclonic activity still passing now]

Footnote

° There is a small share exchange based in Bendigo that maintains the localised shareholdings of all the Community Banks (BEN profit sharing franchises) in Australia - what a great way to decentralize the Australian economy and to recycle profit within the communities from where it comes - a real alternative to the 'Big Four' banks that shift nearly all profit out of the communities.

Regards,
Dominic

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