

2014

Responsible Investment Benchmark Report

Australia & New Zealand

2013

2012

2011

2010

2009

2008

2007

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As a pioneer of the responsible investment community, Australian Ethical has maintained its position as one of the leading ethical investment companies in the world. For 28 years we have been helping our clients harness the power of money to deliver both competitive returns and positive change for society and the environment. Our philosophy is founded on the Australian Ethical Charter - a set of principles and practices that guide not only our research and investment process but our own corporate behaviour. In addition, every year we donate 10 per cent of our profits through our grants program, one of the highest percentages of corporate giving in Australia. We are proud to once again support RIAA and the vital work of the benchmark report.



Advance Asset Management is a specialist asset management business within BT Financial Group (Australia's largest administrator of superannuation, retirement and investments). Our focus is on delivering on the investment management needs of our investors within our robust risk management framework.

We believe researching, assessing and managing Environmental, Social and Governance (ESG) factors enhances our ability to meet the long-term investment objectives for our funds. The level of ESG integration and individual investment manager capabilities forms an important part of our selection process. We encourage our investment managers to include ESG factors in their investment processes as we believe it provides a greater level of risk analysis and enhances portfolio risk management.

Managing for a long-term investment outcome is not only beneficial for this generation, but for generations to come.



The NZ\$26 billion **New Zealand Superannuation Fund** invests globally to help pre-fund the future cost of universal superannuation in New Zealand. The Fund is managed by an Auckland-based Crown entity, the Guardians of New Zealand Superannuation. The Guardians believes that environmental, social and governance (ESG) factors are material to long-term investment returns, and is committed to integrating ESG considerations into all aspects of the Fund's investment activities. A founding signatory of the **United Nations Principles for Responsible Investment**, the Guardians also provides responsible investment advice to the **Accident Compensation Corporation** and the **Government Superannuation Fund Authority**.

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Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) is the industry body representing responsible investors throughout Australasia. We aim to promote responsible investment in order to accelerate its uptake and deepen its impact. RIAA acts as a hub for the responsible investment industry, supporting its members by amplifying issues, advocating on their behalf and delivering solutions with the goal of promoting stable markets, maximising financial returns and creating positive environmental, social, governance and ethical outcomes.

Our **members** represent a cross section of the investment industry including asset owners, asset managers, asset consultants, research houses, brokers, financial advisers, community banks and trusts. RIAA's membership consists of over 150 investment organisations and individuals, who have over \$500 billion in assets under management.

RIAA acts as a catalyst to assist its members undertake responsible and sustainable investment by creating opportunities for collaboration, education and advocacy. RIAA keeps its members connected and at the forefront of responsible investing. Some of the ways RIAA does this is via:

- Events, briefings and networking opportunities including our annual conferences in Australia and New Zealand
- Research, policy and advocacy
- Education and training through our RI Academy online courses
- Certification and public awareness through the Responsible Investment Certification Program

Belonging to RIAA demonstrates a commitment to growing and developing responsible investment across our region whilst keeping you at the forefront of the industry and connected to industry peers.



Simon O'Connor
Chief Executive Officer, RIAA

Tel: + 61 (0)2 8228 8100
Email: simonoc@responsibleinvestment.org



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.

About the Report

“ *Responsible investment ...is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting.* ”

UN Principles for Responsible Investment

What is Responsible Investment?

Responsible investment is an umbrella term to describe an investment process which takes environmental, social, governance (ESG) or ethical considerations into account.

So what is responsible investment and why is such a large proportion of the investment market self-declared responsible investors?

At its most basic, responsible investment represents a commitment to looking at a broader array of risks and value drivers in investment decision-making than purely financial risk. This is in acknowledgement that investment value is driven by many issues that are off balance sheet. These are the ESG factors – environment, social and corporate governance factors - that are ever more frequently proving to be critical elements of good investment practice. These ESG factors include company culture and management, brand value, good governance and corporate ethics, quality control, pollution control, carbon emissions, occupational health and safety, good human resources practices, stakeholder management and more.

As this report demonstrates, responsible investment is a growing sector of the finance industry across superannuation, asset

management, banking, community finance and financial advisory services. It represents a spectrum of offerings from those largest investment managers who integrate ESG factors in their decision making, to so called ‘deep green’ ethical investment funds that apply screening criteria across their investments. Across Australia and New Zealand, there is now over \$460 billion invested by asset owners who are signatories to the UN Principles for Responsible Investment (PRI).

But what unites all responsible investors is that the investment decision making is based on more than just financial analysis. Responsible investors incorporate other drivers of value and risk as a core element of their investment process, across research, analysis, selection and monitoring of an investment.

Purpose of the Report

This report provides industry data on the size and growth of the Australasian responsible investment market (defined as Australia and New Zealand) over the 12 months to 31 December 2013 and compares this with Australasia’s broader financial market. The Responsible Investment Benchmark Report 2014 is the 13th annual benchmark report prepared by RIAA.

International context

RIAA is a proud member of the Global Sustainable Investment Alliance (GSIA), together with organisations similar to RIAA in other regions including ASrIA (Association for Sustainable & Responsible Investment in Asia), Eurosif (The European Sustainable Investment Forum), RIA Canada (Responsible Investment Association Canada), UKSIF (UK Sustainable Investment & Finance Association), US SIF (The Forum for Sustainable & Responsible Investment) & VBDO (Dutch Association of Investors for Sustainable Development). To enable comparison of Australasia’s responsible investment market with those of other regions, this report has been prepared in line with the GSIA categories and definitions¹ of responsible investment.

1. Read the Global Sustainable Investment Review 2012 here www.gsi-alliance.org/resources/

Core vs Broad Responsible Investment?

The GSIA recognises five major approaches to responsible investing. These approaches align either to core or broad responsible investment (as outlined below), based upon the primary approach taken to responsible investment.

Core Responsible Investment Strategies

- Screening of investments – negative, positive and norms-based screening
- Sustainability themed investing
- Impact/community investing
- Corporate engagement and shareholder action

Broad Responsible Investment Strategies

- Integration of ESG factors

For a detailed explanation of each of these investment strategies, please refer to the Appendix.

Methodology

Reporting boundary

The data featured in this report is for the 2013 calendar year and is presented as at 31 December 2013, unless otherwise noted. Australian figures are presented in AUD, while New Zealand figures are presented in NZD.

The investment industry is highly internationalised. Therefore, responsible investment funds can be located in one country, managed in another, and sold in a third. As a result, defining an Australasian market is increasingly difficult. This report is intended to provide a guide to the range of responsible investment options available in the Australasian market. It therefore includes assets managed in the region, as well as some products managed outside the region, but sold in Australia.

Data analysis and reporting

In order to analyse the supplied data, a responsible investment strategy was allocated to each fund based on the asset managers self-declared primary investment strategy as well as RIAA's own industry knowledge and database.

All calculations of performance, growth levels and market share were performed by Net Balance. Any identified double counting, resulting from

overlapping investments, has been removed in the reported figures. RIAA is continuously working to improve its data collection processes to enhance the quality of data and broaden the scope of data collected.

Data collection

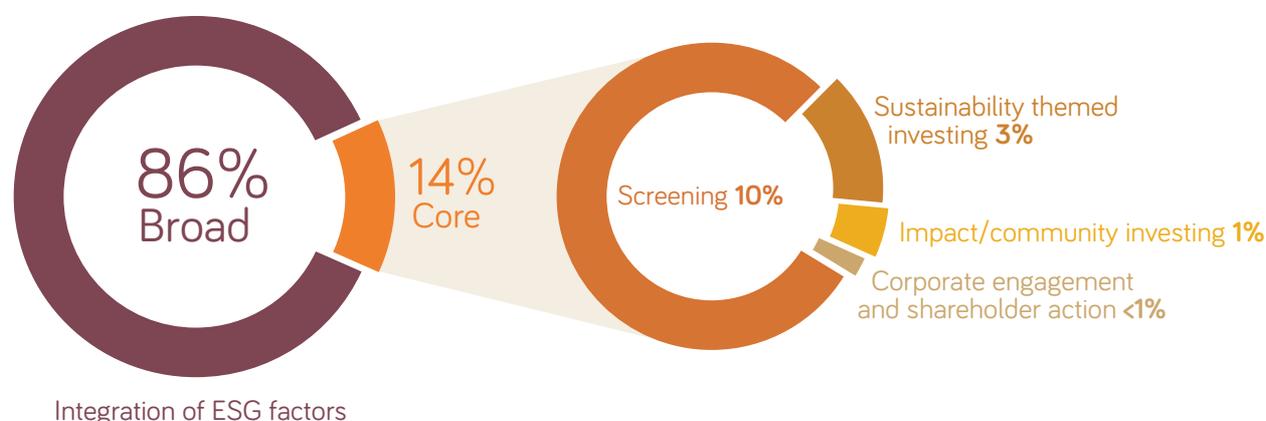
Data used in compiling this report was generously provided and collated from the following sources:

- Directly by more than 70 asset managers, super funds, financial advisers, and community investment managers via a data collection survey for assets under management (AUM), investment approach and performance
- Morningstar for Total Assets Under Management (TAUM) in Australasia and average performance of mainstream managed fund categories
- Mercer, using data from its Global Investment Manager Database (GIMD) for the ESG integration figures
- RIAA database and industry contacts (eg. Corporate Analysis Enhanced Responsibility (CAER) provided some adviser data)
- Desktop research of publicly available information regarding assets under management, performance data and investment strategies.

Data completeness

It is important to note that for many areas of responsible investment data there is no requirement for disclosure. As such, some investment custodians may be reluctant to supply information for reasons of privacy or commercial confidentiality. As a result, despite all efforts to include all assets managed under responsible investment mandates in this report, for categories outside of managed responsible investment portfolios, it is likely that some data was not accessible. For this reason, data in this report should be considered conservative.

Responsible Investment in Australia



Overall, the responsible investment market in Australia grew strongly. Core responsible investment increased significantly (by 51.2%) to \$25.0 billion, while broad responsible investment grew more moderately (by 13%) to \$153.1 billion at 31 December 2013².

According to Morningstar, total assets under management (TAUM) in Australia at the same point in time was \$1,070 billion (an increase of 15% on the previous year), meaning that core responsible investment portfolios represent 2.34% (compared with 1.63% at the end of 2012) and broad responsible investment portfolios represent 14.3% of TAUM in Australia (compared with 14.5% at the end of 2012).

Core responsible investment portfolios represent the best proxy available for retail demand for responsible investment, and indicate here that retail demand continues to grow as a proportion of TAUM.

Core Responsible Investment Assets

At the end of 2013, core responsible investment portfolios totalled \$25.0 billion. This was constituted of more than 70 funds managed by 30 asset managers, and comprised responsible investment approaches as shown in the table below.

Investigating trends in the data further, screening showed strong growth, driven by growth in assets under management (AUM) of all except one of the large funds taking this responsible investment approach. This growth occurred despite a tightening of the definition of 'core' responsible investment (meaning some funds that self-declared ESG as their primary approach, although they may also undertake screening, were removed from 'core' responsible investment category this year e.g. Solaris Investment Management). The requirement for reclassifying funds into different categories highlights a key finding from this year's

Core responsible investment

Responsible Investment Approach	2013 Responsible Investment AUM (\$m)	2012 Responsible Investment AUM (\$m)	Change
Screening	18,530	12,377	49.70%
Sustainability themed investing	5,293	2,825	87.40%
Impact / community investing	1,194	1,275	-6.35%
Corporate engagement & shareholder action	23	12	92.70%
Core Responsible Investment Total	25,040	16,489	51.20%

2. Note: These figures are not directly comparable due to differences in the methodology for data collection

data: that it is becoming increasingly challenging to fit a responsible investment fund neatly into just one category. This year's data identified many examples of funds employing multiple approaches, with ESG integration combined with negative screening being the most common combination. The increase this year was also attributed to the inclusion of a sustainability-themed property fund managed by Investa Wholesale Funds Management.

While impact /community investing showed a slight decline, this is explained partly by a reclassification of data, as well as by a reduction in investments by Community Sector Banking, which was partially offset by a strong increase by Westpac. Interestingly, this approach which includes assets dedicated to financing community investment, loan portfolios dedicated to

Core responsible
investment portfolios
totalled
\$25 billion

community benefit or microfinance, and impact investing funds includes organisations ranging from the large banks (Westpac, Commonwealth Bank), through to smaller community focussed banks (Bendigo Bank and Bankmecu), specialist community finance organisations (Foresters Community Finance and Community Sector Banking), and managers of social impact funds and bonds (Social Ventures Australia, Social Enterprise Finance Australia and Impact Investment Group).

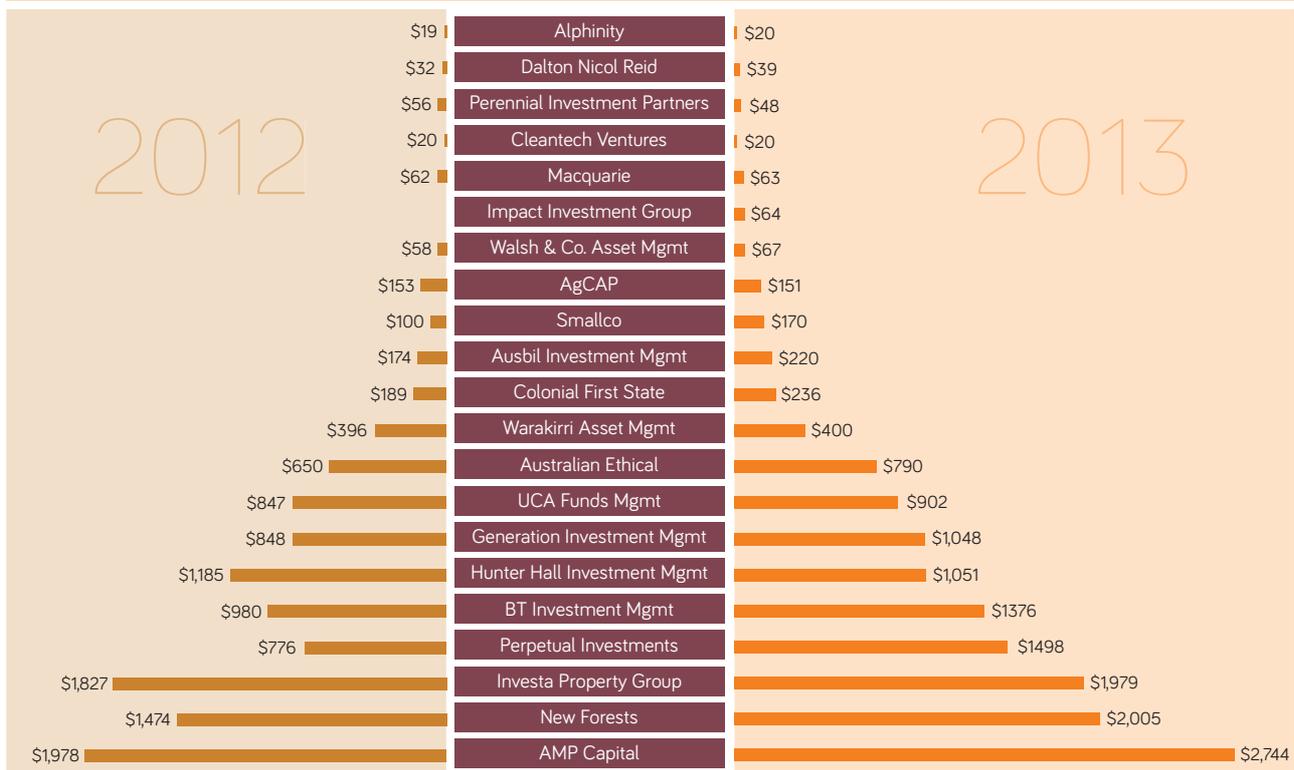
Finally, the engagement and shareholder action approach continued to grow strongly, being comprised entirely of Australian Ethical's Advocacy Funds.

Core responsible investment portfolios represent the best proxy available for retail demand for responsible investment, and indicate here that retail demand continues to grow

The table on page 10 shows the largest asset managers of core responsible investment portfolios as at December 2013. Of note this year is that there has been an extraordinary growth in AUM of the largest asset managers. In the 2013 Benchmark Report, only one asset manager was reported as managing over \$1 billion in AUM, while this year's report identifies seven asset managers with over \$1 billion, and another two rapidly approaching that milestone.

7 asset managers
with over
\$1 billion
in AUM

Largest asset managers of core responsible investments



Performance of Core Responsible Investment Funds

The table on page 11 compares the performance of responsible investment funds with mainstream funds over a number of time horizons and for three major investment categories. The average return is based on asset-weighted returns contributed by each responsible investment fund within its category (where funds have provided performance figures) and all figures are reported net of fees. Mainstream indices and funds comparison data were calculated by Morningstar using a comparable methodology.

When assessed against the average mainstream funds, core responsible investment funds generally performed well. Indeed, Australian equities responsible investment funds outperformed the index and average mainstream funds over the short, medium and long term, as did responsible multi-sector growth funds, in all but the 3 year returns. The exception to this is the international share funds. This result is partly a consequence of the responsible investment – international share funds group being comprised of only five funds which had substantially differing returns. While one fund which was strongly weighted within the group performed poorly, There were smaller stand out performers such as Australian Ethical Investments and AMP Capital.

When assessed against the average mainstream funds, core responsible investment funds generally performed well.

Performance of core responsible investment funds

Australian Share Funds

	1 year	3 year	5 year	10 year
Average Responsible Investment Fund 27 funds	23.52%	11.29%	15.76%	11.00%
Large-Cap Australian Share Fund Average	21.69%	8.90%	12.12%	9.24%
S&P/ASX 300 Accumulation Index	19.68%	8.46%	12.33%	9.49%

International Share Funds

	1 year	3 year	5 year	10 year
Average Responsible Investment Fund 5 funds	31.64%	12.14%	15.25%	5.26%
Large-Cap International Share Fund Average	40.93%	14.50%	10.35%	4.88%
MSCI World ex-Australia Index \$A	48.03%	16.95%	9.33%	5.05%

Multi-Sector Growth Funds

	1 year	3 year	5 year	10 year
Average Responsible Investment Fund 9 funds	21.52%	7.18%	11.46%	7.46%
Multi-Sector Growth Fund Average	17.56%	8.78%	9.24%	6.48%

Broad Responsible Investment Assets

In addition to core responsible investment, there was also broader responsible investment within Australia. This came from funds that integrate ESG factors into their investment strategies.

A large and growing number of mainstream funds are taking an approach which integrates ESG factors into the investment process. An indication of this growth is the fact that asset owners across Australia and New Zealand that are signatories to the PRI, and hence have committed to integrate ESG into their investment decisions, have over \$460 billion in AUM.

While the majority of data contained within this report has been compiled based on information supplied by asset managers, this process is more challenging when measuring the integration of ESG factors, given the significant number of managers from which data would need to be collected (for example there are 73 asset managers listed as PRI signatories in Australia). As a consequence, data has been sourced from Mercer to ensure a robust approach is taken to measuring these investment portfolios.

Broad responsible investment portfolios represent

14.3%

In order to estimate the size of funds that have fully integrated ESG into their investment processes, we used data from Mercer's proprietary Global Investment Manager Database (GIMD). Since 2008, Mercer has assigned ESG ratings to investment strategies across investment styles, asset classes and geographies. ESG ratings reflect Mercer's conviction of how well investment strategies have captured ESG risks

Responsible Investment Approach	2013 Responsible Investment AUM (\$m)	2012 Responsible Investment AUM (\$m)	Change
Integration of ESG factors	153,100	135,400	13%
Broad Responsible Investment Total	153,100	135,400	13%

and opportunities as well as incorporated active ownership principles into the investment process. Mercer's ESG ratings have four scales and range from ESG1 to ESG4.

Above average ESG rated strategies, i.e. ESG1 and ESG2 rated strategies, are awarded to managers who have demonstrated integration of ESG factors across the investment process evidenced in portfolio construction, implementation and management, monitoring, being well progressed in active ownership with companies as well as participating in collaborative initiatives.

According to GIMD, the total assets invested in strategies rated ESG1 and ESG2 – i.e. managers that have deeply integrated ESG into their investment processes – is presented above.

The ESG integration funds grew strongly over the period to \$153.1 billion this year, compared with \$135.4 billion in the previous year, an increase of 13%.

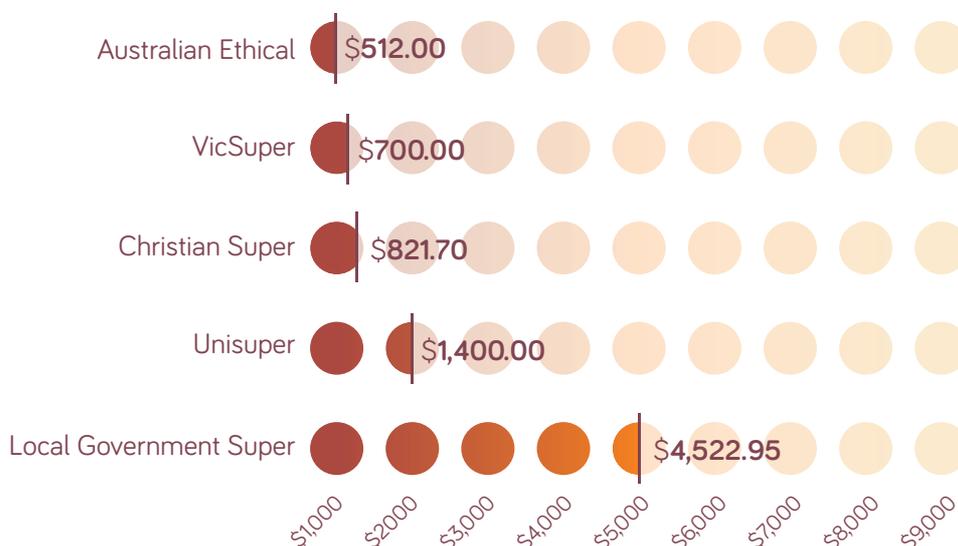
While it is valuable to see the scale of these funds in comparison with core responsible investment, it should be noted that the two sets of figures are

not directly comparable, as a consequence of different methodologies used in their calculation. In contrast to other sections of this report which track funds based on the location of their asset manager or where the fund is offered for sale, Mercer tracks funds based on the location of the assets which make up the fund. A further point of difference is that this figure includes data for both Australia and New Zealand, though only a very small proportion of the data is believed to be for New Zealand.

Superannuation Funds in Australia

Super funds continue to be a strong driver of AUM flow into responsible investment portfolios, both through their offerings of socially responsible options to their members, but also through their strong uptake of ESG integration, thereby requiring that of their asset managers (for example, there are now 33 asset owners in Australia who are signatories to the PRI). Below are the largest five superannuation funds with significant core responsible investments. In calculating core responsible investment, specialist responsible investment funds options

Largest five superannuation funds by core responsible investment AUM



An increasing number of super funds are screening particular industries, the most recent example of which is screening of tobacco companies. To date, sixteen super funds have excluded tobacco.

have been combined with mainstream fund options where those mainstream options incorporate a minimum of two responsible investment screens.

Our analysis of the top 100 super funds in Australia found that 24 offered socially responsible options to their members.

For this report, super funds that exclude a single industry across their entire portfolio were not included in the core responsible investment approach as undertaking screening. This, however, does miss a very important movement by super funds to screen certain industries such as gaming, alcohol, tobacco, weapons, pornography and animal testing. The most recent example of this is the screening of tobacco companies, with sixteen super funds having excluded tobacco across all their investments to date.

Our analysis of the top 100 super funds in Australia found that 24 offered socially responsible options to their members

Financial Adviser Responsible Investment Portfolios

In addition to investing in managed responsible investment funds, advisers directly manage investment portfolios for their clients under responsible investment policies.

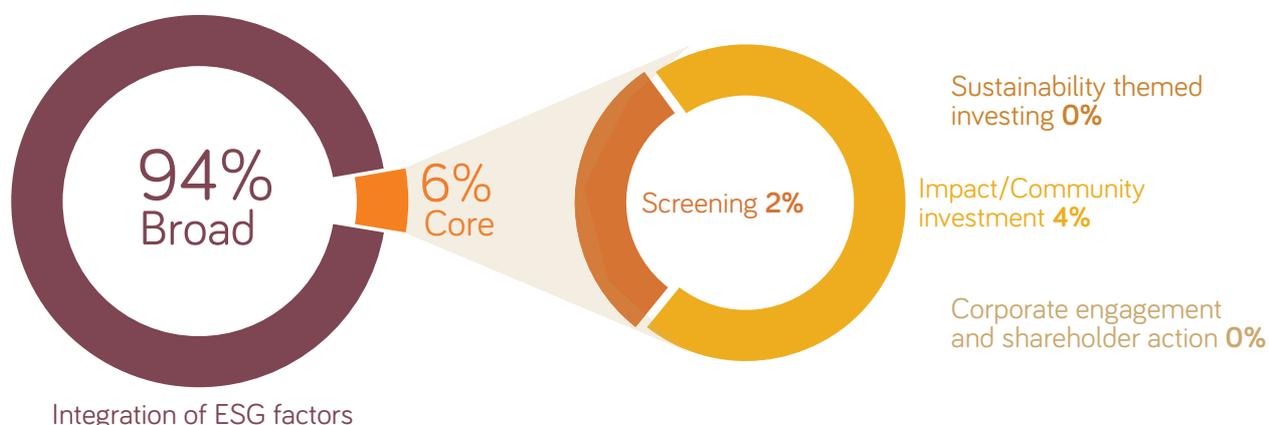
Figures for this segment were gathered by surveying financial advisers with a declared interest in advice on responsible investment. This year, 21 firms advised on responsible investment portfolios of \$968 million AUM as at 31 December 2013.

The same firms had a collective responsible investment portfolio of \$841 million as at 31 December 2012, representing a 15% increase in their responsible investment portfolios over the year.

Adviser responsible investment portfolios are under reported in this section as advisers can be unwilling or unable to provide commercially sensitive assets under management information.

21
advisory firms
reporting
\$968 million

Responsible Investment in New Zealand



Overall, the responsible investment market in New Zealand grew strongly (by 20%) to reach \$27.0 billion at 31 December 2013, driven primarily by strong growth in the assets managed by the New Zealand Superannuation Fund.

According to Morningstar, total assets under management (TAUM) in New Zealand at 31

December 2013 was \$67 billion, meaning that responsible investment portfolios represent a very significant 40% of TAUM in New Zealand (compared with 38% at the end of 2012).

These investments were comprised of core responsible investments and broad responsible investments.

Total responsible investment

	2013 Responsible Investment AUM (\$m)	2012 Responsible Investment AUM (\$m)	Change
Total Responsible Investment	27,028	22,614	20%

Core Responsible Investment Assets

At the end of 2013, core responsible investment portfolios totalled \$1.63 billion. This was comprised of the following responsible investment approaches:

Core responsible investment

Responsible Investment Approach	2013 Responsible Investment AUM (\$m)	2012 Responsible Investment AUM (\$m)	Change
Screening	484	21,201	-97.7%
Sustainability themed investing	0	1,141	-100%
Impact / community investing	1,145	2	635%
Corporate engagement & shareholder action	0	0	0%
Core Responsible Investment Total	1,628	22,344	-92.7%

Broad Responsible Investment Assets

In addition, broad responsible investment portfolios totalled \$25.4 billion. This was comprised entirely of ESG integration assets.

Broad responsible investment

Responsible Investment Approach	2013 Responsible Investment AUM (\$m)	2012 Responsible Investment AUM (\$m)	Change
Integration of ESG factors	25,400	270	93%
Broad Responsible Investment Total	25,400	270	93%

The change in the mix of responsible investment approaches demonstrated by the above data is a consequence of the New Zealand market being comprised of a relatively small number of asset owners and asset managers, and changes in the way that investments of a couple of these groups are classified. The shift to impact / community investing and away from sustainability themed investing resulted from reclassification of ASB Community Trust assets. The very significant shift of assets between screening and integration of ESG factors reflects communication from the New Zealand Superannuation Fund that they regard their primary approach to responsible investment as integration of ESG factors (although they also undertake corporate engagement and screening). This approach by NZ Super is reflective of a broader trend within the responsible investment market, to combine a number of approaches to responsible investment within a single fund, as was discussed earlier in this report.

Outside of NZ Super those that responded reported overall growth in AUM. If NZ Super is taken out of the figures presented above then we see that the AUM for New Zealand increased by 7.9%. It is also very positive to note the growing number of KiwiSaver funds offering responsible investment options or making responsible investment core to their investment approach. These funds are offered by those including Grosvenor, Fidelity, First Choice SuperLife and Iwi Investor.

Responsible Investors in New Zealand

The following are significant investors in responsible investment in New Zealand identified through the data collection process:

- AMP Capital Investors (New Zealand) Limited
- ASB Community Trust
- Craigs Investment Partners
- Fidelity Life
- First Choice
- Grosvenor
- Guardians of New Zealand Superannuation
- Iwi Investor
- Just dollar\$ trust
- Pathfinder Asset Management Limited
- Prometheus Finance
- Quaker Investments Ethical Trust
- SuperLife
- The Methodist Church of New Zealand Investment Advisory Board
- The New Zealand Anglican Church Pension Board
- Trust Investments Management Ltd
- Trust Waikato

Principles for Responsible Investment

The United Nations supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. Today, assets under management of PRI signatories are more than \$45 trillion.

The Principles are voluntary and aspirational. They offer a range of possible actions for incorporating ESG issues into investment practices across asset classes. The Principles are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework (not just those that specialise in responsible investment).

In Australia, the PRI has been strongly supported, reflected by its 121 members representing almost 10% of the 1270 signatories, globally. A further 17, or 1.3% of signatories are based in New Zealand. The asset owner signatories in the Australasian region have approximately \$460 billion in AUM. In Australia, of the top 50 asset owners by AUM (who together have around 95% of AUM), 24 (or 48%) are PRI signatories.

In 2012, the PRI introduced a new framework designed to bring about greater accountability, transparency and performance assessment. The framework achieves these objectives through a set of standard indicators for signatory reporting, a subset of which is publically disclosed. PRI Initiative's first mandatory reporting cycle closed on 31 March 2014 and the first set of resulting "RI Transparency Reports" are **available on the PRI's webpage**.

The following are the Australian and New Zealand PRI signatories:

Asset Owner Signatories - Australia

- Australian Capital Territory
- Australian Catholic Superannuation and Retirement Fund
- AustralianSuper
- CareSuper
- Catholic Superannuation Fund
- Cbus Superannuation Fund
- Christian Super
- CommInsure
- CSC
- Energy Industries Superannuation Scheme (EISS)
- ESSSuper
- First State Superannuation Scheme
- Goldman Sachs & JBWere Superannuation Fund
- Good Super

- HESTA Super Fund
- HOSTPLUS
- IAG & NRMA Superannuation Pty Limited
- Insurance Australia Group (IAG)
- Local Government Superannuation Scheme
- LUCRF Super
- Media Super
- NGS Super Fund
- SAS Trustee Corporation
- StatewideSuper
- Sunsuper
- Tasplan
- Telstra Super Pty Ltd
- TWUSUPER
- UniSuper Management Pty Limited
- Uniting Financial Services
- VicSuper

- Victorian Funds Management Corporation
- Vision Super Australia

Asset Owner Signatories - New Zealand

- Accident Compensation Corporation
- ASB Community Trust
- Government Superannuation Fund Authority
- New Zealand Fire Service Superannuation Scheme
- New Zealand Superannuation Fund
- Otago Community Trust
- Sovereign Assurance Limited
- The Canterbury Community Trust
- Trust Waikato

Investment Manager Signatories - Australia

- AAG Investment Management Pty Ltd
- Allegro Funds Pty Ltd
- Alleron Investment Management
- Alphinity Investment Management Limited
- AMP Capital Investors
- Ardea Investment Management
- ATI Asset Management Pty Ltd
- Australian Ethical Investment Ltd
- Bell Asset Management
- Bennelong Funds Management Limited
- Blue Sky Alternative Investments Limited
- Brandon Capital Partners Pty Ltd
- BT Financial Group
- Celeste Funds Management

- CHAMP Private Equity
- Charter Hall Group
- Citola Limited
- Colonial First State Global Asset Management (including First State Investments)
- Continuity Capital Partners Pty Limited
- Dalton Nicol Reid
- DEXUS Property Group
- Drapac
- EG Funds Management
- Eureka Funds Management
- Fortius Fund Management
- Greencape Capital
- Hastings Fund Management Limited
- Hunter Hall Investment Management Limited
- Hyperion Asset Management Limited
- IFM Investors
- Infinitas Asset Management Ltd
- Integrity Investment Management
- Intrinsic Investment Management Pty Ltd
- Investa Property Group
- Investors Mutual Limited (IML)
- Ironbridge Capital
- ISPT Super Property
- JCP Investment Partners
- Karara Capital
- Kinetic
- Laguna Bay Pastoral Company
- LeapFrog Investments
- Legg Mason Asset Management
- Lend Lease
- Magellan Asset Management

- Maple-Brown Abbott Limited
- Merlon Capital Partners
- Metisq Capital
- Mirvac Group
- New Forests Pty Limited
- Northward Capital
- NovaPort Capital Pty Ltd
- Pacific Equity Partners
- Palisade Investment Partners Limited
- Perennial Investment Partners Limited
- Perpetual Investments
- Phoenix Portfolios Pty Ltd
- Plato Investment Management
- Platypus Asset Management Pty Ltd
- PM Capital
- QIC
- RARE Infrastructure Limited
- Redpoint Investment Management
- Remagen Capital Limited
- Resolution Capital Limited
- Sigma Funds Management Pty Ltd
- Solaris Investment Management Limited
- Stafford Private Equity Pty Ltd
- Stockland
- Taurus Funds Management Pty Limited
- The GPT Group
- Tyndall Equities Australia Limited
- Ubique Asset Management Pty Ltd
- UCA Funds Management
- Wealthcheck Funds Management

Investment Manager Signatories - New Zealand

- Devon Funds Management
- Direct Capital Limited
- DNZ Property Fund Limited
- Harbour Asset Management
- HRL Morrison & Co Ltd
- Pencarrow Private Equity Management Limited
- Pioneer Capital Partners
- Southern Pastures Management Limited

Professional Service Partner Signatories - Australia

- Australasian Centre for Corporate Responsibility
- Australian Council of Super Investors (ACSI)
- Australian Institute of Superannuation Trustees
- Corporate Analysis Enhanced Responsibility (CAER)
- Dowse CSP
- Frontier Advisors
- ME Bank
- Pennam Partners
- Regnan Governance Research and Engagement Pty Ltd
- Responsible Investment Association Australasia
- The Climate Institute
- Value Adviser Associates
- Value ESG

Glossary

AUM

Assets under management - measures the total market value of all the financial assets which a financial institution manages on behalf of its clients

Broad Responsible Investment

Investment that applies an ESG integration overlay, usually on to mainstream investment management strategy

Core Responsible Investment

Investment that takes one of the following approaches:

- Screening of investments – negative, positive and norms-based screening
- Sustainability themed investing
- Impact/community investing
- Corporate engagement and shareholder action

ESG

Environment, social and governance

GSIA

Global Sustainable Investment Alliance

PRI

UN Principles for Responsible Investment

RIAA

Responsible Investment Association Australasia

TAUM

Total assets under management (refer AUM). In this report TAUM refers to assets under management in the Australia and New Zealand markets

Appendix: Responsible investment strategies explained

The responsible investment strategies covered by this report are defined below.

1. Screening of investments

There are three distinct approaches to screening; exclusionary/negative screening, positive/best-in-class screening and norms-based screening.

Exclusionary/negative screening systematically excludes industry sectors, companies, practices or even, at times, countries based on specific ESG or ethical criteria from a fund or portfolio. This approach is also often referred to as values-based or ethical screening. Common criteria used in negative screening include gaming, alcohol, tobacco, weapons, pornography and animal testing.

Positive/best-in-class screening is investment in sectors, companies or projects selected for positive ESG or sustainability performance relative to industry peers in a defined investment universe. Best-in-class screening involves identifying those companies with superior ESG performance from across all sectors, and does not exclude companies or activities based on ESG or ethical grounds.

Norms-based screening is screening of investments against minimum standards of business practice based on international norms such as those defined by the United Nations (UN). This can include, for example, excluding companies that would contravene the UN Convention on Cluster Munitions, but also screening primarily based on ESG criteria developed through international bodies such as the UNGC (United Nations Global Compact), ILO (International Labour Organisation), UNICEF (United Nations Children's Fund) and the UNHRC (United Nations Human Rights Council).

2. Sustainability themed investing

This investment strategy focuses on investment in themes or assets specifically related to sustainability factors. This commonly refers to funds that invest in clean energy, green technology, sustainable agriculture and forestry, green property, or water technology. This category also includes multi-strategy portfolios that may contain a variety of asset classes or a combination of these themes.

3. Impact/community investing

These include targeted investments, typically made in private markets, aimed at solving social or environmental problems whilst also delivering financial returns. Impact investing includes community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social purpose. By leveraging the private sector, these investments can provide solutions at a scale that purely philanthropic interventions usually cannot reach and are often intended to augment limited public funds available for delivering social services. Investors usually include high net wealth individuals, institutional investors, charities, corporations and foundations who invest across a wide range of asset classes and where success is measured by a combination of financial returns and environmental and social impact.

4. Corporate advocacy and shareholder action

This strategy employs shareholder power to influence corporate behaviour including through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals and proxy voting that is guided by comprehensive ESG guidelines. Investor activism on governance issues has grown substantially in the last ten years, particularly in Britain and the United States, and especially in relation to director elections and remuneration. More recently, environmental and social resolutions have also grown in number and support in the United States and in 2011 Australia's first dedicated climate change shareholder resolution was brought forward.

5. Integration of ESG factors

Constituting the largest category of responsible investment in terms of funds under management, ESG integration involves the systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis and investment decision making based on an acceptance that these factors represent a core driver of both value and risk in companies and assets. ESG knowledge and data is used to inform the analysis of risk, innovation, operating performance, competitive and strategic positioning, quality of management, corporate culture and governance and to enhance financial valuation, portfolio construction, engagement and voting practices.



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Level 2, 22 Cooper Street, Surry Hills, NSW 2010 Australia

info@responsibleinvestment.org

www.responsibleinvestment.org

Phone: +61 (0)2 8228 8100

DISCLAIMER:

The information contained in this report has been prepared based on material gathered through a detailed industry survey and other sources (see methodology). The report is intended to provide an overview of the current state of the responsible investment industry, as defined by the Responsible Investment Association Australasia.

The information in this report is general in nature and does not constitute financial advice. Past performance does not guarantee future results, and no responsibility can be accepted for those who act on the contents of this report without obtaining specific advice from a financial adviser. RIAA does not endorse or recommend any particular firm or fund manager to the public.