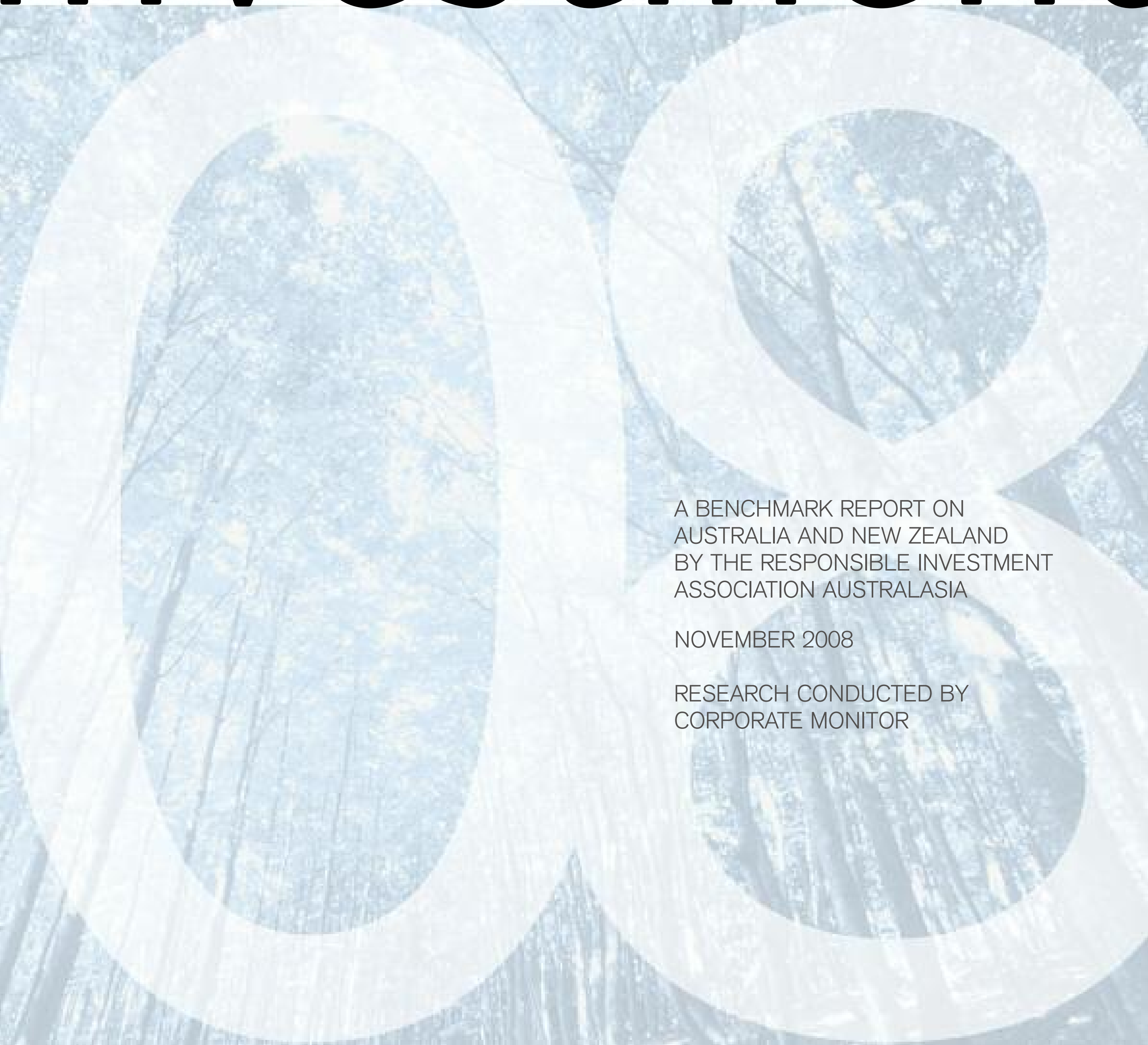
responsible investment



A BENCHMARK REPORT ON AUSTRALIA AND NEW ZEALAND BY THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

NOVEMBER 2008

RESEARCH CONDUCTED BY CORPORATE MONITOR

Thank you to our partners

Responsible Investment 2008 has been made possible with the generous support of our project partners:

AMP Capital Investors is very pleased to support the Responsible Investment industry through this study. We have been offering Responsible Investment Funds for over seven years and have a significant commitment to the area, including dedicated portfolio managers and in-house environmental and social research experts.

AMP Capital's Sustainable Alpha Australian Shares strategy integrates environmental, social and governance (ESG) factors into financial analysis as part of stock selection. Through this strategy our dedicated Sustainable Alpha Team have delivered competitive performance through a better understanding of company intangible assets together with more insight on corporate growth and risk characteristics.

In addition AMP Capital in Australia offers a choice of six Responsible Investment Leaders (RIL) Funds, which are multi-manager responsible investment funds. AMP Capital in New Zealand also offers a RIL International Fund and will be offering a NZ specific RIL Balanced Fund.

Michael Anderson
Director of Sustainable Alpha Funds

This is now the fourth year that Bananacoast Credit Union (BCU) has sponsored this important benchmark report.

As a community credit union, we give back to the local communities in which we operate, thereby contributing to their social and economic sustainability. By sponsoring this study we hope to play a small part in the responsible investment movement in Australasia by assisting to raise the profile of SRI and increase the take-up of ethical investments.

BCU is a community-owned credit union with 21 branches in Northern NSW and South East QLD and was established in 1970 by banana growers looking for an alternative to the banks. Being owned equally by our customers, credit unions represent the truest form of community banking.

We continue to adhere to the strong ethical principles set by our founders and follow a policy of responsible lending. Over the years we have won a number of industry awards for our innovative savings and loans products, demonstrating that it is possible to balance financial success with ethical business practices.

Ray Battle
Chief Executive Officer

BT Financial Group (BT) is the wealth management arm of the Westpac Group and has been helping Australians create and manage wealth since 1969.

BT's core business is providing investment, superannuation and retirement income products, financial advice and insurance options. BT has been managing a range of Socially Responsible Investment (SRI) funds since 2000 and in January 2007 continued its commitment to responsible investment by becoming a signatory to the United Nations Principles of Responsible Investment.

At BT, we recognise the importance of taking a long term-view of investment and believe that a sustainable approach to investment decision making will eventually become mainstream.

Sponsoring this benchmark report enables BT to participate in driving the responsible investment agenda further.

Rob Coombe
Chief Executive Officer

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RIAA – Leadership in Responsible Investment

The Responsible Investment Association Australasia was established in 1999 to promote sustainable and responsible investing in Australia and in 2006 RIAA also extended its work to include New Zealand.

RIAA is the region's peak, not for profit association for professionals working in responsible investment. We provide training, an independently audited certification program, policy work, investor campaigns, tailored marketing support, continuing professional development, networking opportunities, conferences and research. Some of our main projects include this report, Responsible Investment 2008, as well as…

1. RESPONSIBLE INVESTMENT CERTIFICATION PROGRAM

In 2005 RIAA established the Responsible Investment Certification Program which provides assurance, independent verification and standardised information about the way in which responsible investment products and services operate. For members of RIAA, the Program provides training, professional guidance, education and individualised marketing support. There are seven Certification categories, each with differing requirements: Fund Manager, Savings and Loan Product Provider, Superannuation Fund, Master Fund, Financial Adviser, Dealer Group and Mission Based Investor.

2. RIAA RESPONSIBLE INVESTMENT ACADEMY

In 2008 RIAA received funding from the Federal, Victorian and NSW Governments to embark upon its most ambitious project to date – the RIAA Responsible Investment Academy. The Academy is designed to address the significant and growing skills gap in the responsible investment sector and will provide web based training for a range of investment professionals on the integration of environmental, social and governance issues into investment decisions.

The Academy will also become a hub for live events which will facilitate the exchange of ideas and the establishment of best practice. The first series of premium workshop events will run from March to December 2009. The Academy will be a think tank, a policy centre and a library all at once and it will provide training and networking for responsible investment professionals at all stages of their careers. In short, the Academy will bring the responsible investment community together as never before, not just within Australasia, but across the world. The Centre will be a sector-wide initiative and is being developed under the guidance of a National Advisory Council comprising representatives from superannuation, funds management, asset consulting, financial planning, analysis, professional services and government. The Chair of the Academy is Steve Gibbs, former CEO of ARIA and long time champion of responsible investment in Australia.

3. RIAA ONLINE COURSE FOR FINANCIAL ADVISERS

In September 2006, RIAA launched the first online responsible investment training course in the world for financial advisers. This engaging, interactive, three hour course gives advisers the knowledge and the skills required to provide professional and comprehensive advice on responsible investing. Responsible Investing: A Specialist Course for Financial Advisers has been produced by RIAA in partnership with SAI Global, publisher of Australian Standards and one of the world's leading compliance and business publishing organisations. The course is a pre-requisite for RIAA Certification in the category of Financial Adviser and Dealer Group and will become part of the RIAA Academy in 2009.

4. RIAA INTERNATIONAL CONFERENCES

RIAA's 6th international responsible investment conference was held in Melbourne in September 2008. Featuring 15 international speakers, this year's conference attracted delegates from all over the region and the globe and covered issues such as food and energy security, the sustainability of our financial market system and the investment challenges presented by a transition to a low carbon economy.

GET INVOLVED WITH YOUR INDUSTRY BODY

As a member:

- You will have opportunity to contribute to and benefit from the establishment of the Responsible Investment Academy and its associated events, training, research and publications;
- You can apply for Certification for your RI products or services (complimentary for members);
- You will receive a complimentary hard copy of Responsible Investment in Australasia each year;
- You will receive marketing support tailored to your business;
- You can promote your organisation and services on RIAA's website, Australia's only portal which provides a comprehensive overview of RI products and services and which is visited by over 5,000 unique visitors a month;
- You can hear first hand about job vacancies and opportunities to collaborate within the sector.

Executive Summary

Responsible Investment 2008 is the 8th annual Benchmark Report commissioned by RIAA and the fifth report based on research carried out by Corporate Monitor. Its aim is fourfold: to update figures for the 2007-08 financial year for the various forms and segments of responsible investment; to present analysis of its level of growth (or decline); to show comparisons with the total managed investment market; and to provide a summary of the latest reported overseas figures.

Responsible investment is split into core and broad components. Put simply, core responsible investment includes specifically tailored managed funds, direct share portfolios managed by financial advisers, and also micro-finance, micro-credit and green loan products offered by banks. On the other hand, broad responsible investment is the developing practice by mainstream institutional investors to integrate environmental, social and governance (ESG) issues into their day to day financial analysis, stock selection, company engagement and voting processes.

Also, managed portfolios have been classified in accordance with their approach to investment screening: ethical exclusions, positive screening, best-of-sector, thematic investments and norms-based investing.

In a period that witnessed the US sub-prime loans crisis, a credit crunch and the beginnings of a global financial crisis, responsible investment in Australia has felt the impact. Core responsible investment has fallen in value for the first time since this survey began in 2002. Broad responsible investment has continued to grow but at a level lower than when this measure was introduced in the 2007 survey. No doubt the consequences of these global events have continued to play their part as the financial crisis has deepened from June 30 to the date of this report.

RESULTS IN BRIEF – all data is for 2007-08 financial year unless otherwise stated

Core responsible investment (including managed portfolios, community finance, green loans and ethical portfolios of charities and clients of financial advisers) fell 6% in 2007-08 from $18.71 billion to $17.62 billion.

Managed responsible investment portfolios fell 7% during the 2008 financial year from $16.95 billion to $15.73 billion, a decrease of $1.22 billion. Total investment management of all types of managed portfolios fell 9% in that same period.

The main factor contributing to this fall was negative investment performance of $1,211m. Net flows to existing managed portfolios were also negative at $147m. The only positive factor was the assets of new funds at $134m - being thematic funds based on climate change, water or clean technology investment propositions.

The contribution from investment performance reflects a negative 7% overall return on the average of all responsible investment funds for the year. The average return over the year of the largest category, Australian share funds, was negative 16% over the year. The largest fund manager is AMP Capital Investors, with responsible investment assets under management of $2,777m, falling from $2,894m in 2007. The fastest growing fund manager was Generation Asset Management, whose local assets under management climbed from $291m in 2007 to $704m.

Analysis of the average return of responsible investment managed funds in the Australian Shares, Overseas Shares and Balanced Growth categories indicates that they outperformed the average mainstream fund over time periods of 3 to 5 years to June 2008. This is a similar picture to the last three years. However, over a 1 year period the performance was below the average mainstream fund in each category.

Ethical direct asset portfolios managed by financial advisers fell a similar amount to managed portfolios, from $1,015m in 2007 to $969m, down 5%.

The bright light in core responsible investment was community finance. A total of 12 community finance providers had total assets of $863m, an increase of 27% on last year's figure of $682m.

In contrast, broad responsible investment grew 8% from $52.8 billion in 2007 to $57.1 billion, reflecting an increase in the assets of fund managers that have integrated ESG factors into their investment process and institutions that have embraced a corporate engagement service.

This does not include institutional investors that are taking steps towards ESG Integration, as indicated by their adoption of the United Nations Principles for Responsible Investment (UN PRI).

In 2008 there were again no specific shareholder resolutions that related to an issue of environmental or social responsibility. This is the third consecutive year this has occurred and it stands in contrast with further growth in shareholder activism in the USA.

The survey also reports on a number of other indicators that show how mainstream investors are taking steps towards ESG integration. Australian signatories to the UN PRI grew from 36 in 2007 to 68 with assets under management of US$591 billion in October. The asset manager segment of local UN PRI signatories has global assets under management of US$398 billion and this represents 69% of total Australian investment management of all types being $829 billion in June.

Allowing for timing differences in the above data and the fact the UN PRI data includes assets managed overseas, it is more reasonable to state that more than half of the funds under management of Australian asset managers now falls under a UN PRI commitments to ESG integration. The strength of Australian takeup of the UN PRI is also shown by the fact that local signatories represent 16% of global signatories and 4% of the assets under management of all signatories.

Australia also has 26 signatories to the Carbon Disclosure Project and our local Investor Group on Climate Change comprises members with $496 billion in assets under management, up 32% from $375 billion in 2007.

This year's survey also presents two sets of new data. First it lists 12 local indices that have been developed based on ESG criteria and analysis. It also lists investment research studies from 11 authors on the subject of responsible investment or ESG integration.

In New Zealand responsible investment assets are estimated to be NZ$15.35 billion, an increase of 2% on the 2007 figure of $15.0 billion. This is largely attributable to the growth of the New Zealand Superannuation Fund ($14.12 billion) which has adopted an investment policy that includes the concept of avoiding prejudice to New Zealand's reputation as a responsible member of the world community. A smaller but notable factor was the launch of a number of KiwiSaver accounts with a responsible investment policy.

The New Zealand report was again provided by Dr Rodger Spiller.

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What is Responsible Investment?

Responsible investment is an umbrella term to describe an investment process which takes environmental, social, ethical or governance considerations into account. This process stands in addition to, or is incorporated into the usual fundamental investment selection and management process. This involves one or more of the following practices being included in the research, selection and monitoring of an investment security or portfolio.

NEGATIVE SCREENING OF COMPANIES OR SECTORS

A practice which excludes investment in companies that operate in certain industries; for example tobacco, armaments, alcohol, uranium and gambling or those involved in animal testing. Negative screening is most closely aligned with ethical investment, which caters to investors wishing to align their values with their investment decisions.

POSITIVE INVESTMENT IN SUSTAINABLE INDUSTRIES

Actively seeking out and investing in companies whose products and services have a positive affect on society and the environment. This may include water and waste management, renewable energy and energy efficiency, sustainable agriculture, mass transport, sustainable property, education, aged care and health care.

ANALYSIS OF COMPANIES FOR THEIR ESG PERFORMANCE

Conducting extensive research into a number of environmental, social or governance (ESG) issues that affect companies eligible for an investment portfolio. Research techniques may include: –

- Incidents reported in the media
- Research reports provided by stockbrokers
- Specialist, issues-based research on corporate conduct provided by non-government-organisations
- One on one interviews with the target companies
- Questionnaires filled out by the companies
- Analysis of company sustainability reports
- Sanctions imposed by government regulators
- Rating companies against international benchmarks such as the United Nations Declaration on Human Rights.

INVESTING IN THE MOST SUSTAINABLE COMPANIES IN ALL SECTORS (BEST-OF-SECTOR)

The concept of sustainable development and sustainable investment implies that all industries should adopt higher standards of ESG practice in order to meet the expectations of society and to achieve sustainable and profitable business goals. This process involves identifying leaders that are taking their industry toward a sustainable future. The approach is based on the premise that companies with strong sustainability credentials are generally better managed companies, and therefore better investments.

THEMATIC INVESTMENT

Portfolios which contain only those investments that adhere positively to a particular sustainability theme such as environmental technology, sustainable agriculture, water technology, waste management, sustainable property and infrastructure, human rights, carbon liability or governance. This category also includes multi-strategy portfolios containing a variety of asset classes which may include a combination of these themes.

ENGAGEMENT WITH COMPANIES ON ESG ISSUES

Here a specialist is appointed to contact companies to build the business case for better management of ESG matters. Sometimes they will collaborate on common issues with other funds from Australia or across the world which can increase the likelihood of a positive outcome from the engagement process.

SHAREHOLDER ACTIVISM - RAISING RESOLUTIONS ON ENVIRONMENTAL AND SOCIAL ISSUES

Voting rights are a powerful mechanism to achieve improved corporate social responsibility. While it will always be difficult to achieve a majority vote for resolutions based on environmental or social issues, a positive vote of about 15% or more is often enough to capture the attention of a corporate board and to affect change. Funds which are active owners will exercise their right to vote and their right to raise resolutions in order to achieve better management outcomes. In the United States resolutions concerning environmental and social issues have been increasing, reflecting a worldwide trend.

Project Description

The overall aim of this project is to provide credible data on the size and growth of the Australian responsible investment market and to compare this with trends in Australia's financial market and responsible investment internationally.

The project is intended to establish the size and, where possible, growth of the following responsible investment categories:

Core responsible investment: Includes specifically tailored managed funds, direct share portfolios managed by financial advisers, and also micro-finance, micro-credit and green loan products offered by banks.

Broad responsible investment: Includes ESG integration, corporate engagement and shareholder activism.

Results obtained from the current project are compared with those obtained in the benchmarking study in 2007.

The process of categorising the Australian responsible investment market into core and broad components follows the methodology developed for similar studies by the European Social Investment Forum (Eurosif) and Canada's Social Investment Organisation.

Following the Eurosif approach, managed responsible investment portfolios have been classified in accordance with their approach to investment screening: ethical exclusions, positive screening, best-of-sector, thematic investment and norms-based investing.

Methodology

This study employed the same methodology as was used in the RIAA Benchmark Report 2007. Data was gathered from a range of sources. Managed funds data was kindly provided by managed funds industry research specialists Morningstar and Rainmaker Information Services, while a large proportion of the data was also provided direct to Corporate Monitor. Information on total investment management and the average performance of certain managed fund categories were provided by Morningstar. Data on the other segments was collected by Corporate Monitor.

Initial requests for data were made by email and then followed up by telephone, where necessary. It is important to note that for many areas of responsible investment data there is no requirement for disclosure and some investment custodians may be reluctant to supply information. This may be for reasons of privacy or commercial confidentiality. The figures for categories outside of managed responsible investment portfolios should be considered conservative for this reason.

All requests for information occurred in the period July through October 2008, but figures are as at 30 June 2008, unless otherwise stated.

All calculations of performance, growth levels and market share were performed by Corporate Monitor.

As stated above, the responsible investment market is also split into core responsible investment and broad responsible investment using the distinctions developed by Eurosif and the Canadian Social Investment Organisaton.

CORE RESPONSIBLE INVESTMENT

Core responsible investment includes specifically tailored managed funds, direct share portfolios managed by financial advisers, and also community finance such as micro-finance, micro-credit and green loan products offered by banks.

Managed Responsible Investment Portfolios

This is defined as the placement of money in managed funds, separately managed share portfolios, or discrete investment mandates screened to reflect environmental, social, labour relations, governance or ethical considerations.

Data was collected on the net assets of professionally managed portfolios that define themselves as ethical, sustainable or socially responsible. This includes investments directly into public offer managed funds (for both retail and wholesale investors), superannuation funds, directly managed accounts, institutional mandates and other portfolio based investments.

Double counting is removed in arriving at reported figures, unless otherwise stated. Double counting arises when investment from a retail fund (offered by the same fund manager or superannuation fund) is then invested in a wholesale fund or mandate of another.

Feeder funds, which invest from one fund manager or investment platform into a responsible investment fund manager by another fund manager, have not been counted in the survey data. This also avoids double counting.

Where a fund manager operates multiple funds that invest into one investment pool, then any double counting of investments was removed. Managed responsible investment portfolios have also been further categorised into:

- Portfolios screened with a range of ethical exclusions
- Those that also have an element of positive screening
- Best-of-sector portfolios
- Thematic investment that involves exposure to a single sustainable investment asset class (e.g. clean technology or sustainable property portfolios)
- Portfolios based on norms-based screening (screening companies according to their compliance wiith international standards and norms such as the UN Global Compact). In Australia there are some examples of norms-based screening that forms part of a broader positive screen or best-of-sector approach. In New Zealand there are two significant cases of norms-based screening.

Direct Investment Portfolios Managed by Financial Advisers

Some financial advisers provide specialised service to investors who want to use an ethical investment approach. From over 200 advisers that have registered an interest in ethical investment we obtained data from 16 firms on the amount under their advice that explicitly takes ESG issues into account in direct investment portfolios (including shares and other portfolio investments). This does not include the value of their clients' holdings in managed responsible investment portfolios.

Charities and Charitable Trusts

In prior years we identified charities that had share portfolios of $500,000 or more based on their latest financial statements. We then surveyed this group to ask them if these investments were held under an ethical investment policy. This year we recognised a trend in how charities are managing their investments. Now, like other investors, charities' investments are already largely reflected in the figures for responsible investment managed portfolios or direct investment portfolios managed by financial advisers. This is because most charities, particularly those with a formal ethical investment policy, now use the services of a fund manager or financial advisers to assist them. Hence the charities segment no longer appears in this study so as to avoid double counting.

Superannuation Funds

Superannuation funds are now providing their members with a choice of funds, including the option of a responsible investment super fund. These options generally then invest in one of the managed responsible investment portfolios and are counted in the total for that category.

Some superannuation funds have also adopted responsible investing as part of their mainstream investment process. For the purposes of this study, if that investment has gone into an established responsible investment fund, then it is ignored so as to avoid double counting. Where the investment has gone to an external source, such as an overseas responsible investment mandate, it is listed as a managed responsible investment portfolio under the heading of the superannuation fund itself.

Community Finance

This involves pooling deposits in order to make loans to disadvantaged individuals, not-for-profit organisations or for loans to fund actions that help the environment or society.

For this study we surveyed organisations known to be dedicated to community finance activities. This includes Approved Deposit Institutions that predominantly accept deposits from and make loans to lower income groups and not-for-profit organisations. In this case we included the value of total assets.

In addition a number of microfinance based loan portfolios (small loans made to disadvantaged groups) and other responsible lending activities were also included in this category. Another segment includes deposits in accounts designated to benefit some environmental or social purpose.

BROAD RESPONSIBLE INVESTMENT

Broad responsible investment includes:

- The relevant assets under management of fund managers that have integrated environment, social and governance factors (ESG) into their mainstream investment process
- The assets of fund managers or institutional investors that have appointed a formal ESG corporate engagement specialist
- Shareholder activism – the value of shareholdings that have supported a shareholder resolution on an environmental or social issue.

This section excludes assets in responsible investment portfolios as these are already counted within their own category.

ESG Integration

The trend towards mainstream acceptance of ESG related investment factors is significant. The details of a range of initiatives that signify the extent of this trend are outlined in this study. They include the United Nations Principles of Responsible Investment, Carbon Disclosure Project, Enhanced Analytics Initiative and the Investor Group on Climate Change. All allow fund managers and institutional investors to become signatories to a program of improved corporate ESG performance. Details of each initiative are outlined under the section on Broad Responsible Investment.

However, as ESG integration is in its formative years, most of these signatories are yet to reach the point where they have adapted their investment process to include this research in the stock selection and portfolio construction process. The ESG integration segment only counts the relevant assets under management of fund managers that have reached this stage of development.

Mercer Investment Consulting is currently researching the level of change in the number of managers who apply ESG in their investment processes and next year will provide a benchmark summary for this report showing the percentage of funds that have achieved good ESG ratings in Australia and New Zealand.

Corporate Engagement on ESG

Engagement specialists undertake ESG research which they then use as the basis for a two-way dialogue with companies to advocate improved governance of ESG risks. This service is then taken up by fund managers and institutional investors. The study counts as a responsible investment the total value of shareholdings in companies which are the subject of the engagement process. This equates to client holdings in the Top 200 Australian Stock Exchange listed companies. There are also many ad hoc instances of this form of engagement undertaken by a range of institutional investors. But due to the private nature of this ad hoc engagement process, it is not practical to quantify the level asset ownership involved in this process and include details in the survey.

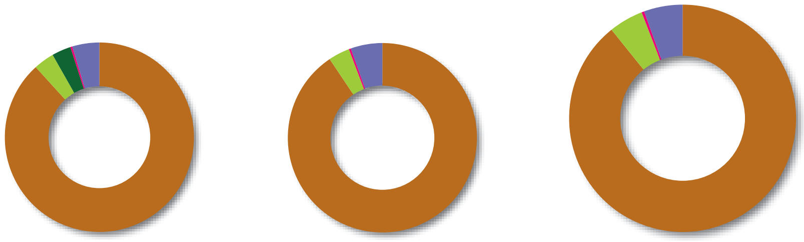
Shareholder Activism

Using regular media coverage of incidents of shareholder activism, we considered a range of shareholder complaints about corporate performance on environmental and social issues. We also sought advice from corporate governance specialists on the incidence of any shareholder activism. But again this year, all such shareholder actions fell into the category of corporate governance - none fitted within the definition of shareholder activism used in this study; i.e. a shareholder resolution to agitate for a better environmental or social outcome.

Core Responsible Investment

While the components of core responsible investment have been quantified and discussed in prior year studies, this is the second year that they have been grouped into a segment of the responsible investment marketplace.

CORE RESPONSIBLE INVESTMENT IN 2008



$m	2007	2007(R)	2008	Change
Managed portfolios	17,102	16,950	15,724	-7%
Community finance	682	682	863	27%
Charities and charitable trusts	635	N/A	N/A	
Green loans	64	64	67	5%
Ethical adviser portfolios	916	1,015	969	-5%
Total	19,399	18,711	17,623	-6%

MANAGED RESPONSIBLE INVESTMENT PORTFOLIOS

Managed responsible investment portfolios fell by 7% during the 2008 financial year from $16.95 billion (restated to from $17.10 billion to reflect minor prior year adjustments) to $15.73 billion, a decrease of $1.22 billion. This is a significant turnaround from the 2007 year increase of 46%.

Factors affecting the downturn include falling investment markets, slower net funds flows and the closure of some products.

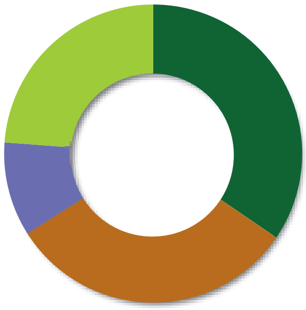
Total Investment Management in all types of managed portfolios fell by 9% in that same period.

Before subtracting double counting of $679m, the published value of all responsible investment portfolios was $16.40 billion. Double counting is due to investment from retail funds (offered by a fund manager or a superannuation fund) which then invest in a wholesale fund or mandate of another.

Categorising this according to the type of screening in place for each portfolio, this $16.40 billion is made up of:

RESPONSIBLE INVESTMENT PORTFOLIOS BY SCREENING APPROACH

2008



	$m	2008%	2007%
Ethical exclusions	5,663	35	42
Positive screening	5,163	31	31
Best-of-sector	1,672	10	9
Thematic investment	3,904	24	18
	16,402		

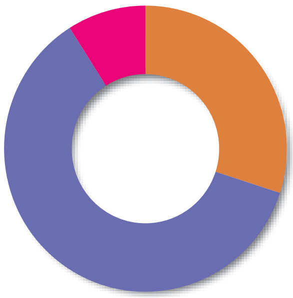
There are no recorded instances of norms-based investment screens in Australia. While some funds use the norms as part of their screen they also have a greater focus on either positive screens or best-in-class assessments.

Last year's study was the first where the sector was categorised according to a specific approach to screening. The table above demonstrates a continued trend towards thematic investments (from 18% in 2007 to 24%) due in part to the launch of a number of new funds. Conversely, the relative size of the dominant ethical exclusions segment has fallen (from 42% in 2007 to 35%) due to the fall in investment markets, softer net funds flows and the paucity of new funds of this type.

An aspect of the prior years' data is the analysis of the type of managed portfolio and its contribution to the total responsible investment market. However this year a number of key funds data was only available for the total fund pool; combining retail funds, wholesale funds and discrete mandates. This makes it impracticable to update this split. Last year's figures are again shown below for information.

RESPONSIBLE INVESTMENT PORTFOLIOS BY TYPE

2007

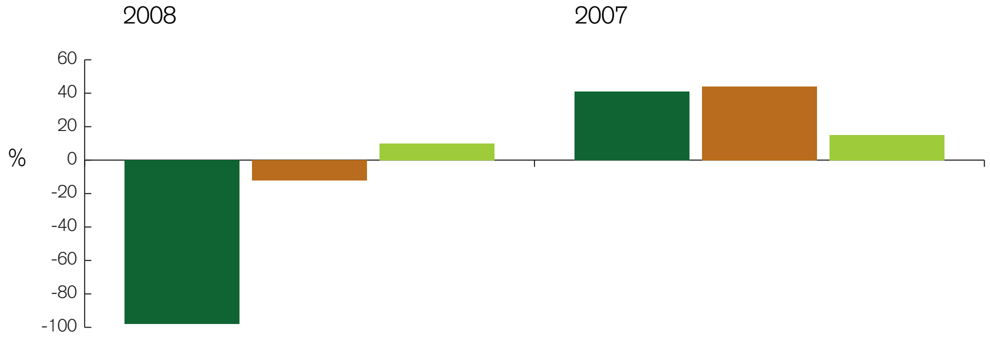


	$m	% of total
		2007
Net assets of retail managed funds and managed accounts	5,352	30
Net assets of wholesale managed funds, investment mandates and public superannuation funds	11,119	61
Market capitalisation of thematic investment funds	1,532	9
	18,003	

In last year's study positive investment performance and net flows to existing managed portfolios accounted for 85% of the sector's growth.

This year shows the first decline in this segment since the benchmarking process began in 2001. The main factors contributing to the $1.22 billion decline were:

RESPONSIBLE INVESTMENT PORTFOLIOS – COMPONENTS OF THE DECLINE



	$m	% growth or decline 2008	2007
Investment performance	(1,211)	(98)	41
Net flows to and from existing portfolios	(147)	(12)	44
New funds and mandates	134	10	15
	(1,224)		

In understanding these results there are a number of other factors to note:

Contribution from Investment Performance

Most of the responsible investment portfolios segment is predominantly exposed to shares and so there is a close link between the sector's growth and the fortunes of the sharemarket. To this end, the impact of a worldwide bear market in equities and bonds accounts for almost all (98%) of the fall in the net assets of the sector. Minor net funds outflows from existing funds and the assets of new funds offset each other to account for only a net 2% (12% less 10%) movement.

The estimated investment return of the entire sector for the year is -7%. This is determined by dividing the contribution from investment performance by the average of the net assets of the portfolios during the year.

New Funds and Mandates

All new funds launched during the year fall into the category of thematic investments. A list of the funds and their assets at June 2008 follows:

NEW FUNDS	$m
Drapac Sustainability Fund	12.86
JB Global Renewable Trust	59.00
KBC Global Water Fund	13.50
Cleantech Australia Fund	23.00
Arkx Carbon Fund	5.70
Future Farming Landscapes (VicSuper)	19.92
Total	133.98

Terminated Funds

There were also a number of funds closed during the year reflecting muted market conditions and something of a trend towards larger, more established fund managers. A list of terminated funds follows:

TERMINATED FUNDS
Suncorp Ethical Equities portfolio
Suncorp Ethical Balanced Fund
UBS Australian Ethical Share Fund
BIAM Australian Ethical International Fund
Warakirri Charitable International Ethical Trust
MFS Water Fund

It is also noted that Australian equity assets previously recorded under Glebe Asset Management are now recorded as a mandate managed by Barclays Global Investors. This follows a decision not to offer Glebe funds publicly but to continue to hold the internal assets of the Anglican Church Diocese of Sydney as an ethically screened mandate.

Superannuation Funds and Responsible Investment

Superannuation funds were a significant investor in established funds as well as directing the establishment of new mandates. Superannuation funds continued to sign up to the UN Principles for Responsible Investment and other ESG integration initiatives. These are discussed in more detail below.

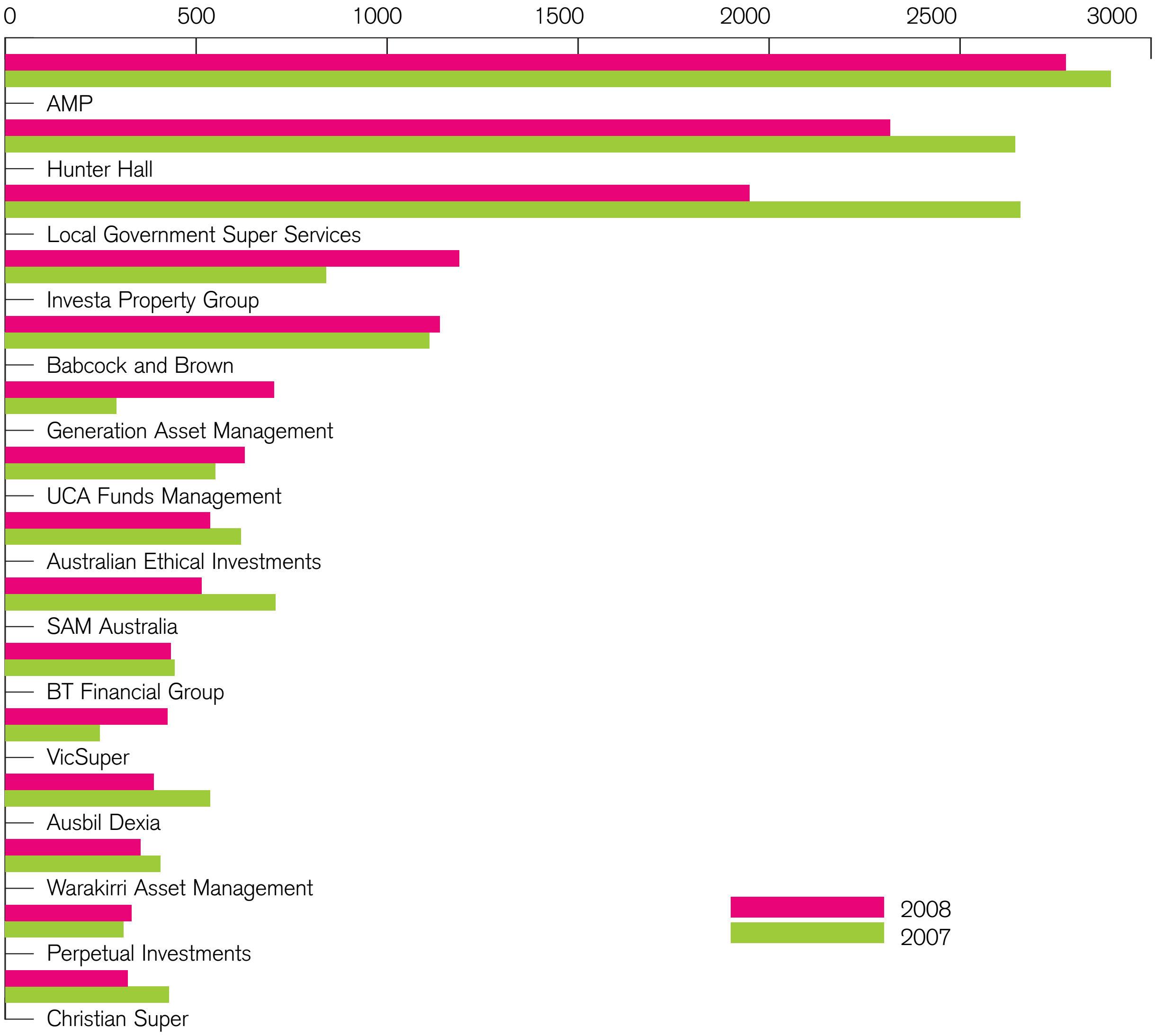
Responsible Investment Fund Managers

Fund managers and superannuation funds with responsible investment funds under management as at June 2008 are listed as follows:

MANAGER $m	2006	2007	2008
AMP	1,550	2,894	2,777
Hunter Hall	1,661	2,644	2,317
Local Government Super Services	2,419	2,658	1,948
Investa Property Group	568	840	1,188
Babcock and Brown	1,175	1,111	1,138
Generation Asset Management	140	291	704
UCA Funds Management	474	550	627
Australian Ethical Investments	424	617	536
SAM Australia	484	707	514
BT Financial Group	284	444	433
VicSuper	185	247	425
Ausbil Dexia	236	537	389
Warakirri Asset Management	375	406	354
Perpetual Investments	130	310	330
Christian Super	275	428	321
Barclays Global Investors		342	232
Macquarie Investment Management	-	61	103
Myer Family Office	68	104	100
Attunga Capital	-	50	100
ING Asset Management	71	89	97
Viridis Clean Energy Group	111	200	95
Kaplan Funds Management	100	70	91
Smallco Investment Manager	66	220	90
Goldman Sachs JB Were	52	107	90
Credit Suisse Asset Management	-	113	86

Brandywine Global Investment Management	-	69	85
Challenger Financial Services	71	102	76
James Fielding	111	72	70
IOOF Perennial	40	62	64
JB Global Investment Services			59
Perennial Value Management	57	79	46
ANZ Asprit	-	89	41
Greencap			35
Fat Prophets	30	35	28
CVC Sustainable Investments	36	38	26
Cleantech Ventures			23
State Street Global Advisers	16	18	19
Maple-Brown Abbott	20	16	15
Liontamer Investments			14
Drapac			13
Next Financial - van Eyk	7	9	11
Portfolio Partners	41	52	9
Arkx Investment Management			6

LARGEST RESPONSIBLE INVESTMENT MANAGERS > $300M IN 2008



Most of the larger, more established managers experienced a fall in funds under management during the year due to factors common to the managed investments industry as a whole. Some managers did, however, experience growth. In addition to the new thematic funds mentioned here, the most notable example of growth is Generation Asset Management who in September 2007 undertook a high profile launch of a retail version of its Global Sustainability Fund in partnership with Colonial First State. The fund also gained further institutional mandates and Generation also attracted local support for its Climate Solutions Fund.

Uniting Church Victoria's UCA Funds Management grew its assets mainly through the growth in its cash management fund. Another to experience growth was VicSuper, who increased its investment in overseas funds or mandates not otherwise available in Australia (as so not listed separately in this study). VicSuper also made an initial investment in its rural enterprise, Future Farming Landscapes.

Responsible Investment Portfolios - Market Share

According to Morningstar's latest Market Share Report, Total Investment Management (i.e. all types of mainstream managed investment portfolios) in Australia comprised $828.9 billion in June 2008. Therefore, responsible investment portfolios in June 2008 of $15.72 billion are 1.90% of this total, up from 1.87% in 2007, 1.56% in 2006 and 1.15% in 2005. This indicates the cumulative effect of several years of better relative growth for responsible investment, although it is still a very small segment.

Overseas Comparisons

Other parts of the globe that conduct similar studies of responsible investing include the USA, Canada and Europe. However this Australasian report is the first study of 2008 data to be published, and as such it is the first study that begins to track the impact of the 2008 financial crisis on the responsible investment sector.

In recent years we have harmonized the methodology used in the study with similar studies overseas, particularly Canada and Europe. Even so, international comparisons between studies remain difficult because of differences in interpreting the methodology, the definitions of responsible investment and the level of investment disclosure.

USA

A 2007 study published by the US Social Investment Forum found that Socially Screened Mutual Funds accounted for $US 201.8 billion, a 13% increase on the US$179 billion recorded in 2005. According to the Investment Company Institute total US mutual fund net assets at December 2007 were US$12,039 billion. This suggests a responsible investment mutual funds market share of 1.5%, which is a fall from the 2% reported in the 2005 and 2003 studies.

A broader measure of responsible investment used in the US study was a figure of US$2.71 trillion - made up of screened portfolios, shareholder advocacy and community investing. This is an increase of 18% on the US$2.29 trillion reported in 2005 and is calculated as nearly 11% of all assets under professional management in the US, being $25.1 trillion in 2007. However it should be noted that this figure includes large amounts in socially screened investments of religious organisations and education bodies which feature simple or single-issue screens.

CANADA

Since our study last year there has been no updated data published on the level of responsible investment in Canada.

A 2006 study by the Social Investment Organisation in Canada calculated that assets invested according to socially responsible guidelines increased significantly, from an estimated $65.46 billion in 2004 to $503.61 billion, as of June 30, 2006. The vast majority of this increase is due to the recent adoption of responsible investment practices by several major pension funds, mostly in the public sector.

This represents a significant increase in assets invested according to broad responsible investment strategies, of which there was very little activity as recently as 2004. Canada's core responsible investments rose from $37.9 billion in 2004 to $57.4 billion in 2006, representing a 52% increase. Most of this growth is attributable to an increase in managed responsible investment portfolios which increased from $21.2 billion in 2004 to $36.5 billion in 2006.

Broad responsible investments (which include sustainable venture capital) grew from $27.6 billion in 2004 to $446.2 billion in 2006. Most of the increase is due to the addition of assets from large public pension funds, many of which have adopted responsible investment policies and practices in the last two years. Combined, these components represent 19.6% of the Canadian managed investments market. Core responsible investment assets have a 2.2% share of the market.

EUROPE

The latest responsible investment survey was released by the European Social Investment Forum (Eurosif) in October 2008, based on data to December 2007.

This study presents a figure of €511.7 billion for core responsible investment and €2.154 trillion for broad responsible investment. For market share, the study states that the European Fund and Asset Management Association (EFAMA) estimated the European asset management industry at €13.5 trillion assets under management for both investment funds and discretionary mandates by the end of 2006. Estimating an average growth rate of 4.4% between 2006 and 2007, the study estimates that the responsible investment assets represent about 17.6% of the asset management industry in Europe; broken down as 3.4% for Core Responsible Investment and 14.2% for the Broad Responsible Investment segment.

Longer term trends

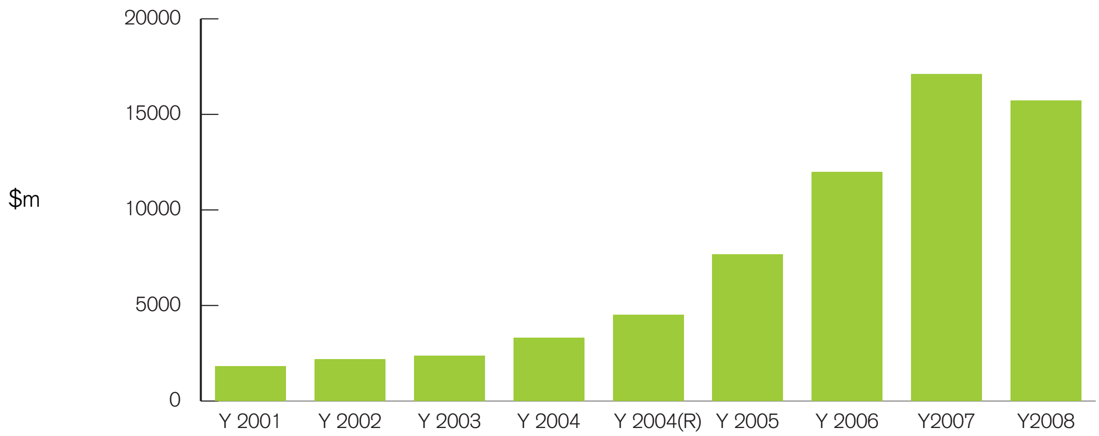
Over the seven year period that the Australian responsible investment market has now been benchmarked, the trend of growth is as follows:

RESPONSIBLE INVESTMENT MANAGED PORTFOLIOS – LONG-TERM GROWTH

Year	$m	% Market Share	% Change Per Year	% Change Cum.	% Change Total Investment Management (all managed investments)
00	325				
01	1,818		459	459	
02	2,175		20	569	
03	2,355		8	625	
04	3,315		41	920	
04(R)	4,500	0.7	91	1,285	
05	7,670	1.15	70	2,260	9.2
06	11,985	1.54	56	3,587	15.5
07	17,102	1.87	43	5,162	20.0
08	15,724	1.90	-7	4,738	-8.7

(R) = Restated in the following study

LONG-TERM GROWTH TRENDS IN RESPONSIBLE INVESTMENT MANAGED PORTFOLIOS



This table shows that despite the contraction in responsible investments in 2008, the sector has sustained a long period of growth relative to mainstream managed investments, evidenced by its continued increase in market share, albeit from a low base.

Investment Performance

Analysis of the performance to June 2008 of publicly offered responsible investment managed portfolios included in this study has found that the average responsible investor in Australia is getting better returns for periods of three to five years in each of the three major investment categories.

The average return is based on asset-weighted return contributed by each responsible investment fund within its category. Mainstream indices are calculated by Morningstar using similar methodology.

In 2007-08 share funds suffered from the worldwide financial crisis and responsible investments fell accordingly. In addition, the average responsible investment Australian share fund underperformed the benchmark S&P/ASX 300 Index, while the average mainstream fund also fell short of the mark. When looking at three year returns, the average responsible investment fund performance also underperformed the market benchmark index. But over a five year period this situation is reversed as responsible investment fund performance improves relative to the market benchmark and the average mainstream investment.

The table also shows the results of another survey of median responsible investment fund performance conducted by AMP Capital. This survey was carried out on Australian shares-based responsible investment funds before fees are taken into account.

Overseas responsible investment funds did better – showing vast out performance over all time periods measured. This is largely due to the dominance of that category by the larger and high-performing Hunter Hall funds.

Balanced funds showed similar results to Australian share funds, underperforming the mainstream over one year but outstripping these results over three to five years.

RESPONSIBLE INVESTMENT VS MAINSTREAM SHARE FUNDS

Returns to June 2008 (net of management fees) % pa.

Number of funds in each responsible investment category is shown in brackets.

		1 year	3 years	5 years
Australian Share Funds	Average Responsible Investment Fund (15)	-16.09	11.04	15.85
	Average Mainstream Fund	-14.67	9.71	14.68
	S&P/ASX 300 Acc	-13.67	11.42	16.24
	AMP SRI Median (12) (before fees)	-13.35	11.72	16.39
Overseas Share Funds	Average Responsible Investment Fund (10)	-16.64	8.56	13.05
	Average Mainstream Fund	-19.74	1.51	4.75
	MSCI World ex Australia Index	-21.26	0.57	3.97
Balanced Growth Funds	Average Responsible Investment Fund (10)	-9.78	7.35	10.75
	Average Mainstream Fund	-8.05	4.93	7.60

COMMUNITY FINANCE

In this category a broad range of community finance organisations and deposit funds was surveyed. This includes microfinance loan schemes and organisations dedicated to providing financial services to disadvantaged communities and not-for-profit organisations. Twelve community finance providers had total assets of $863m in June 2008, an increase of 27% on last year's figure of $682m. These are:

COMMUNITY FINANCE PROVIDERS
ANZ Progress Loans
Bendigo Ethical Cash Management Account
BSL No Interest Loans Scheme
Community Sector Banking
Fitzroy and Carlton Credit Co-op
Foresters Community Finance
Maleny Credit Union
mecu Social Loans
Muslim Community Co-operative
NAB Step up Loan, Concession Card Account, Mobile Finance
Traditional Credit Union
UCA Development Fund

Allowing for the fact that assets invested in this segment have not suffered from the fall in values linked to the decline in sharemarkets, community finance has maintained a healthy growth rate. Growth in 2007 was 34% and 26% in 2006. This demonstrates the efforts of a handful of organisations (including two of the four major trading banks) to build further community finance and micro-credit infrastructure in Australia. Larger credit unions like mecu, Bananacoast Community Credit Union, New England Credit Union, NSW Teachers Credit Union and South Australia's Savings and Loans have continued with the development of a formal corporate social responsibility (CSR) program to incorporate further initiatives in community financing and responsible investing policies.

Green loans

This year also only minor growth in the amount lent via so-called "green loans" – those which finance environmentally friendly purchases and which also offer the borrower some form of tangible benefit for choosing this type of loan.

Four lenders are actively providing this type of facility: -

GREEN LOAN ORGINATORS
Bendigo Bank
Maleny Credit Union
mecu
SA Savings & Loans

Green loan balances (from five of those lenders) were $67m at June 2008, up 5% on last year's loans of $64m. Growth in 2007 was a more healthy 46% after an increase of 69% in 2006.

FINANCIAL ADVISER ETHICAL PORTFOLIOS

Figures for this segment were gathered by surveying about 200 financial advisers with a declared interest in advice on ethical investment. Of that group, 16 firms with multiple adviser employees responded that they advise on direct ethical investment portfolios which total $969m. This is down 5% from the adjusted 2007 figure of $1,015m.

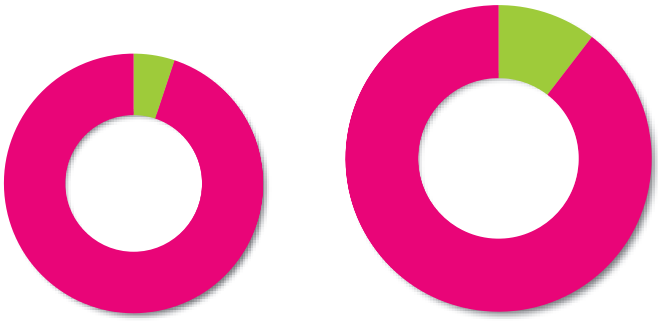
Allowing for the impact of falls in sharemarkets over the year, this segment continues to reflect some growth, albeit at a slower rate from the 46% in 2007 and 42% growth in 2006.

This segment also suffers from under-reporting as advisers that are known to provide this type of service are unwilling to share what they regard as commercially sensitive information.

Broad Responsible Investment

This is the second year that the broader aspects of responsible investment have been identified as a distinct segment within the study.

BROAD RESPONSIBLE INVESTMENT IN 2008



$ billion	2007	2008	Change
ESG integration	2.7	6.0	
Corporate engagement	50.1	51.1	
Shareholder activism	0	0	
Total	52.8	57.1	8%

Clearly this area is faring better than core responsible investment as greater acceptance of using ESG considerations in mainstream investing continues to take hold amongst institutional investors.

ESG INTEGRATION

The trend for fund managers to incorporate environment, social and governance (ESG) factors into their investment process has gathered pace as evidenced by the continued take-up in Australian signatories to the United Nations Principles for Responsible Investment (UN PRI). These were launched in April 2006 to signify a commitment from investment institutions to develop their application of ESG factors across their investment portfolios (not just specialist responsible investment products).

Three of the four largest fund managers in Australia have also signed up: BT Financial Group, AMP Capital Investors and Colonial First State Global Asset Management. The 65 Australian PRI signatories (compared with 36 in 2007 and eight in 2006) at August 2008 are as follows:

SIGNATORY NAME	TYPE
AMP Capital Investors	Asset Manager
Apostle Asset Management	Asset Manager
ARIA	Asset Owner
ArkX	Asset Manager
Atom Funds Management	Asset Manager
Australian Capital Territory	Asset Owner
Australian Council of Super Investors (ACSI)	Service Provider
Australian Ethical Investment	Asset Manager
Australian Institute of Superannuation Trustees	Service Provider
AustralianSuper	Asset Owner
Axiom Properties	Asset Manager
Bakers Alternative Energy	Asset Manager
BT Financial Group	Asset Manager
CARE Super	Asset Owner
Catholic Superannuation Fund	Asset Owner
CBUS Superannuation Fund	Asset Owner
Center for Australian Ethical Research (CAER)	Service Provider
Challenger Managed Investments	Asset Manager
Charter Hall Group	Asset Manager
Christian Super	Asset Owner
Colonial First State Global AM	Asset Manager
Drapac	Asset Manager
Ecos Corporation	Service Provider
EG Funds Management	Asset Manager
ESSSuper	Asset Owner
Eureka Funds Management	Asset Manager
Five Oceans Asset Management	Asset Manager
Foresters Community Finance	Asset Manager
Frontier Investment Consulting	Service Provider
Goldman Sachs JBWere Asset Management	Asset Manager
Goldman Sachs JBWere Superannuation Fund	Asset Owner
Green Invest	Service Provider
Health Super	Asset Manager
Herschel Asset Management	Asset Manager
HESTA Super Fund	Asset Owner
IAG & NRMA Superannuation	Asset Owner
Industry Funds Management	Asset Manager
Insurance Australia Group (IAG)	Asset Owner
Investa Property Group	Asset Manager
JF Capital Partners	Asset Manager
Lend Lease Investment Management	Asset Manager
Local Government Superannuation Scheme	Asset Owner
Local Super	Asset Owner
LUCRF Super	Asset Owner
Maple-Brown Abbott	Asset Manager
Monash Sustainability Enterprises - MSE	Service Provider
NGS Super	Asset Owner
Portfolio Partners	Asset Manager
QIC	Asset Manager
Regnan Governance Research and Engagement	Service Provider
Reputex	Service Provider
Responsible Investment Consulting	Service Provider

SIRIS	Service Provider
Souls Funds Management	Asset Manager
State Wide Superannuation Trust	Asset Owner
Stockland	Asset Manager
Telstra Super	Asset Owner
The GPT Group	Asset Manager
TWUSUPER	Asset Owner
UCA Funds Management	Asset Manager
UniSuper Management	Asset Owner
VicSuper	Asset Owner
Victorian Funds Management Corporation	Asset Owner
Vision Super	Asset Owner
Zurich Financial Services Australia	Asset Owner

Australian signatories represent 16% of the 410 signatories globally at that date.

In addition a number of global financial services businesses that have substantial interests in Australasia have signed the PRI. These include: Mercer Investment Consulting, Dexia Asset Management, AXA Investment Management, BNP Paribas and SAM Group.

The global funds under management or advice of the 68 Australian signatories at October is US$591 billion. This accounts for approximately 4% of the US$16 trillion in total assets managed or advised by all signatories globally.

Within this total the global funds under management for the Australian asset managers component who are UN PRI signatories is US$398 billion and this accounts for approximately 69% of Australia's Total Investment Management of $829 billion in June. However, two factors impact the potential accuracy of this figure. The first is that Total Investment Management is calculated at June 2008 and the list of UN PRI signatories is at August 2008. The second is that the total funds under management of Australia's UN PRI asset managers includes investments that these funds have overseas. Therefore, it is more reasonable to state that more than half of the funds under management of Australian asset managers now falls under a UN PRI commitment to ESG integration.

These statistics clearly demonstrate that Australia continues to show strong support for this initiative.

While the number of UN PRI signatories is substantial, the study lists only two that have actually integrated ESG factors into their mainstream investment process: Portfolio Partners and Five Oceans Asset Management. The assets of mecu credit union are also included under ESG Integration as it has now implemented an ethical lending and investment policy across the organisation. Hence the total figure for actual ESG Integration is $6.0 billion.

To improve on this work it is noted that Mercer Investment Consulting is currently researching the level of change in the number of managers who apply ESG in their investment processes. Since May this year, Mercer has rated over 550 investment strategies for ESG globally. Next year Mercer has stated it will provide a benchmark summary for the RIAA Benchmarking Report showing the percentage of funds that have achieved good ESG ratings in Australian and New Zealand.

It should also be noted that some of the clients of engagement services are well on the path towards ESG integration. But if we were to include their assets in the category of ESG integration and broad responsible investment this would constitute double-counting.

OTHER ESG INTEGRATION INITIATIVES

Carbon Disclosure Project

Another indication of the level of fund manager interest in ESG issues is provided by the Carbon Disclosure Project (CDP). This represents a process whereby institutional investors collectively sign a single global request for disclosure of information on their management of greenhouse gas emissions. On their behalf CDP seeks information on the business risks and opportunities presented by climate change and greenhouse gas emissions data from the world's largest companies. The 2008 project (CDP6) for Australia and New Zealand sends this information request to companies in the S&P/ASX 200 Index on behalf of 385 global investors with assets under management of more than US$57 trillion.

A list of the 26 Australian signatories to that request is as follows:

CDP6 SIGNATORIES BASED IN AUSTRALIA
AMP Capital Investors
ANZ
Australian Ethical Investment
ARIA
BT Financial Group
CARE Super
Catholic Super
Christian Super
Colonial First State Global Asset Management
Five Oceans Asset Management
Health Super Fund
HESTA Super
Industry Funds Management
Insurance Australia Group
Local Government Superannuation Scheme
Macquarie Group
Maple-Brown Abbott
Motor Trades Association of Australia Superannuation
National Australia Bank
Portfolio Partners
QBE Insurance Group
Rei Super
Savings & Loans Credit Union
Telstra Super
VicSuper
Victorian Funds Management Corporation

This list of major local institutional investors can be seen as an indicator of investor pressure on Australian companies to improve their disclosure of carbon liabilities and management practices.

CDP6 Australia and New Zealand reported that 72 of the ASX 100 companies answered the CDP questionnaire, representing a jump of 26% compared to CDP5.

Enhanced Analytics Initiative

A collaborative initiative that has seen recent uptake in Australia is the Enhanced Analytics Initiative (EAI) - where institutional investors and fund managers encourage investment research that considers the impact of extra-financial issues on long-term company performance. This is achieved by allocating 5% of their share brokerage to ESG research. There are three Australian-based signatories to EAI. They are superannuation funds: HESTA, UniSuper and VicSuper.

Investor Group on Climate Change

Another collaboration of investment managers in this field is a local initiative called the Investor Group on Climate Change Australia/New Zealand. Its stated purpose is to ensure that the risks and opportunities associated with climate change are incorporated into investment decisions.

INVESTOR GROUP ON CLIMATE CHANGE AUSTRALIAN MEMBERS
AMP Capital Investors
ARIA
Arkx Carbon Fund
Babcock & Brown Limited
Baker&McKenzie
BT Financial Group
Catholic Super
Cbus
Cleantech Ventures
Colonial First State Global Asset Management
Emergency Services and State Super
Eureka Funds Management
Financial Services Institute of Australasia
Five Oceans Asset Management
Goldman Sachs JBWere
The GPT Group

HESTA Super Fund
IAG
Industry Funds Management
Mercer Investment Consulting
Merrill Lynch
Portfolio Partners
Rei Super
Starfish Ventures
Statewide
Stockland
Suncorp Investment Management
Victoria Funds Management Corporation
VicSuper
Vision Super

Accordiing to the IGCC these members speak for $496 billion in funds under management, an increase of 32% in the $375 billion reported in 2007. This means it is an influential group on the local sustainability scene.

CORPORATE ENGAGEMENT

Australia enjoys the services of two specialists, Regnan and the Responsible Engagement Overlay (distributed in Australia by State Street Global Advisers), who provide corporate engagement services on behalf of superannuation funds and institutional investors with total shareholdings of $51.1 billion. This is up 2% on the 2007 figure of $50.1 billion.

This follows a year of massive growth (up 483% in 2007) attributable almost entirely to the formation of Regnan (formerly the BT Governance Advisory Service) in June 2007. The restructure involved the creation of a new business model whereby the company's engagement clients also became shareholders. New shareholders who joined the business on this restructure contributed to much of the growth in client assets: Victorian Funds Management Corporation, Local Government Superannuation Services, HESTA and Vanguard.

SHAREHOLDER ACTIVISM

For the last 3 years, and again in 2008, there have been no specific shareholder resolutions that related to an issue of environmental or social responsibility – marking another year devoid of shareholder resolutions of this type. Shareholder resolutions on these issues in Australia appear to have a lower priority to the practice of corporate engagement or public media debate.

Improved activity in this area contrasts with continuing developments in institutional shareholder advocacy on pure corporate governance issues such as director and executive remuneration, board composition or failure to properly inform the market of material events. This takes the form of organised institutional opposition to standard resolutions on board appointments and the remuneration report or class actions on behalf of an aggrieved group of shareholders.

This has been facilitated by improved regulations and best practice guidelines on good governance as well as a requirement to present shareholders with a remuneration report which is subject to a non-binding vote at each company's Annual General Meeting.

There has also been a trend for institutional investors to seek professional advice on governance matters. Two local service providers with international affiliations dominate this area: CGI Glass Lewis and RiskMetics. The Australian Council of Superannuation Investors has also been active in a coordinating role on behalf of its major superannuation fund members.

Some major fund managers, like AMP Capital Investors, BT Financial Group and Colonial First State Global Asset Management provide a public report on their active ownership practices.

This continuing benign environment for shareholder activism by AGM resolution stands in contrast the US. The US Social Investment Forum 2007 report states that the average level of shareholder support for resolutions on social and environmental issues increased from 9.8% of shareholders voting to 15.4% percent in 2007 and the number of resolutions increased from 360 in 2005 to 367 in 2006.

ESG INDICES

For the first time in this year's study we present a list of the growing number of indices based on ESG criteria and analysis. Some of these indices are available for investment while others are used to demonstrate the performance of companies based on sustainability criteria.

LIST OF AUSTRALIAN ESG INDICES

ACT Australian Cleantech Index	Provides investors with a vehicle to diversify into the emerging cleantech investment category. Lists approximately 80 ASX listed cleantech companies.
ALTEXAustralia	This index measures the ASX300 in alternative energy. There are 4 sub-indexes related to this including: Altex Red - low emission utilities, Altex Green - renewable energy, Altex Blue - natural gas, Altex Yellow - uranium.
AuSSI	A best-of-sector index that Includes Australia's leading companies from every sector based on economic, environmental and social criteria. The assessment by Sustainable Asset Management (SAM) includes a broad range of general as well as industry-specific sustainability criteria. A major source of information is the SAM questionnaire which is completed by companies participating in the annual review.
Corporate Responsibility Index (CRI)	A strategic management tool to enhance the capacity of businesses to develop, measure and communicate best practice in the field of corporate social responsibility. It does this through benchmarking corporate social responsibility strategy and implementation processes. Business Council of Australia members and Australia's top 250 companies have been invited to participate in the Corporate Responsibility Index by completing an online survey. The index is managed by the St James Ethics Centre.
Ethinvest Environmental	This non-weighted index is formed based on approximately 30 ASX listed companies selected on the basis of their environmental performance. Most of the listed companies are small and mid caps with only a few companies having a higher market value.
FTSE4Good Australia 30 Index	The index is derived from the FTSE4Good Global Index which takes the FTSE Developed Index universe and screens the constituents against the FTSE4Good inclusion criteria. To be included in the index, companies need to demonstrate they are working towards having good environmental management practices, climate change mitigation, countering bribery, upholding human and labour rights and having sound supply chain labour standards.
Goldman Sachs JBWere Climate Leadership Index	Identifies companies whose Carbon Disclosure Project responses most adequately demonstrate to investors that the company has assessed and understands the risks and opportunities associated with climate change, and has in place effective governance, strategies and programs to manage such risks and opportunities.
The Reputex Climate Change Opportunity Index	Based on a systematic research methodology measuring the future earning capacity of companies. The CCOI methodology contends that all companies, regardless of sector, are exposed to climate change risk. Investors are now able to anticipate these impacts on earnings and identify the best performing companies in a climate change economy.
RepuTex Environment Opportunity Index	Identifies companies which are both exposed to environment risk and positioned to mitigate and adapt to these constraints.

Reputex Future Energy Index	Series comprises of seven indices including: Future Energy 100 Index, Alternative Energy Index, Alternative Energy (Upstream Supply) Index, Alternative Energy (Asia) Index, Solar Index, Nuclear Index and the Water Index.
Reputex Governance Leaders Index	Provides investors with exposure to companies which display positive corporate governance credentials.
Reputex Sustainability 120 Index	Provides investors with exposure to 120 companies which demonstrate effective mitigation of emerging risks such as corporate governance, environment, social and workplace risk.

There is also a growing range of global sustainability indices available to Australian investors and for which Australian companies may be eligible to qualify.

ESG RESEARCH

Also for the first time in this year's study we gathered information on the level of formalized sector-wide investment research being undertaken on responsible investment and ESG integration over the last two years. The sources of these studies vary from academia, sustainability research specialists, sell-side analysts and industry sponsored collaborative research projects.

ESG RESEARH STUDIES IN AUSTRALIA

Principal Author	Title	Employer/Sponsor	Research Paper(s)
Elaine Prior	Director / Senior Analyst	Citigroup Investment Research	A range of papers on the impact of climate change on ASX listed companies
Joanne Saleeba	Executive Director	Investor Group on Climate Change	2008 Carbon Disclosure Project Report Australia and New Zealand
Alistair Barker	Investment Manager	Hastings Funds Management	Potential Earnings Impacts from Climate Change Airport Infrastructure
Alireza Tourani-Rad	Professor	Auckland University of Technology,	Ethical investing in Australia: Is there a financial penalty?
Julie Waters	Corporate Ethics Researcher	Centre for Australian Ethical Research	A review of Australian business' approach to Bribery and Corruption
Christal George	Senior Research Analyst	Centre for Australian Ethical Research	Indigenous rights, Indigenous wrongs: the risks for the resource sectors
Bob Welsh	CEO	VicSuper	The VicSuper Carbon Count
Darren Lee	Lecturer in Finance	The University of Queensland	Does investing in sustainability leaders/laggards impact portfolio performance? Socially responsible investment fund performance: The impact of screening intensity
Andrew Gray	Head of ESG Research	Goldman Sachs JBWere	Good WHS = Good Returns
Nicholas Taylor	Capital Markets Research	Russell Investment Group	Sustainable Investing: Marrying the concerns with the quest for financial return for superannuation trustees

Responsible Investment in New Zealand

by Dr Rodger Spiller

All amounts in the following section are expressed in $NZ

Last year RIAA reported a total estimate for responsible investment in New Zealand of NZ$15 billion. For the year ended 30 June 2008 we estimate this to be $15.9 billion. This total excludes funds invested by New Zealanders in Australian and other international funds. Further information about most of the New Zealand RI offerings is provided below along with an update on the New Zealand Superannuation Fund and information about KiwiSaver offerings.

ABN AMRO CRAIGS INVESTMENT MANAGEMENT

The guiding philosophy of the Balanced SRI Fund is to endeavour to have a diversified portfolio of investments that are deemed to be environmentally and socially responsible, whilst still applying traditional portfolio investment criteria. The fund size is $562,338.

AMP CAPITAL INVESTORS

AMP offers a New Zealand domiciled Portfolio Investment Entity (PIE) fund, the AMP Capital Responsible Investment Leaders Global Shares Fund. The Fund has total assets of $3.5m.

ASB COMMUNITY TRUST

ASB is Australasia's biggest philanthropic trust and is a signatory to the UN PRI. The UN Global Compact provides a benchmark for monitoring the Trust's portfolio. The Trust encourages dialogue and discussion in a process of engagement. The Trust's investment managers actively vote using guidelines developed around best practice fiduciary standards and in some cases use the expertise of specialist providers of research and proxy voting services. The Trust Fund holds $1.1 billion.

ASB Group Investments has offered The Global Sustainability Fund as an option via FirstChoice KiwiSaver from 1 April 2008. The underlying investment manager is Generation Investment Management. The fund size is $74,154.

ASTERON

Asteron launched New Zealand's first Socially Responsible Investment Trust in 2002 investing primarily in New Zealand listed companies and based on the principle of negative screening of its predominantly New Zealand based equity portfolio. The Asteron Socially Responsible KiwiSaver Scheme was launched in July 2007. Asteron's SRI Trust (including a new KiwiSaver fund) grew from $2.7 million to $3.5 million in the year.

FIDELITY LIFE

Fidelity Life launched the Ethical Kiwi fund, a diversified KiwiSaver fund, in June 2008. Tyndall Investment Management (NZ) manages NZ and Australian assets, while global shares are managed by the UK-based Foreign & Colonial's specialist RI team. Assets total $0.002m.

FORSYTH BARR

Forsyth Barr launched the Forsyth Barr Socially Responsible Investment Fund in June 2008 and has assets totalling $0.1m.

JUST DOLLAR$ TRUST

Just Dollar$ was established in 1992 as a charitable trust providing small business loans to people and not-for-profits in the Canterbury region who are unable to access bank finance. It has over $240,000 in investors funds and since 1993 has loaned over $1 million to more than 300 people.

THE METHODIST CHURCH OF NEW ZEALAND INVESTMENT ADVISORY BOARD

The Methodist Church IAB oversees the investment practices and policies of the Methodist Church of New Zealand and is currently, actively seeking to develop a more responsive Socially Responsible Investment programme through both peer review and research into current best practice models. Through the New Zealand Methodist Trust Association the Board oversees the direct investment of $155m.

THE NELSON ENTERPRISE LOAN TRUST

The Loan Trust is a charitable trust established in 1997 operating a regionally-based, ethical investment loan fund that facilitates employment opportunities by making loans of up to $20,000 to small enterprises in the Nelson region including those that are unable to obtain finance from mainstream sources. NELT has loans from investors totalling $363,000. Since 1997 it has made 122 loans totalling more than $924,000 with only one (for $5,000) failing.

THE NEW ZEALAND ANGLICAN CHURCH PENSION BOARD

The Anglican Church Pension Board invests under an ethical policy for superannuation and welfare funds for The Anglican Church in Aotearoa, New Zealand and Polynesia, and invests for some other church organisations. The Board has investments amounting to $80m.

NEW ZEALAND SUPERANNUATION FUND

The Board of the Guardians of New Zealand Superannuation has adopted a Responsible Investment (RI) Policy to enable them to manage the New Zealand Superannuation Fund in a manner consistent with their legal obligations.

This RI Policy has been developed to help the Guardians to manage the Fund in a manner consistent with:

- best practice portfolio management;
- maximising return without undue risk to the Fund as a whole; and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Responsible investment is integrated into the terms of reference of the internal investment committee and into the approval process for new investment mandates. The Guardians are committed to the UN PRI.

The appointment of a specialist proxy voting agency has enabled the Guardians to exercise their voting rights on international holdings consistently across the Fund's investment portfolios.

The Fund commenced investing in October 2003 with $2.4 billion. As at 31 May 2008, the Fund size was $14.7 billion. The Fund is expected to reach $109 billion by 2025.

PROMETHEUS

Prometheus began its operations in 1983 providing deposit and borrowing services. It lends to people and projects that make a positive contribution to society by incorporating social and environmental responsibility, sustainability and sound business practices. Total deposits increased from $13.5m to $14.5m. Total lending fell over the year from $10m to $8.8m.

THE QUAKER INVESTMENT ETHICAL TRUST

The Trust was established in 1989 with the primary object to provide an ethical savings, investment and loan service in such a way as to reflect Quaker concerns. To date, most loans have gone to people who, because of their current circumstances, are unable to secure loans through traditional means. The money has been used for housing, small businesses and low income housing schemes. Total assets of $1.45m include bank balances, loans and deposits.

SUPERLIFE

SuperLife launched in February 2008 with the balanced ethical investment option for the SuperLife and SuperLife KiwiSaver schemes. The option is known as Ethica. The assets in this investment option are $0.3m.

TRUST INVESTMENTS

Trust Investments was established in 2002 and provides specialist services, investment products and advice to charities and not-for-profits helping them to meet their social obligations while continuing to operate effectively in today's complex financial and regulatory environment. Trust Investments currently manages assets in excess of $700m, offers a range of conventional funds and a Sustainable New Zealand Share Fund weighted in favour of companies that meet certain sustainability criteria. The value of the Sustainable New Zealand Share Fund is $21m.

RIAA Responsible Investment Certification Program

The Responsible Investment Certification Program was created to help investors find and learn more about responsible investment products and services available in Australasia. The program provides assurance, independent verification and information for consumers about the way in which responsible investment products and services operate and is the only initiative of its kind in the world.

The Program provides training, education, marketing support, disclosure and guidance at all points in the investment cycle – for individual investors, financial advisers, dealer groups, fund managers and superannuation funds.

The Certification Symbol is a Registered Trade Mark created and managed by the Responsible Investment Association Australasia (RIAA). The Symbol is designed to encourage informed choice about responsible investment products and services.

Individuals and organisations certified under the program as at October 2008 are as follows. Full details of licensees can be found on RIAA's website at www.responsibleinvestment.org

FUND MANAGERS
AMP Capital Investors
Ausbil Dexia
Australian Ethical Investment
BT Investment Management
Challenger
CVC Sustainable Investments
Foresters Community Finance
Hunter Hall International
Investa Property Group
Perennial Growth Management
Perpetual Investments
Sustainable Asset Management Group
UCA Funds Management Victoria

SUPERANNUATION FUNDS
Australian Christian Super
Catholic Superannuation & Retirement Fund
Christian Super
Combined Fund
Equity Trustees Superannuation
JUST SUPER
Equipsuper
Sunsuper
UniSuper

NON-GOVERNMENT ORGANISATIONS (NGOS)
WWF-Australia

FINANCIAL ADVISERS
Julianna Baird, JustInvest Financial Planning
Helen Breier, Collins House Financial Services
Michelle Brisbane, Ethical Investment Services
Janice Carpenter, Ethical Investment Services
Kristine Dierens, Professional Investment Services
Jonathan Dunne, Integrated Planning Service (NSW)
Louise Edkins, Ethical Investment Advisers
Linda Fraser, 4 more wealth for our clients
Andrew Gaston, Accord Financial Solutions
Lisa Greeve, Greeve & Associates
Sue Lary, Peninsula Financial Group
Mark Lowe, Financial Services Partners
Brian Lynch, Kaleidoscope Financial Services
Karen McLeod, Global Financial Services Group
Terry Pinnell, Ethical Investment Advisers
Sam Pitruzzello, Australian Unity Financial Planning
Richard Press, R Cubed
Steven Putt, Viridian Wealth Management
Shane Raar, Australian Christian Services
Belinda Rayment, Peter G. Clarke Consulting
Susan Reynolds, Acumen Financial
Peter Rodgers, Direct Advisers
John Ross, MCP Financial
Bill Sharp, Financial Wisdom
Richard Shaw, Foye Financial Services
Anne-Marie Spagnolo, Ethical Investment Services
Terry Spencer, High Grove Securities
Rodger Spiller, Money Matters
Mick Steffan, Specialist Financial Planning
Trevor Thomas, Ethinvest
Mark Tindale, Ord Minnett
Sophie Treloar, High Grove Securities
Robert Vicary, Vicary Securities
Brent Wall, Wall Financial Services

DEALER GROUPS
AMP Financial Planning
Ethical Investment Services
BDO Kendalls Financial Services (VIC)
High Grove Securities

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Simeon Michaels (Vice President)
Michael Murray (Secretary)
Barry Rafe (Treasurer)
Louise O'Halloran (Executive Director)
Michaela Anderson
Greg Chipman
Angus Graham
Francis Grey
Matthew Moore
Duncan Paterson
Rodger Spiller
Ben Spruzen

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AMP Capital Investors
ANZ
Atom Funds Management
Attunga Capital
Ausbil Dexia Limited
Australian Ethical Investment
BNP Paribas Asset Management
BT Investment Management
CCI Investment Management
Challenger
CVC Sustainable Investments
Dalton Nicol Reid
Eureka Funds Management
Foresters Community Finance
Highland Good Steward Management
Hunter Hall Investment Management
ING Investment Management
Investa Funds Management
KBC/Liontamer Investments
Methodist Church of New Zealand
Perennial Investment Partners
Perpetual Investments
Souls Funds Management
UC Invest
UCA Funds Management
Uniting Church in Western Australia
Uniting Financial Services
Vanguard Investments

TRUST
ASB Community Trust
Ethical Investment Trust

SUPER FUND
AUSfund
Australian Christian Superannuation
Catholic Superannuation & Retirement Fund
Christian Super
Combined Fund
Equipsuper
Equity Trustees Superannuation
Hesta Super Fund
Local Government Superannuation Scheme
Media Super
New Zealand Superannuation Fund
Statewide Superannuation Trust
Sunsuper
UCA Beneficiary Fund
UniSuper
VicSuper

COMMUNITY BANK OR CREDIT UNION
Bananacoast Community Credit Union
mecu
Members Equity Bank
Prometheus Ethical Finance

DEALER GROUP
AMP Financial Planning
ANZ Financial Planning
BDO Kendalls Financial Services
Deutsche Bank Private Wealth Management
Ethical Investment Advisers
Ethical Investment Services
High Grove Securities

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Mick Steffan
Trevor Thomas
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Sophie Treloar
Robert Vicary
Brent Wall
Bruce Warlow
Richard Whan
Tyrone Wiseman

RESEARCHER
Centre for Australian Ethical Research
Corporate Monitor
Innovest Strategic Value Advisors
Mercer Investment Consulting
SIRIS
Sustainable Asset Management Australia

RELIGIOUS INSTITUTION
Anglican Diocese of Melbourne
Anglican Diocese of Sydney
Australian Baptist World Aid
Collins Street Baptist Church Fund
Loreto Sisters Provident Fund
Marist Brothers
Sisters of Saint Joseph
Sisters of the Good Shepherd

NGO
Amnesty International
Matana Foundation for Young People
WWF-Australia

LOCAL GOVERNMENT
Local Government Financial Services

CONSULTANT
Albert Financial Services
Australian Centre for Corporate Social Responsibility
Australian Cleantech
Community Solutions
Ecos Corporation
Institute for Sustainable Futures
KPMG
PJ Beckmann
Robyn Angus
WSP Environmental

COMMERCIAL ENTERPRISE
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Fodder King Limited
Institute of Actuaries of Australia
Plantation Timbers Group

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