



LETTER TO FIDUCIARIES:

BlackRock
Vanguard
State Street Corporation
Fidelity Investments
BNY Mellon Investment Mgmt
JP Morgan Asset Management
PIMCO
Capital Group

Prudential Financial (PGIM)
Goldman Sachs Asset Mgmt
Amundi
Pension Funds
Sovereign Wealth Funds
and global scale Asset Managers
cc: G20, World Bank, WEF
IIRC, UN PRI, GRI, A4S, ISG, et al

Stock Exchanges
Rating Agencies
Reserve Banks
Treasurers & Finance Ministers
Regulators (and IOSCO)
Boards and Executives
and aligned civil, business and
investment leadership forums

August 2018

Dear Fiduciary,

We have heard the calls. BlackRock's 'Annual Letter to CEOs', CECP SSI's 'Investor Letter to Presenting Companies' and many other voices seek stronger engagement on long-term perspectives of shareholder and stakeholder value within climate, sustainability, societal and broader contexts.

In response, we propose engagement around a breakthrough Australian solution to this issue as the potential basis for a Global disclosure framework – providing an investible periodic assessment of the quality of an organisation's future prospects – and indicating how sustained increases in effective performance can be achieved in large, mature organisations.

We applaud your success in driving awareness through forums of fiduciaries, CEOs, Finance, ESG and CSR professionals, governments, regulators and institutions. This very success suggests that the constraint is no longer awareness, goodwill, or even leadership. **The systemic capacity to engage future-value creation is the most significant remaining constraint on the achievement of these widely endorsed goals.**

Our future-challenges engage multiple measures of value. They are uncertain, complex to execute, and difficult to communicate between trust-stakeholders. We lack the effective means to reliably engage, execute, govern and communicate future-value creation, at the human, organisational and systemic level. Enhanced practice is required.

Accounting for Sustainability's observation that we are battling to meet 21st Century challenges with 20th Century decision-making and reporting systems has spurred global advances (IIRC, GRI, et al) in measurement and reporting. We have not seen similar advances in systemic capacity for decision-making, governance and the organisation of human labour.

Boards, executives, and managers of funds are constrained from acting without assurable, quantifiable capacity to make enhanced contextualised decisions. They need the ability to demonstrate the appropriateness of actions taken in support of long-term shareholder and stakeholder interests.

The Australian Institute of Performance Sciences is facilitating the development and application of the breakthrough 'Governance of Value Creation' approach. This approach enables enhanced decision-making and system-wide engagement with the core 'Future Fiduciary' question "Are we optimally invested in our own future?".

You called for long-term stakeholder perspectives on value-creation. We have developed a globally scalable systemic approach to achieve it. This is best matured to impact through collaboration. Please respond to us with contacts for appropriate engagement.

Sincerely,

Signatories (in their individual capacities):

Judge Professor

Mervyn King

Chair International Integrated
Reporting Council

John Stanhope

Chair Australia Post, Bionics Institute.
Director AGL. Deputy Chair International
Integrated Reporting Council

Andrew Harding

Chief Executive Management Accounting,
The Association of International Certified
Professional Accountants.

Michael Roux

Ex Dep Secretary of Treasury, Chair
VicSuper, V-Chair Citigroup. Australian
Davos Connection. WEF Ambassador.

Dr Matthew Kiernan

Chief Executive
Inflection Point Capital Management.

Victor Pertou

Ex Commissioner to the Americas, Snr
Advisor to G20 Presidency & Central Bank
Governors. Ex Parliamentarian.

Gavin Yeates

Former Vice President
Business Optimization, BHP Billiton.
Former member JORC

Rob Loader

Director Capital Planning
Telstra.

Filip Gregor

Head of Responsible Companies,
Frank Bold.
Purpose of the Corporation Project

Jeroen Veldman

Senior Research Fellow, Cass Business
School. Coordinator,
The Modern Corporation Project.

Gordon Noble

Principal Advisor John Grill
Centre for Project Leadership.

Michael Bray

Deakin Fellow in Integrated Reporting.

Danny Davis

Executive Director
Australian Institute of
Performance Sciences.

Lars Schiphorst

Executive Director
Australian Institute of
Performance Sciences.

"Surely, we know how to make boards effective as an organ of corporate governance. Having better people is not the key; ordinary people will do. Making a board effective requires spelling out its work." PETER DRUCKER, 1991

"I suspect that in the end we shall develop a formal business-audit practice, analogous perhaps to the financial-audit... based on predetermined standards (of) a systematic evaluation of business performance." PETER DRUCKER, 1991

"It may not be too fanciful to expect that in ten years a major pension fund will not invest in a company's shares or fixed-income securities unless that company submits itself to (such) a business-audit." PETER DRUCKER, 1991

"Personal effectiveness does not suffice in the knowledge worker age... The challenges and complexity we face are of a different order of magnitude." STEVEN COVEY, AUTHOR '7 HABITS OF HIGHLY EFFECTIVE PEOPLE', 2004

"The person who figures out how to harness the collective genius of the people in his or her organization is going to blow the competition away." WALTER WRISTON

BACKGROUND

Academic and commercial research undertaken in Australia has engaged directors at the top 10 listed companies (seven at Chair), CEOs and directors of fiduciary investors and their equivalents amongst government legislators, departments, agencies and regulators. **On the basis of the preliminary indications of this research, the Institute seeks to facilitate the collaborative maturing and global application of:**

Governance of Value Creation, as a future-oriented analogue to Financial Governance. This is an integrated, multi-disciplinary model for sustained highly-effective value-creation. It can be applied across all sectors, strategies and structures of organisation or asset.

- Quality information-foresight enables timely, balanced decision-making for optimising multiple bottom-line outcomes, across multiple time horizons, in the context of complexity and uncertainty.
- Accounting for periodic movement in certainty of future-outcomes (from experimentation, learning and changing externalities) empowers decision-agility and the immediacy of KPI performance measurement of progress towards long-term objectives as a counter to short-term pressures.

And, the related Value-Creation Maturity Assessment (VCMA), as an assurable, investible disclosure of the certainty of future-prospects. This is a cross-sector, knowledge economy, societal-value, intangible-value-creation equivalent to the JORC / SAMREC / SME standardised reporting on the levels of certainty associated with extracting value from Mining and Resource assets.

- Standardised disclosure across multiple time-horizons, including the extent of consideration and level of preparedness for standardised contingencies. And, use of a method that maintains confidentiality of strategy, and appropriate roles for directors in preparation and assurance.
- Enhanced impact for fiduciaries from a global-scale systemic approach that moves beyond proxy voting and informal behind-closed-doors discussions. Applicable beyond listed vehicles and purely financial outcomes to expand the investible universe.

These approaches integrate, and thereby activate (not duplicate) the vast multi-disciplinary body of professional practice. They can be understood as implementation extensions to Integrated Thinking (IIRC) encompassing GRI, UN PRI, CIMA Principles and other measures. This is a culmination of, not a diversion from, historical investments in good practice.

We see increased systemic productivity defined not as cost-cutting, but as the 'effective creation of new sustained value'. We identify the vast latent capacity in human ingenuity, and how it can be liberated and applied to new value-creation through updated practice. We identify that effective growth does not demand increased risk. Creation of new value presents as the path to sustained wage growth, trickle-up economics, earned-trust and participation in sustainably vibrant societies.

Systemic advantages suggest piloting cross-economy uptake in the Australian context, as an exemplar for accelerated global advancement. We have years, not decades in which to deliver global impact. Success will contribute to how corporations and investors create value, but moreso, to how corporations, investors, governments and community jointly participate in achieving effective future outcomes.

This is an opportunity to exercise the great responsibility invested in you as fiduciaries. It enlivens your role as leaders and system-makers in fulfilment of your own social licence. This call for support and participation is a chance to demonstrate this leadership and model the behaviours you seek in others.