Responsible Investment Association Australasia

2014

2013

2012

2011

2010

2009

2008

2007

Responsible Investment Benchmark Report

Australia & New Zealand

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Executive Summary

If you want to see your life savings built on strong positive investments and not cost the planet, then you'll be pleased to read this report. This year's annual Responsible Investment Benchmark Report, RIAA's 13th, again highlights that you can invest responsibly and achieve strong financial returns.

Again in 2013, responsible investment assets managed by asset managers, super funds, banks and advisers continued to grow strongly due both to strong performance and increasing fund inflows:

- Investments in core responsible investment – ethical, socially responsible, impact investments, community finance and sustainability themed investments – have grown in Australia by 51% year on year to just over $25 billion in assets under management (AUM) as at 31 December 2013.
- Investment in broad responsible investment – those asset managers deeply integrating environmental, social and governance practices across their investments in Australia and New Zealand have grown by 13% year on year to $153 billion in AUM.
- Assets managed responsibly in New Zealand have increased strongly by 20% to reach just over $27 billion in AUM, representing a very significant 40% of total AUM in NZ.
- Specialist responsible and ethical financial advisers continue to grow the assets they manage on behalf of clients, with just under $1 billion managed by 21 firms surveyed for this report.

This report again puts to bed the old fashioned myth that responsible investments are the underperforming younger brother of mainstream investments. When compared to benchmark indices and the average returns of mainstream funds, core responsible investment funds have outperformed across the majority of fund categories and time horizons:

- **Core responsible investment Australian equities funds** have outperformed the ASX 300 index and the large cap Australian equities fund average over 1, 3, 5 and 10 years.
- **Core responsible investment international equities funds** have outperformed the MSCI index and large cap International equities fund average over 5 and 10 years, but have underperformed over 1 and 3 years (despite stellar performances from some individual responsible funds)
- **Core responsible multi-sector growth funds** (i.e. balanced funds) have outperformed the mainstream fund average over 1, 5 and 10 years, with slight underperformance over 3 years.

The long-term value that responsible investments are delivering is great news for Australians who are investing their savings with a focus on financial security and resilience in their retirement.

Recently, Australian and New Zealand responsible investors – from financial advisers through to super funds - have been active globally and domestically on a broad number of important issues:

- **Bangladesh garment manufacturing:** Investors have strongly pushed retailers and manufacturers to improve the treatment and safety of workers in the garment industry in Bangladesh since the 2013 Rana Plaza building collapsed, killing over 1,100 workers. Australian responsible investors have helped to catalyse the vast majority of Australian garment retailers signing up to the Accord on Fire and Building Safety in Bangladesh (eight Australian retailers to date).
- **Sustainable production of palm oil:** 25 global investors managing $2 trillion (including five listed in this report) have been working actively to support the Roundtable on Sustainable Palm Oil (RSPO), engaging key companies to commit to supply and purchase RSPO certified product, and in doing so working to protect precious forests in Malaysia and Indonesia. This is contributing to the continuing growth of production of sustainably managed palm oil.
- **Responding to Climate Change:** Australian and New Zealand responsible investors continue to push for a stronger response to climate change. In 2013, responsible investors helped build renewable energy, invested heavily in improving the energy efficiency of buildings, continued to advocate for maintaining key climate regulations, engaged with banks and other companies on their financing and investments in fossil fuels and even divested from fossil fuels.

Core responsible investments outperforming the average fund returns in all categories over 5 and 10 years is a further demonstration of the sustainability of responsible investments, both in their returns and also the impact that they deliver.

Pleasingly, for the first time in a decade, the report shows a small but significant increase in people choosing to invest their money responsibly, with a distinct increase in public demand for responsible investments. The report finds that public demand for responsible investments (as measured by core responsible investments) has increased to 2.3% of TAUM for the first time in 10 years, growing from 1.6% of TAUM in last year's report. With the growing public interest and scrutiny of superannuation, we expect this to be the start of a continuing upward trend.

Indeed, most telling in this regard is that our previous report concluded that only one fund manager in Australia managed over $1 billion in AUM – in this year's report, seven fund managers are managing over $1 billion, with two more knocking at the billion dollar door.

This report finds a much more interesting and complex picture of an industry, whereby a plethora of responsible investment approaches are being used. But most importantly, this year's report finds that increasingly, investors are using a combination of approaches – such as screening, ESG integration and sustainability-themed investing – to get the best investment outcomes.

It is becoming increasingly difficult each year to classify investment funds in a single responsible investment category. Indeed, we have asset managers and asset owners who now apply ESG integration, screen companies, use sustainability-themed investments and are making impact investments whilst also generating strong financial results. For this report we classify funds based on their primary responsible investment technique.

This growing diversity of offerings means more choice for consumers, with an even greater variety of funds available to invest in a way that matches your own beliefs and values, and appetite for risks and reward. There really is no excuse not to invest responsibly.

But responsible investment is more than just avoiding risk. This large diverse set of responsible investment asset managers, super funds, banks and advisers are engaged in shifting capital towards a more sustainable future that will underpin long-term sustainable financial returns.

This report shows that the responsible investment sector is one of huge diversity with strong growth potential. Responsible investments are delivering not only great returns, but also positive impact through the investments themselves. With increasing consumer interest in superannuation and other areas of banking and finance, we expect responsible investment to continue to grow as an influential force for the finance sector at-large. We look forward to bringing you more good news to come.

- Indeed, five Australian investors were part of the Climate Asset Risk Initiative that aimed at the top 45 global fossil fuel companies to assess and disclose their financial risk from climate change. This has resulted in statements on climate risk from companies such as Exxon and BP.
- The first Green Bond was also recently issued in Australian dollars by the World Bank and saw substantial investment of $300 million including six Australian responsible investors. Such a landmark investment will result in capital flowing to projects including energy efficiency and clean energy in developing markets.
- **Supporting the emergence of impact investment:** The first social benefit bonds were issued in 2013 and invested in by responsible investors. These bonds have helped to move more capital into supporting the delivery of important social services such as family care whilst delivering financial returns. Investments have seen capital flowing into family services in low income areas and micro-finance in developing countries.
- **Corporate Engagement by investors:** Responsible investors have been using their ownership rights to engage directly with companies on issues including human rights, child labour, detention centres, tax avoidance, tobacco, climate change and carbon risk and CEO pay among many other issues. This ensures the activities of these companies are consistent with long term value creation.
- **Tobacco divestment:** There has been a lot of action by responsible investors, many of whom have deemed tobacco to be an industry they can no longer support. This has led to a large movement to divest of tobacco companies. Over the last 2 years, 16 super funds have divested from tobacco, resulting in the order of $1.2 billion being shifted out of the industry.

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