Responsible Investment Association Australasia

FACT SHEET
RESPONSIBLE INVESTING & FINANCIAL PERFORMANCE

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The body of evidence continues to stack up – nationally and globally - showing that responsible investments typically achieve stronger risk-adjusted financial performance than their peers, consistently outperforming against benchmarks over short-term and long-term time frames.

Responsible investment, also known as sustainable or ethical investment, is a broad-based approach to investing which factors in people, society and the environment, along with financial performance, when making and managing investments.

Responsible investing now constitutes a major focus of Australian and New Zealand investors, with nearly $1,500 billion of assets under management across the two countries now managed through a leading approach to responsible investment, according the Responsible Investment Association Australasia's (RIAA's) 2020 Responsible Investment Benchmark Reports for Australia and New Zealand.

Investors engage in responsible investing for a range of reasons including: to align investments with their own or their clients' personal values and ethics; to reduce risk; and to achieve strong financial returns in the short and long term.

More sustainable companies make better investments

Smart investors have long known that there is more that drives investment returns than just what is reported in financial reports.

They understand that companies or assets won't thrive whilst ignoring environmental issues (pollution, climate change, water and other resources scarcity), social issues (local communities, employees, health and safety), corporate governance issues (prudent management, business ethics, strong boards, appropriate executive pay) or ethical issues.

Responsible investors are recognising this; seeing that factoring in people, society and the environment, alongside financial performance when making and managing investments leads to better informed investment decisions.

It enables them to better navigate turbulent times; to avoid the biggest risks and capture more opportunities.

Performance of responsible investments – Australia and New Zealand

Each year, RIAA assesses the performance of responsible investment products in Australia against the performance of mainstream funds over 1, 3, 5 and 10 year time horizons (weighted average performance net of fees). 2019 results show that:

- The leading practice responsible investment Australian share funds surveyed outperformed mainstream Australian share fund benchmarks for all periods;
- Responsibly invested international share funds outperformed the Morningstar average mainstream international share fund over each time horizon except the one-year time period;
- The leading practice responsible investment multi-sector funds surveyed outperformed mainstream Australian share fund benchmarks for all periods.

Australian share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 17 and 48 funds sampled depending on time period)	24.7%	11.3%	10.1%	9.0%
Morningstar: Australia Fund Equity Large Blend*	22.3%	9.0%	7.8 %	6.8%
S&P/ASX 300 Total Return	23.8%	10.3%	9.1%	7.8%

International share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 13 and 50 funds sampled depending on time period)	22.5%	13.7%	11.0%	11.9%
Morningstar: Equity World Large Blend*	25.2%	12.6%	10.8%	10.9 %

Multi-sector growth funds	1 Year	3 Years	5 Years	10 Years
Responsible investment fund average (between 13 and 39 funds sampled depending on time period)	19.48%	11.26%	8.73%	8.24%
Morningstar category: Australia Fund Multisector Growth*	16.22%	7.56%	6.52%	6.88%

Outperformed by the average RI fund　Underperformed by the average RI fund

For the first time in 2020, RIAA assessed the performance of responsible investment products in New Zealand against the performance of mainstream funds over 1, 3, 5 and 10 year time horizons (weighted average performance net of fees).

A comparison was performed for the responsible investment multi-sector growth fund against Morningstar's multi-sector KiwiSaver index and the results show that the New Zealand responsible investment fund matched or outperformed this benchmark for all time horizons except the 10-year horizon.

Multi-sector growth funds	1 Year	3 Years	5 Years	10 Years
Responsible Investment Fund Average (between 9 and 20 funds depending on time period)	17%	9 %	10%	7%
Morningstar Multisector KiwiSaver Fund Average	16%	9%	8%	8%

Outperformed by the average RI fund　Underperformed by the average RI fund

Responsible investment research provider ISS MI prepares a quarterly report with industry data on market size (FUM), flows and performance of Australian and New Zealand responsible, ethical and impact investment products that have been certified by RIAA and compares these results with the broader Australian & NZ managed funds markets over 10 years. Quarterly reports in 2020 showed:

- The Australian equity asset class showed significant outperformance of responsible investment products at all time points;
- International equity responsible investment funds outperformed the wider market over all time periods; and
- Managed balanced responsible investment funds outperformed the market average over all time periods.

RIAA's *Responsible Investment Super Study 2019* showed that Australian super funds that comprehensively engage in responsible investment are outperforming their peers over 1, 3 and 5-year time frames. Specifically, RIAA compared the MySuper performance of super funds employing responsible investment strategies with the MySuper options of those super funds that are not. The performance data revealed the MySuper option of responsible investment super funds outperform the MySuper option of non-RI super funds over 5, 3 and 1-year time frames.

Has COVID-19 changed these trends?

In addition to its devastating death toll, the COVID-19 pandemic has resulted in significant economic turmoil, having wide-ranging and severe impacts on many people's livelihoods and financial markets globally. These include substantial stock market declines and many countries entering into a recession. Yet while there has been widespread market downturn, the various analysis by commentators including investment managers, research houses and ratings agencies is consistently showing that more sustainable companies are performing better and responsible investment funds are outperforming the general market during this time (see *RIAA Briefing Note: COVID-10 and the Performance of Responsible Investments*).

Global findings

There's a growing list of of international research studies demonstrateing that companies with strong corporate social responsibility policies and practices are sound investments. Studies with such findings have come from Oxford University, Harvard Business School, Morgan Stanley Institute for Sustainable Investing, and Deutsche Asset & Wealth Management, among others:

- AXA Investment Managers (2020), ESG and financial returns: the academic perspective
- BlackRock (2020), Sustainable Investing: Resilience amid Uncertainty
- Cheema-Fox, A., LaPerla, B., Serafeim, G., & Wang, H., (2020), Corporate Resilience and Response during COVID-19, Harvard Business School Working Paper, No. 20-108, April 2020
- Morningstar (2020), How does European Sustainable Funds' Performance Measure Up?
- Morgan Stanley Institute for Sustainable Investing (2019), Sustainable Reality: Analyzing Risk and Return of Sustainable Funds
- Bank of America Merrill Lynch (2017), Equity Strategy Focus Point: ESG Part II: a deeper dive
- Australian Centre for Financial Studies (2017), A Review of Socially Responsible Investing in Australia
- Nuveen TIAA Investments (2017), Responsible Investing: Delivering competitive performance
- Sakis, K., Pinney, C. & Serafeim. G. (Harvard Business School) (2016), ESG Integration in Investment Management: Myths and Realities, Journal of Applied Corporate Finance 28, no. 2 (Spring 2016): 10–16
- Friede, G., Busch, T. & Bassen, A. (Deutsche Asset & Wealth Management and Hamburg University) (2015) ESG and financial performance: aggregated evidence from more than 2000 empirical studies, Journal of Sustainable Finance & Investment, 5:4, 210-233

How are impact investments performing?

Impact investing is a diverse space, with products spanning different asset classes and impact objectives. Correspondingly, financial performance varies significantly.

RIAA's 2020 research in Australia has found that impact investments are overwhelmingly (92%) meeting or exceeding investors' financial return expectations. In its *Benchmarking Impact 2020* study, the weighted average annualised returns (net of fees) during the study period (1 January 2018 to 31 December 2019) for impact investments ranged between 3.5% for private debt and 11.3% for public equity. GSS bonds averaged 5.1% p.a., while real assets returned 7.4% p.a. and SIBs returned 3.9% p.a. Following a similar trend in New Zealand, 77% of impact investors expect competitive or above market rates of return. 81% of impact investors consider their financial expectations are being met or exceeded.

The Global Impact Investment Initiative's research reports that 70% of impact investors consider impact investments as financially attractive relative to other investment opportunities, citing this as a somewhat or very important reason for making impact investments. Additionally, nearly 9 in 10 impact investors report that their portfolios are either meeting or exceeding their financial performance expectations.

Consumers are seeing the performance trend

The tide is firmly turning as retail investors witness the overwhelmingly strong performance of responsible investments. RIAA's 2020 consumer research shows that in Australia, the majority of Australian consumers believe ethical or responsible banks (67%) and super funds (62%) perform better in the long term. More than three-quarters (78%) of New Zealanders with KiwiSaver or other investments believe that ethical or responsible investments perform better in the long term.

Further reading

RIAA Responsible Investment Benchmark Report Australia 2020
RIAA Responsible Investment Benchmark Report New Zealand 2020
RIAA Responsible Investment Super Study 2019
RIAA Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020
RIAA Impact Investor Insights Aotearoa New Zealand 2019
RIAA Briefing Note: COVID-10 and the Performance of Responsible Investments

ABOUT RIAA

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 350 members managing more than $9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand.

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