Responsible Investment Association Australasia

Responsible Investment Benchmark Report 2016 New Zealand

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The company is proud to support the vital work of RIAA and the Benchmark Report this year.

The NZ$30 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 services to the Accident Compensation Corporation and the Government Superannuation Fund Authority and is the Secretariat of the New Zealand Corporate Governance Forum.

Northern Trust Asset Management manages $900 billion in assets (as at 31 March 2016), across a wide range of strategies including Engineered Equity (smart beta), ESG and Index Management providing personalised solutions to investors around the world. Northern Trust Asset Management has more than 25 years of experience managing Responsible Investment portfolios and more than US$57 billion in positive and negatively screened assets under management. We understand that there is a broad set of motivations driving our clients into responsible investing. In doing so, we have designed a suite of capabilities to give clients flexibility in their approach and the assurance that their strategies will be supported by the full resources of our world class investment management processes and execution.

Research support from

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Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) is the peak industry body representing responsible and ethical investors across Australia and New Zealand. RIAA is a growing active network of over 165 members managing more than $1 trillion in assets, including superannuation funds, fund managers, consultants, researchers, brokers, impact investors, property managers, banks, community trusts and financial advisers.

RIAA's goal is to see more capital being invested more responsibly. RIAA works to shift more capital into sustainable assets and enterprises and shape responsible financial markets to underpin strong investment returns and a healthier economy, society and environment.

We do this by actively promoting the concept of responsible investment, across the finance industry and to the investing public, with the objective of increasing the uptake and deepening the impact of responsible investment.

RIAA works closely with and for its members on this cause, offering valuable services and benefits for members including:

- Being a hub of relevant and timely ESG and ethical information for our members, through our program of regular research, events, conferences, field trips and webinars.
- Acting as a strong voice for the industry to promote and grow demand for responsible and ethical investment through our Certification Program, media and communications
- Working to build the capacity of the industry in responsible investing through education, networking and thought leadership.

As this report shows, there has never been a more important time to be on top of the developments in responsible investing and there's no better way than by becoming a member of RIAA.

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Executive summary

For 15 years, the Responsible Investment Association Australasia has been undertaking annual research of the size, growth and performance of the responsible and ethical investment market across Australasia. This 2016 report is the second stand alone New Zealand report, a companion report to the 2016 Australian Responsible Investment Benchmark Report.

This year's Responsible Investment Benchmark Report again demonstrates clearly that a responsible approach to investing – one that systematically considers environmental, social and governance (ESG) and/or ethical factors – is demonstrating itself to be the expected minimum standard of good investment practice in New Zealand.

As more and more examples come to light of companies and assets whose fundamental value is impacted by these ESG factors, responsible investment has now confirmed itself as the benchmark of leading investment practice.

This report highlights that across some of New Zealand's largest institutional investors right through to boutique fund managers, a responsible and ethical approach to investment continues to play an ever greater part of what clients are demanding and investors are delivering.

This report found that as at 31 December 2015, responsible investment constituted $78.7 billion assets under management (AUM) in New Zealand, having grown by 28 per cent year on year.

The most significant component of responsible investment involves large asset owners and asset managers undertaking an ESG Integration approach across their entire funds (as opposed to offering stand alone ethical or socially responsible investment (SRI) options). This category – the broad responsible investment – constituted 98 per cent of total responsible investment assets with $77.1 billion.

This report found that as at 31 December 2015, responsible investment constituted $78.7 billion assets under management (AUM) in New Zealand, having grown by 28 per cent year on year.

This approach has seen a significant take up in New Zealand with eight major asset owners (including the NZ Superannuation Fund, Accident Compensation Commission and some community trusts) along with nine asset managers committing to a systematic approach to ESG integration by becoming signatories to the United Nations supported Principles for Responsible Investment.

This report examines a number of approaches to responsible investment including core responsible investment which involves screening, sustainability themed investments, impact investments, community finance and corporate engagement.

In 2015 core responsible investment strategies have again grown strongly by 18 per cent in one year, to $1.6 billion AUM.

Total professionally managed assets (TAUM) in New Zealand at the end of 2015 were $61.35 billion, meaning these core responsible investment strategies represented 2.6 per cent of TAUM, a slight rise against last year's 2.4 per cent.

The most substantial portion of core responsible investment involves **screened investments which grew by 17 per cent to $1.3 billion** with strong inflows to those retail and KiwiSaver funds identified in this category as more retail investors choose this approach, often referred to as ethical or socially responsible investments.

Sustainability themed investments grew by 21 per cent reaching $278 million made up of investments in sustainable agriculture and water funds.

Proportionally, this report again finds the large crown financial institutions driving a significant proportion of the responsible investments in New Zealand, with NZ Superannuation Fund and Accident Compensation Corporation accounting for $56.7 billion or 72 per cent of total assets managed under a responsible investment approach.

In addition to these large asset owners, this report finds some green shoots in consumer demand for responsible investment at the retail end of the market, including KiwiSaver products. Of the eight retail asset managers offering responsible investment products, there are some very strong stories of growth and inflows into their offerings, reflecting the early stages of a consumer awakening to the option to invest in line with their values.

This is a trend that has been identified globally, with the companion Australian report also seeing a strong surge in consumer interest in responsible investment offerings to its strongest point in 10 years and rapidly becoming one of the strongest drivers of growth in the industry.

Performance

Alongside growth in assets, the Australian companion report again has assessed the performance of Australian responsible investment funds compared with their benchmark index and the average of equivalent mainstream funds (see full results in Appendix B).

Importantly, again this report has found very strong performance results from core responsible investment products:

- Core responsible investment Australian equities funds outperformed both the ASX300 and the average large cap Australian equities funds across one, three, five and 10 years.
- Core responsible investment international equities funds outperformed large cap international equities funds over five and 10 years, but slightly underperformed in the short term.
- Core responsible multi-sector growth funds (balanced funds) outperformed their equivalent mainstream multi-sector growth funds over all time periods – one, three, five and 10 years.

Conclusion

Overall, this report observes that there is a continued trend for ESG and ethical factors to be considered seriously and systematically across the full financial sector. This not only supports investors to better manage the full suite of investment risks, but equally shows how capital can be put to work to solve some of society's and the environment's biggest challenges.

This year's findings show continued strength within the large crown financial institutions who continue to show a strong approach involving multiple responsible investment strategies (screening plus ESG integration) across their entire portfolios.

Within the New Zealand institutional asset managers we see a more varied level of commitment to responsible investment, with some strong leaders implementing an ESG integration approach, whilst in the retail asset managers, we are seeing the start of some very strong inflows as consumers are increasingly attracted to investing in line with their values.

It's pleasing to see that as consumer demand continues to grow, investment organisations are moving to meet this demand, developing products and options across managed funds and KiwiSaver options.

Pleasingly, the report highlights that this is also helping to strengthen the ability of investors to identify, manage and avoid risks, evidenced through the strong performance results.

About the Report

There was significant growth in the New Zealand responsible investment market in 2015 with investors becoming increasingly aware of the importance of environmental, social, governance (ESG) and ethical issues in their decision-making and recognising that these factors are crucial in the creation of long-term investment value.

Responsible investing considers a broad range of risks and value drivers as part of the decision making process, beyond and in addition to reported financial risks. It is a systematic approach that takes ESG and ethical issues into account throughout the process of researching, analysing, selecting and monitoring investments. It acknowledges that ESG factors can be critical in understanding the full value of an investment.

ESG issues differ by sector, company and asset class. Just as market trends affect different companies in different ways all investments are exposed to varying levels of ESG risk exposure. As a result of this complexity there is no single method for assessing ESG and ethical risks. Rather, it requires skilled investment expertise, a systematic process of analysis and a high level of knowledge and experience to fully integrate these factors into investment decision making.

As this report demonstrates responsible investment is an increasingly sophisticated component of the financial sector across superannuation, asset management and financial advisory services. It guides the investment approach of a broad range of products and services, from large investment managers who integrate ESG factors into their decision-making, to so called 'deep green' ethical investment funds that apply exclusionary screening criteria over their investments. The developing maturity of the responsible investment industry is demonstrated by organisations applying a number of responsible investment strategies to deliver value to fund beneficiaries.

Given the volume and variety of responsible investment products available in New Zealand individual investors are best positioned to determine the products and services most closely aligned to their values and beliefs. While this report demonstrates that the number of organisations that integrate ESG and ethical factors into decision making processes increased during 2015 there remains a high level of variability in the degree to which these factors are weighted, analysed and incorporated into actions. Due to this, individual investors ought to remain diligent in their analysis of financial products and services to ensure that the strategic goals of investment managers and funds align to their personal beliefs.

Purpose of the report

This report (and its companion Australian report) provides industry data on the size, growth and performance of the New Zealand responsible investment market over the 12 months to 31 December 2015 and compares these results with the broader New Zealand financial market. This the 15th Responsible Investment Benchmark Report prepared by the RIAA.

International context

RIAA is a proud member of the Global Sustainable Investment Alliance (GSIA), Eurosif (The European Sustainable Investment Forum), UKSIF (UK Sustainable Investment & Finance Association), US SIF (The Forum for Sustainable & Responsible Investment) and VBDO (Dutch Association of Investors for Sustainable Development). To enable comparison of New Zealand's responsible investment market with those of other regions, this report has been prepared in line with the GSIA categories and definitions of responsible investment as applied in the Global Sustainable Investment Review 2014, the report mapping the growth and size of the global responsible investment industry.[1]

GLOBAL SUSTAINABLE INVESTMENT ALLIANCE GSIA

Responsible investment strategies

To maintain a global standard of classification, this report is aligned with the seven strategies for responsible investment as detailed by the GSIA. These strategies are:

1. Negative/exclusionary screening
2. Positive/best-in-class screening
3. Norms-based screening
4. Integration of ESG factors
5. Sustainability themed investing
6. Impact/community investing
7. Corporate engagement and shareholder action

Full definitions of each responsible investment strategy can be found in the Glossary.

Core versus broad responsible investment

For the purposes of this report we differentiate between core and broad responsible investment. This allows us to differentiate the data to allow for an enhanced analysis of the responsible investment industry and the degree to which responsible investment strategies are integrated into products and services.

Core responsible investment approaches apply at least one of the following primary strategies: negative, positive or norms-based screening; sustainability themed investing; impact investing, community finance; or corporate engagement.

Broad responsible investment approaches use ESG integration as the principal responsible investment strategy. This involves the systematic inclusion of ESG factors into traditional financial analysis and investment decision making based on the acceptance that these factors are core drivers of risk and value in companies and assets. This strategy is often accompanied by a systematic approach to corporate engagement and other active ownership and stewardship approaches.

Core responsible investment approaches are made up in large part of those funds traditionally referred to as SRI or ethical investments, as well as sustainability themed funds. A significant portion of core responsible investment products are available as retail products.

In contrast, the broad responsible investment market is largely comprised of institutional funds that apply ESG integration as part of a mainstream investment offering. These products for the most part do not include an ethical, SRI or sustainability themed investment strategy selected by the investor and are usually wholesale or institutional products.

As this report demonstrates, asset managers are increasingly applying multiple responsible investment approaches. For example, a fund may broadly apply ESG integration as well as core responsible investment strategies such as negative or positive screening. In such a case, we have categorised the fund according to the primary responsible investment strategy being pursued. Primary strategies have been identified through the RIAA data collection survey. In addition to this, RIAA performs a review of all survey responses to ensure that strategies are categorised consistently.

It should be noted that for the purpose of this report, the assessment of ESG integration as a responsible investment strategy aims to determine the value and volume of the responsible investment industry that we regard as demonstrating industry leading ESG integration practices as opposed to

1 Read the Global Sustainable Investment Review 2014 here http://www.gsi-alliance.org/members-resources/global-sustainable-investment-review-2014/

including all self-declared ESG managers. RIAA has undertaken a detailed desktop analysis of all asset managers that are signatories to the PRI as well as other asset managers that RIAA's database indicates as practicing ESG integration. For more detail on the assessment methodology, please see the breakout box in the broad responsible investment section of the report.

Methodology

REPORTING BOUNDARY

This report covers the 2015 calendar year and where possible data disclosed in this report has been recorded as at 31 December 2015. Data from some asset managers was not available on a calendar year basis and in these cases data was taken from the closest available reporting date. All financial figures are presented in NZD.

The financial sector is a globalized industry. Responsible investment funds may be held in one country, managed in another and sold in a third meaning that a level of estimation is applied in order to demarcate the boundary of the New Zealand market. This report is intended to inform readers of the range of responsible investment products that are available in New Zealand. As such it includes assets managed within the New Zealand region, as well as assets managed outside the region where these are on behalf of New Zealand clients.

DATA COLLECTION

Data used to compile this report was generously provided and collated from the following sources:

- Directly supplied by 18 asset managers, super funds, financial advisers, and community investment managers through a data collection survey of the value of assets under management (AUM), investment strategies and fund performance
- Morningstar for total assets under management (TAUM) in New Zealand and the average performance of mainstream managed fund categories. Morningstar also provided a secondary source of AUM for many of the funds listed
- RIAA database and industry contacts
- Desktop research of publicly available information regarding assets under management, performance data and investment strategies, including websites, annual reports and PRI Responsible Investment Transparency Reports.

The response rate to the 2015 Benchmark Report New Zealand survey was 62 per cent which we believe represents the vast majority of responsible investment AUM. Where survey responses were not received, publicly available information was used where available. No data has been extrapolated from its original source.

DATA ANALYSIS AND REPORTING

As many asset managers apply several investment strategies the data collection survey required responders to identify a single primary responsible investment strategy. The survey also requested to responders to nominate any secondary strategies applied in order to determine the depth of responsible investment strategies applied, to identify any overlap of approaches and to assist in categorising funds. This approach was used in order to create an accurate depiction of the responsible investment environment in New Zealand.

Any fund overlaps identified between asset managers have been removed from the reported figures. RIAA is continuously working to improve its data collection process to enhance the quality of reported figures and to ensure that all products in the New Zealand market are identified.

DATA COMPLETENESS

Many of the products in the New Zealand responsible investment market are not bound by any public reporting or disclosure requirements. This report includes both retail and wholesale investment products, superannuation fund mandates, individually managed accounts, and separately managed accounts. Some investment custodians are reluctant to supply information for reasons of privacy or commercial confidentiality. Data pertaining to funds held outside of managed responsible investment portfolios was not accessible. For this reason this report provides a conservative depiction of the responsible investment environment in New Zealand.

RESTATEMENT OF PREVIOUSLY REPORTED DATA

There are several restatements to 2014 data contained in the 2015 Benchmark Report. Core responsible investment AUM held as at 31 December 2014 has been revised down to $1.3 billion as a result of additional information supplied in the 2015 data collection survey from Quaker Investments.

Responsible Investment in New Zealand

Responsible investment in New Zealand continues to command a significant proportion of the investment industry across multiple strategies and styles.

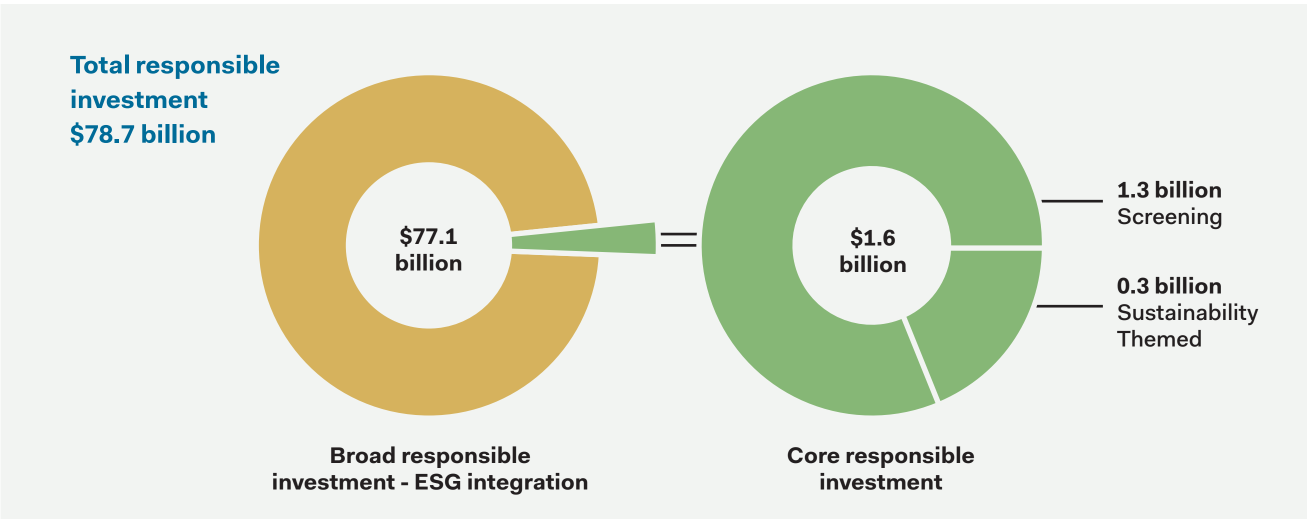
As at the end of December 2015, the total responsible investment assets under management totaled $78.7 billion, an increase of 28 per cent year on year.

The major part of these assets are being managed by investment organisations implementing a strategy that considers environmental, social and governance (ESG) considerations, consisting of $77.1 billion or 98 per cent of all responsible investment assets, a strong growth of 28 per cent year on year.

The core responsible investment segments – those constituting screened and sustainability themed funds. **In 2015, core responsible investment funds accounted for $1.6 billion in AUM.**

Core responsible investment funds increased during 2015 by 18 per cent compared with $1.3 billion AUM in the previous year. This increase is attributable to investment returns from existing responsible investment funds and strong inflows into existing funds. As a result core responsible investment funds constituted two per cent of total responsible investment funds held in 2015. These figures are depicted in Figure 1.

Figure 1 Total Responsible Investment In New Zealand



Responsible Investment Approach	2015 Responsible Investment AUM ($m)	2014 Responsible Investment AUM ($m)	Year on year change
Screening (Positive, negative)	1,273	1,085	17%
Sustainability themed investing	278	229	21%
Impact / community investing	0	0	0%
Core Responsible Total	**1,551**	**1,314**	**18%**
Broad Responsible Total ESG integration	**77,106**	**60,268**	**28%**
TOTAL RESPONSIBLE INVESTMENT	**78,657**	**61,582**	**28%**

Figure 2 Responsible investment results

Core Responsible Investment Assets

The $1.6 billion of core responsible investment in New Zealand is held by 12 asset managers managing a variety of products. A range of core responsible investment strategies have been applied to these funds and the key trends in these strategies are detailed as follows.

Although a relatively small part of the total responsible investment assets at only 2%, this category nonetheless reflects an ever growing segment of the market in New Zealand and our best insights into the retail up take of responsible and ethical investment.

The 2014 figures have been restated in this year's report due to additional information that was provided in this year's surveys, however we have still seen comparable strong year on year growth of 18% driven by some strong fund inflows performance.

Morningstar reports that total assets under management in New Zealand at 31 December 2015 were $61.35 billion. This means that core responsible investments represented approximately 2.6 per cent of total assets under management. This represents a slight rise compared to the previous year's 2.4 per cent.

Positive and negative screening continues to be the most popular strategy applied to core responsible investment assets in New Zealand.

The use of screening has increased by 17 per cent from the past year. As referenced in last year's report, several core responsible investment funds have screened multiple industries from investment portfolios. The principal industries that are screened out of core responsible investments are tobacco, alcohol, weapons (including specific exclusions of cluster munitions) and gambling.

The 2015 survey indicates that managers of core responsible investment portfolios are developing negative screening strategies to exclude industries beyond those most commonly screened. Several funds now incorporate sophisticated strategies to screen out fossil fuels with various definitions covering coal, thermal coal, oil, gas, unconventional gas, oil sands across fossil fuel electricity generation as well as mining and extraction.

Also noteworthy is that increasingly we see the large institutional asset managers and asset owners incorporating exclusions into their ESG integration strategies.

The NZ Superannuation Fund and Accident Compensation Commission are two such examples of numerous screens across their entire funds. For the purposes of this report, we categorise those large institutions under the Broad Responsible Investment, considering the ESG integration as the primary responsible investment strategy.

Core Responsible investments using a screening approach include a number of distinct groups of organisations.

These include a number of faith-based investors such as the NZ Anglican Church Pension Board and the Methodist Trust Association.

Community Trusts were also captured in this year's data, with some being classified under core responsible investment (Community Trust of Southland and Trust Waikato) whilst others are captured under broad responsible investment depending on their primary strategy.

This segment also includes the majority of **retail ethical or socially responsible investment products across managed funds and KiwiSaver funds**, including:

- Amanah KiwiSaver
- AMP Capital Responsible Investment Leaders funds
- ANZ OneAnswer KiwiSaver
- Grosvenor Financial Services Group Socially Responsible KiwiSaver Funds and managed funds
- Koinonia KiwiSaver
- Nikko Asset Management New Zealand
- Quaystreet Asset Management Balanced SRI Fund
- Superlife Ethica Strategy
- Trust Management – Trust Investments Sustainable Australasian Share Fund

Sustainability themed investments represent 18% of all core responsible investments held in 2015. The sustainability themed investments recorded in this report are:

- Southern Pastures LP's sustainable agriculture fund
- Pathfinder Asset Management's water fund

The value of AUM held in sustainability themed investments increased 21 per in 2015. The purpose of sustainability themed funds is to invest in funds that have sustainability related goals. The types of funds that are commonly invested in clean energy, green technology, sustainable agriculture, sustainable forestry, green property and water technology.

No **impact or community investments** were reported in this year's survey. Despite a growing interest and discussion around impact investments, we are yet to see measurable flows of capital into impact strategies or products.

Broad responsible investment assets

ESG integration continues to be the primary strategy used to guide the majority of responsible investments in New Zealand accounting for 98% of all responsible investments, at $77.1 billion.

This figure surpasses the total value of professionally managed assets (TAUM) in New Zealand, which is $61.35 billion, equating to 126 per cent of TAUM. This is due to many of the assets of the large institutional asset owners being managed outside of New Zealand and hence not included in the NZ TAUM.

RIAA has always taken a conservative approach to estimating the value of AUM that integrates ESG factors. The AUM attributable to asset owners and asset managers to provide this $77.1 billion figure was determined using a combination of approaches including RIAA's responsible investment survey results as well as a desktop assessment of asset managers who are self declared responsible investors.

In this year's report, included in the broad responsible investment assets are:

- the largest asset owners applying multiple responsible investment approaches,
- asset managers who apply an ESG approach coupled with screening – often for institutional mandates
- community trusts undertaking an ESG integration approach
- as well as those demonstrating leading practices in ESG integration taken from our assessment of all signatories to the UN supported Principles for Responsible Investment.

This approach is consistent with the approach taken in last year's report.

Categorising the investment approaches is challenging as several organisations apply multiple responsible investment strategies. For example, three of the largest asset owners in New Zealand, the Accident Compensation Corporation, the New Zealand Superannuation Fund and Government Superannuation Fund Authority, apply an ESG integration strategy but also screen out a number of industries. All three exclude investments in the tobacco, cluster munitions, nuclear explosive devices, anti-personnel mines and whaling sectors. For this report, these are categorised as broad responsible investments.

To ascertain leading practice in ESG integration, RIAA undertook a desktop assessment of nine asset managers who are signatories to the PRI. These organisations were reviewed against a framework of leading practice in ESG integration as established by RIAA based on global research. (Read more on our assessment process in the following section).

Eight New Zealand asset owners are signatories to the United Nations Principles for Responsible Investment (PRI). These assets owners are responsible for managing $64 billion AUM (including the NZ Superannuation Fund, ACC, Government Superannuation Fund Authority and community trusts). Nine asset managers are signatories managing $13.3 billion AUM.

This assessment found that out of nine PRI asset manager signatories in NZ, three asset managers were able to demonstrate leading practice in ESG integration. These three managers represent $10.2 billion AUM.

These three asset managers were able to clearly articulate and demonstrate a systematic process to applying ESG integration in their investment processes, as well as having policies, detailed disclosures, a clearly defined approach to stewardship and active ownership that included engagement and voting.

The three asset managers scoring above 80 per cent on the ESG integration assessment are:

- HRL Morrison
- Southern Pastures LP
- Harbour Asset Management

Where asset managers also report some funds under management classified as core responsible investment in this report, the core responsible fund value was excluded from the broad responsible investment total in order to prevent overlap between the two responsible investment categories.

The investment organisations included in the broad responsible investment category in this year's report include:

- Accident Compensation Corporation
- Canterbury Community Trust
- Devon Funds Management
- Foundation North
- Government Superannuation Fund Authority
- Harbour Asset Management
- HRL Morrison
- National Provident Fund
- New Zealand Superannuation Fund
- Northern Trust Asset Management
- Otago Community Trust
- Rata Foundation
- Southern Pastures (AUM included in Core)

The asset owners and asset managers that held broad responsible investment portfolios valued at over NZ$1 billion AUM are shown in Figure 3. Any overlap of assets has been excluded from the total figures in this report.

Figure 3 Largest responsible investment asset managers and asset owners

	AUM $million
Accident Compensation Corporation	31,406
New Zealand Superannunation Fund	29,366
HRL Morrison	8,450
Northern Trust	4,998
Government Super Fund Authority	3,990
Harbour Asset Management	2,143
National Provident Fund	1,814
Devon Funds Management	1,398
Foundation North	1,218

Leading Practice in ESG integration – how have we defined it?

Responsible investment is no longer a niche industry. Over the past decade it has grown to a point where a significant proportion of the investment industry has now committed to implementing a responsible investment approach. For large institutional investors, this has focused primarily on applying ESG integration practices to traditional financial analysis.

Defining and measuring ESG integration practices is challenging due to limited disclosure and a broad variation in depth of integration - from systematic implementation embedded into investment valuation practices and company engagement, to more ad hoc approaches.

For the purposes of this report - to define the size of the responsible investment industry in Australia - RIAA aims to include only those assets managed by asset managers who are practicing a leading approach to ESG integration, rather than all assets managed by organisations who have self-declared that they are implementing responsible investment.

At the time of writing 9 New Zealand asset managers holding $13.3 billion AUM were signatories to the PRI.

For this report, RIAA undertook a desk top review of 87 asset managers across Australia and New Zealand (9 from NZ) who are self-declared responsible investors, and rated each of these against a framework of leading practice to ESG integration. This framework was developed by RIAA based upon global definitions and existing assessment frameworks for ESG integration practices, and remains the same as the framework used by RIAA in last year's report.

The framework acknowledges that although it is difficult to prescribe a single best practice process for the integration of ESG factors into investment decision making, there are a number of leading practices which can be identified. RIAA has established a framework drawing on the core pillars of leading ESG integration practices that assesses:

- Publicly stated commitments to responsible investment
- Responsible investment policy
- Commitments to the transparency of processes and approach
- Systematic processes for ESG integration, as well as evidence demonstrating how this process is applied as part of traditional financial analysis
- Evidence of activity in other areas of active ownership and stewardship including voting and engagement
- Membership of collaborative investor initiatives
- Coverage of total AUM by responsible investment or ESG practices.

These pillars were weighted to ensure balance between evidence of systematic investment processes versus policies and public commitments. Using this framework, RIAA then assessed the 87 asset managers based on their publicly available information including websites, PRI responsible investment transparency reports and all other available material. All asset managers were scored using this criteria.

Only those asset managers that scored more than 80 per cent have been included in the broad responsible investment category in this report. This was so that only those demonstrating leading practice would be included in determining the size of the Australian responsible investment market.

The methodology was developed specifically to apply fairly to asset managers across all asset classes and sizes.

Any portion of the AUM managed by these asset managers that was already accounted for under the core responsible investment strategies was excluded to avoid double counting.

Appendix A

Glossary

AUM – Assets under management
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

Definitions of responsible investment strategies

Broad Responsible Investment – investment that applies ESG integration as they key responsible investment strategy.

Core Responsible Investment – investment that applies at least one of the following responsible investment strategies:

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

ESG Integration – ESG integration involves the systematic and explicit inclusion of environmental, social and governance factors into traditional financial analysis and investment decision making by investment managers. This approach rests on the belief that these factors are a core driver of investment value and risk.

Negative screening – screening that systematically excludes specific industries, sectors, companies, practices, countries or jurisdictions from funds that do not align with the responsible investment goals. This approach is also referred to as values-based or ethical screening. Common criteria used in negative screening include gaming, alcohol, tobacco, weapons, pornography and animal testing.

Positive screening – involves screening investment in sectors, companies or projects selected for positive ESG or sustainability performance relative to industry peers. It may also be referred to as best-in-class screening. It involves identifying companies with superior ESG performance from a variety of industries and markets.

Norms-based screening – involves the screening of investments that do not meet minimum standards of business practice. Standards applied are based on international norms such as those defined by the United Nations (UN). In practice, norms-based screening may involve the exclusion of companies that contravene the UN Convention on Cluster Munitions, as well as positive screening 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).

Sustainability themed investing – relates to investment in themes or assets that specifically relate to sustainability themes. This commonly involves 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.

Impact investing – targeted investments aimed at addressing social or environmental issues while also creating positive financial returns for investors. Impact investing includes community investing which involves projects that have a defined social purpose, as well as environmental investing that typically aims to finance initiatives that address key environmental issues.

Corporate advocacy and shareholder action – refers to the employment of shareholder power to influence corporate behaviour. This may be conducted through direct corporate engagement such as communications with senior management or boards, filing or co-filing shareholder proposals and proxy voting in alignment with comprehensive ESG guidelines.

Appendix B

Performance of Australian Core Responsible Investment Funds

Australian Share Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 16-30 funds sampled depending on time period)	8.3%	12.3%	10.5%	7.6%
	Large-Cap Australian Share Fund Average	3.2%	9.2%	6.5%	5.1%
	S&P/ASX300 Accumulation Index	2.6%	9.2%	7.0%	5.6%

International Share Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 2-13 funds sampled depending on time period)	9.0%	20.0%	15.2%	7.0%
	Large-Cap International Share Fund Average	10.7%	21.7%	13.7%	4.3%
	MSCI World ex Australia Index $A	11.8%	23.9%	15.5%	5.1%

Multi-Sector Growth Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 4-10 funds sampled depending on time period)	7.0%	11.5%	8.2%	6.4%
	Multi-Sector Growth Fund Average	3.7%	9.5%	7.5%	4.5%

Appendix C

Entities included in this report

Accident Compensation Corporation
Amanah KiwiSaver
AMP Capital
ANZ OneAnswer KiwiSaver
Canterbury Community Trust
Community Trust of Southland
Devon Funds Management
Foundation North
Government Superannuation Fund Authority
Grosvenor Financial Services Group
Harbour Asset Management
HRL Morrison & Co
Koinonia Kiwisaver Scheme
Methodist Trust Association
National Provident Fund
New Zealand Superannuation Fund
Nikko Asset Management New Zealand
Northern Trust Asset Management
Otago Community Trust
Pathfinder Asset Management
Quaystreet
Rata Foundation
Salt Funds Management
Southern Pastures LP
Superlife
The New Zealand Anglican Church Pension Board
Trust Management
Trust Waikato

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