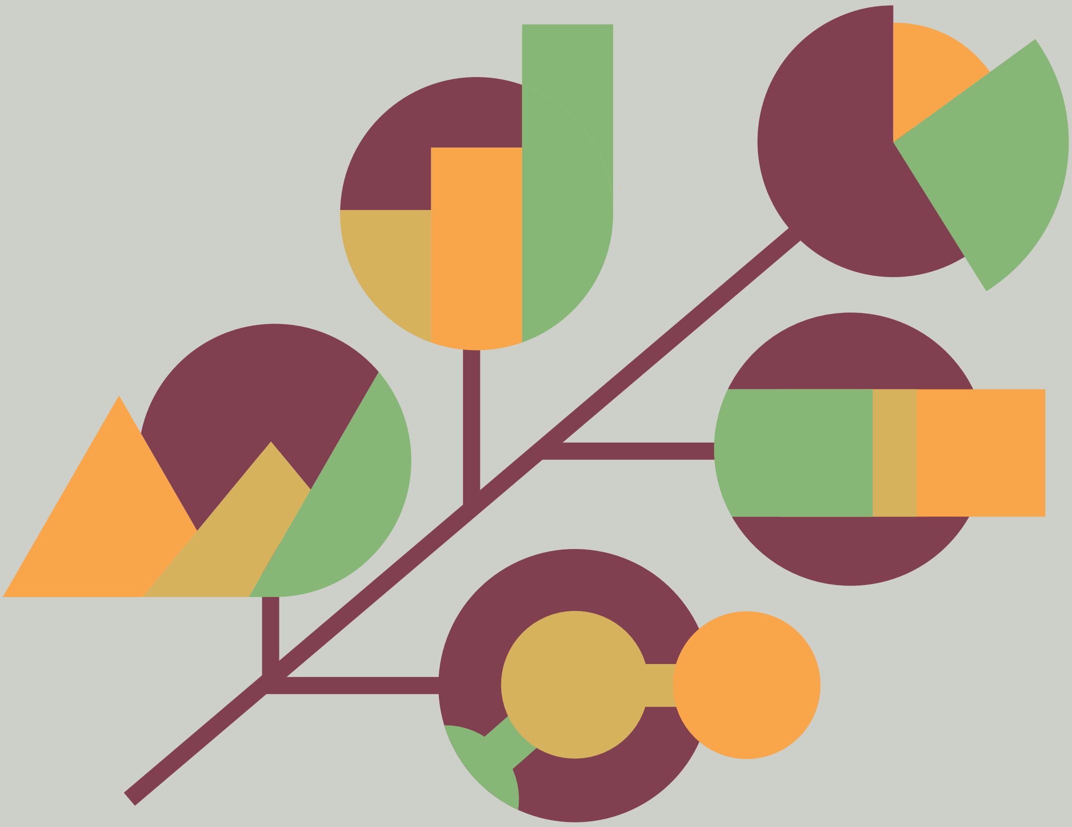
Responsible Investment Association Australasia

Responsible Investment Benchmark Report 2016 Australia



Report was prepared by RIAA based on survey data gathered and collated by EY

Thank you to our sponsors

You can read more insights from our sponsors at www.responsibleinvestment.org/resources/benchmark-report/

australianethical
super, pensions & investments

Australian Ethical Investment is one of Australia's largest and longest standing core responsible fund managers. For 30 years, the company has been busting the myth that investors have to compromise their ethics for returns, or returns for ethics. At Australian Ethical, investors achieve both.

By pairing rigorous ethical analysis, based on the Australian Ethical Charter, with professional investment management, Australian Ethical's funds have consistently outperformed the market while at the same time delivering a net benefit to people, the planet and animals.

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

NORTHERN TRUST

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.

BT Financial Group

BT Financial Group (BT) is Australia's largest administrator of superannuation, retirement and investments and is a signatory to the Principles for Responsible Investment. BT considers its role as one of a universal owner and long term investor on behalf of our beneficiaries. We believe that the research, assessment and management of environmental, social and governance (ESG) factors enhance our ability to meet the long term investment objectives for our funds, consistent with our fiduciary duty. It also provides greater insight into investment risks across all time frames. Managing for a long- term investment outcome is not only beneficial for this generation, but for generations to come. BT also recognises that by applying the principles underpinning consideration of ESG factors, there may be a better alignment between investor outcomes and the broader objectives of society.

Teachers Mutual Bank

Teachers Mutual Bank is one of Australia's largest member-owned banks over 174,000 members and more than $5.3 billion in assets. For over 50 years, we have been dedicated to enhancing the wealth and financial wellbeing of the education community. We understand the long-term impact our business has on the economy and communities in which we operate, and recognise we have an obligation to be responsible in the way we lend and invest. We are continuously improving upon our policies and practices to ensure they consider current and emerging environmental and social factors. As such we have received industry-wide recognition for our ethical banking practices and strong sustainability record. Our leadership in this area along with our strong financial results year-on-year demonstrates profitability and ethics are not mutually exclusive, and we hope to use our position in this space to influence other institutions in the banking sector.

Research support from MORNINGSTAR® PRI Principles for Responsible Investment Ethical Advisers' Co-op

Table of Contents

Executive summary 4
Performance 5
Conclusion 5

About the Report 6
Purpose of the report 6
International context 7
Responsible investment strategies 7
Core versus broad responsible investment 7
Methodology 8

Responsible Investment in Australia 9
Core Responsible Investment Assets 10
Broad responsible investment 13
Superannuation funds in Australia 15
Financial adviser responsible investment portfolios 15

Glossary 17

Appendix A Definitions of responsible investment strategies 17

Appendix B Core Responsible Investment Fund Offerings in Australia 18

Appendix C Other entities included in this report 21

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.

CONTACT
+61 2 8228 8100
info@responsibleinvestment.org
responsibleinvestment.org

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 15th 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 the expected minimum standard of good investment practice in Australia.

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 superannuation, asset management, banking and financial advice, in retail and institutional markets a responsible and ethical approach to investment and finance 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 $633.2 billion assets under management (AUM), around half of all assets professionally managed in Australia (47 per cent).

The most significant component of responsible investment involves 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 approach has seen a significant take up in Australia with 34 major asset owners (primarily superannuation funds) along with 70 asset managers committing to a systematic approach to ESG integration by becoming signatories to the United Nations supported Principles for Responsible Investment.

This report found that of that substantial part of the market, **15 asset managers who manage $581.6 billion in AUM are currently demonstrating leading practices in ESG integration**. These managers span large multi managers through to small boutique managers, as well as property and infrastructure managers. **This constitutes 43 per cent of total professionally managed assets in Australia (TAUM).**

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 taken off substantially, growing by 62 per cent in one year, to $51.5 billion AUM. This equates to a doubling of funds in the last two years (from $26 bill AUM in 2013).

There has been a significant rise in core responsible investment as a proportion of Australia's total assets under management; reaching 3.8 per cent in 2015, up from 2.5 per cent in 2014. This is the highest point in the last ten years.

The most substantial portion of core responsible investment involves **screened investments which grew by 16 per cent to $24.7 billion** and continue to see massive inflows of funds as more retail investors choose this approach.

Sustainability themed investments grew significantly from $8 billion to $23 billion, an increase of 179 per cent. This increase was largely led by sizeable mandates to themed funds such as sustainable agriculture funds, green-themed property funds, as well as a strong emergence of low carbon funds.

Impact investment also saw continuing strong growth. As a very diverse category, which includes community finance and a number of responsible banking products, **this category grew by 74 per cent to $3.7 billion**.

This growth resulted from an increase in the number of dedicated impact investment funds, community finance from both dedicated providers as well as large banks (which includes increasing allocations to affordable housing and microfinance), as well as an ever growing number of themed bonds being issued in Australia. This segment is showing a great deal of innovation and highlights the broadening of responsible investment across the entire finance sector with a strong emergence of responsible and ethical banking.

Performance

This report also provides critical data on the performance of responsible investment funds against mainstream equivalent funds and their benchmark index, and again this year we see very strong results:

- **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.

This report found that as at 31 December 2015, responsible investment constituted $633.2 billion assets under management (AUM), around half of all assets professionally managed in Australia (47 per cent).

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.

Although there has been much attention in the last year to the divestment debate, this report shows that while divestment is an ever more utilised option, capital is also just as strong when it is being used to support industries, companies and assets (invest, rather than divest) that are critical to a healthier economy, society and environment.

Broadly, we are seeing a much more diverse approach being taken to responsible investment across all styles and all types of investors, and financial system actors.

Consumer demand continues to surge and investment organisations are moving to meet this demand, developing products and options across all asset classes and all investment styles.

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.

Based on movement in the markets in the last two years, it is clear that we are now on an unstoppable trajectory where responsible approach to investment, superannuation and banking is the benchmark against which good investors should be assessed.

About the Report

There was significant strengthening in the Australian responsible investment market in 2015 as investors become increasingly aware of the importance of environmental, social, governance (ESG) and ethical issues in their decision-making and recognise that these 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 risk. 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, banking, community finance 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. It includes superannuation funds that apply multiple strategies across all asset classes, to the banks taking an ethical and socially minded approach to lending. 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 and banking products available in Australia 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 New Zealand report) details industry data on the size, growth and performance of the Australian responsible investment market over the 12 months to 31 December 2015 and compares these results with the broader Australian financial market. This report is the 15th annual Benchmark Report prepared by RIAA.

International context

RIAA is a proud member of the Global Sustainable Investment Alliance (GSIA), together with Eurosif (The European Sustainable Investment Forum), Responsible Investment Association Canada, 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 Australia'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, which maps 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.

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

Core versus broad responsible investment

For the purposes of this report we distinguish 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 principle responsible investment strategy. This involves the systematic inclusion of environmental, social and corporate governance (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. The primary strategy is identified by the organisation in their survey response. 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 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 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 AUD.

The financial sector is a globalised 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 Australian market. This report is intended to inform readers of the range of responsible investment products that are available in Australia. As such it includes assets managed within the Australian region, as well as assets managed outside the region where these are on behalf of Australian clients.

DATA COLLECTION

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

- Directly supplied by 69 asset managers, superannuation funds, financial advisers, banks and community investment managers through a data collection survey of the value of AUM, investment strategies and fund performance (covering 128 products).
- Morningstar statistics for total assets under management (TAUM) in Australia and the average performance of mainstream managed fund categories. Morningstar also provided a secondary source of AUM data for some of the funds listed
- RIAA's database and industry contacts
- Desktop research of publicly available information regarding assets under management, performance data and investment strategies from sources including company websites, annual reports and PRI Responsible Investment Transparency Reports.

The response rate to the 2015 Benchmark Report Australian survey was 75 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 Australia.

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 Australian market are identified.

DATA COMPLETENESS

Many of the products in the Australian responsible investment market are not bound by any public reporting or disclosure requirements. This report includes both retail and wholesale investment products, as well as increasingly 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 Australia.

Responsible Investment in Australia

The responsible investment industry continues to make up a significant portion of the overall investment market in Australia. Our research reveals it consists of around half (47per cent) of all assets professionally managed in this country, calculated as $633.2 billion in AUM in 2015 (a slight growth of 0.6% from 2014).

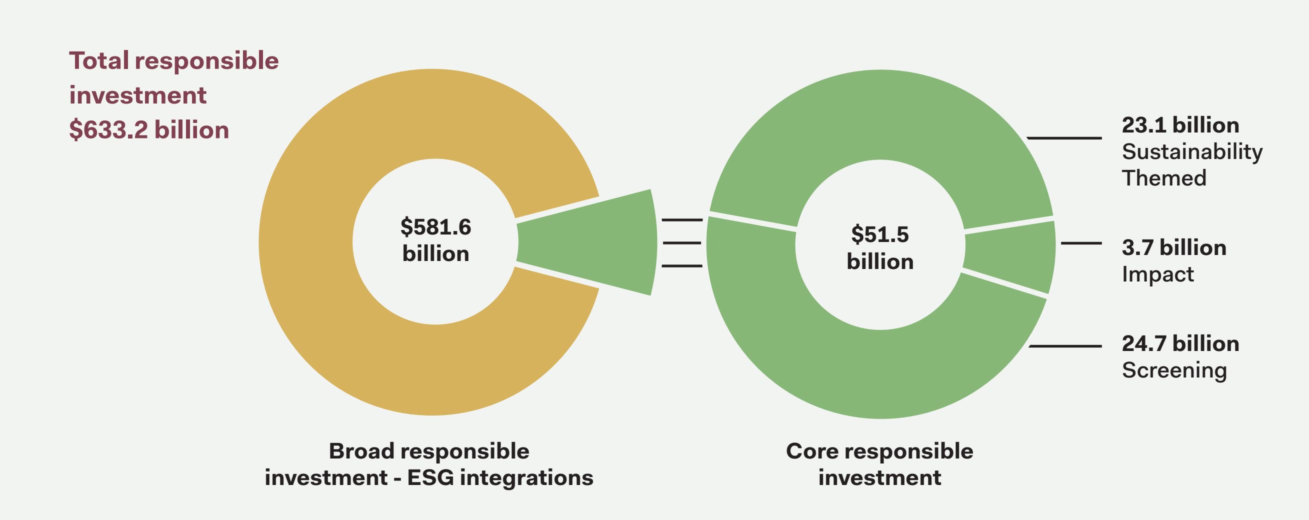
In 2015, core responsible investment funds accounted for $51.5 billion AUM. A diverse array of responsible investment strategies are applied to these core responsible investment funds across screened funds, sustainability themed funds as well as impact investments and community finance.

Data provided by Morningstar indicates that total assets under management (TAUM) in Australia at the end of 2015 was $1,340 billion.

Core responsible investment funds grew significantly during 2015, increasing by 62 per cent to $51.5 billion at December 2015 compared with $31.6 billion for the previous year. This increase is attributable to increased investment returns from existing funds and the identification of $12.1billion of new core responsible investment assets. Core responsible investment products therefore represent eight per cent of total responsible investment held in 2015. These figures are depicted in Figure 1.

At $51.5 billion AUM core responsible investment funds represent 3.84 per cent of the TAUM held in Australia, an increase on the 2014 holding of 2.49 per cent. In absolute terms, this shows core responsible investment having grown by 62 per cent in the last year, and having doubled in two years. Figure 2 details the key responsible investment volumes and year on year movements.

Figure 1 Total Responsible Investment In Australia



Responsible Investment Approach	2015 Responsible Investment AUM ($m)	2014 Responsible Investment AUM ($m)	Change
Screening (including negative, positive, best in class and norms-based screening)	24,724	21,375	16%
Sustainability themed investing	23,063	8,094	179%
Impact / community investing	3,720	2,143	74%
Core Responsible Total	**51,508**	**31,611**	**62%**
Broad Responsible Total ESG integration	**581,630**	**597,852**	**-3%**
TOTAL RESPONSIBLE INVESTMENT	**633,210**	**629,463**	**47% of TAUM in 2015**

Figure 2 Responsible investment results

Core Responsible Investment Assets

The $51.5 billion of core responsible investment in Australia is held by 69 asset managers managing 128 products. A full list of core responsible investment products is detailed in Appendix B. A range of core responsible investment strategies have been applied to these funds and the key trends in these strategies are detailed below:

Screening, both positive and negative, continues to be the most popular strategy applied to core responsible investment assets in Australia. The use of screening has increased by 16 per cent from the previous year. As reported in the previous year's report, several core responsible investment funds have screened multiple industries from investment portfolios. Several funds have continued to maintain exclusions from the tobacco, alcohol, weapons and gambling industries, with an ever greater number of asset managers and superannuation funds applying screens to their portfolios.

The 2015 survey indicates that managers of core responsible investment portfolios are developing negative screening strategies to exclude industries beyond those popularly screened. Several funds now incorporate sophisticated strategies to screen out human rights related issues, including organisations that operate in geographies that have a history of human rights abuses and those that have failed to address key employment and supply chain related concerns.

Increasingly, asset managers are applying similar strategies to industries that have detrimental effects on the health and welfare of societies and environments, including organisations that are perceived to contribute to obesity issues as well as environmentally destructive products such as palm oil. The last year has also seen an increase in the number of funds implementing fossil fuel screens with various definitions covering coal, thermal coal, oil, gas unconventional gas, oil sands across fossil fuel electricity generation as well as mining and extraction.

Faith-based asset managers also appear to be increasing the number of industries screened out of their investment portfolios. The results of the 2015 survey show that faith-based funds are incorporating sophisticated environmental and social considerations into investment strategies by screening out industries and organisations that directly or indirectly contribute to significant environmental or social damage through their operations.

Beyond the traditional ethical or socially responsible investment organisations, **it is clear that exclusions are becoming more mainstream considerations across many parts of the investment industry. For example, there are now approximately 35 superannuation funds who have divested of tobacco across their entire funds, most of these in the last two years, taking exclusions beyond just an offering for ethical or SRI investment options.**

Impact investing and community finance increased by 74 per cent in 2015. This category remains a diverse and growing area. Impact investing funds are issued by a growing list of providers including dedicated impact investment intermediaries, community financiers and large banks which are allocating funds to initiatives such as affordable housing and microfinance. There are also an ever growing number of themed bonds being issued in Australia.

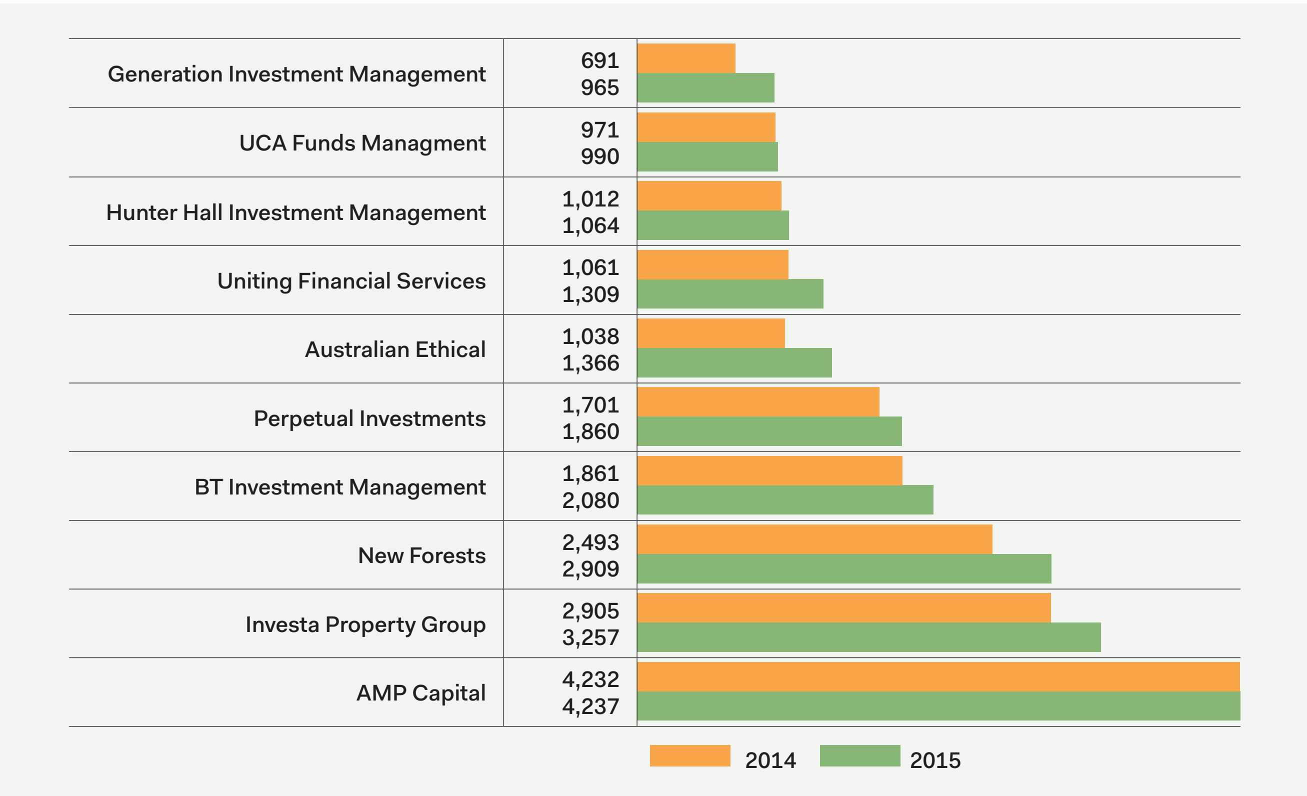
This year's results show that investors have a growing appetite for social and environmental impact products. Two big new contributors to this growth in 2015 are green bonds, including an ANZ issuance and Hallett Hill No2 Wind Farm issuance. The last two years have seen a steady increase in green bonds, and in coming years it is anticipated that the Australian green bond market will align with international growth trends as Australian investors seek opportunities to invest in low carbon assets.

2015 also saw strong continued growth of existing impact investment funds. Non-banking institution issuers of these products include Foresters, Social Ventures Australia, Social Enterprise Finance Australia, Impact Investment Group and Indigenous Business Australia. A number of banks have continued to participate in this category through community finance or impact products, largely with a focus on microfinance, social impact or affordable housing. These banks have included Teachers Mutual Bank, Bank Australia, Community Sector Banking, Westpac and NAB.

The diversity of offerings in this category highlights that responsible investment is broadening to encompass the full financial system, demonstrating that there is a strong demand for responsible approaches across the full spectrum of finance, from retail banking to superannuation.

Sustainability themed investing also experienced strong growth in 2015. This growth was driven by sustainable agriculture funds, forestry funds, green property and low carbon funds. **It is anticipated that sustainability themed investing will continue to grow over the coming year, particularly as organisations commit to minimizing carbon exposures in investment portfolios following the Paris Conference of Parties in December 2015.** While the long term impact of the Paris Climate Conference remains uncertain, it is anticipated that asset managers will increasingly align investment strategies to the commitments made by the conference.

Figure 3 Largest asset managers of core responsible investments ($millions)



It is within this category that we are starting to observe some very large mandates and allocations of capital to targeted sustainability themed funds, as a means by which institutional investors can obtain exposure to lower carbon investments in particular.

Figure 3 depicts the ten largest asset managers of core responsible investment portfolios in 2015. Eight of the 10 asset managers depicted in the diagram held core fund offerings greater than $1 billion AUM. The year on year growth in the value of funds held by the top 10 asset managers is approximately 13 per cent.

PERFORMANCE OF CORE RESPONSIBLE INVESTMENT FUNDS

Figure 4 compares the performance of the principal categories of responsible investment funds against the performance of mainstream funds over one, three, five and 10 year time horizons. The average performance in each time horizon has been determined using the asset-weighted returns (net of fees) from each responsible investment fund within its category. Mainstream performance indices and fund comparison data were calculated by Morningstar using a comparable methodology.

Screening, both positive and negative, continues to be the most popular strategy applied to core responsible investment assets in Australia.

Core Australian responsible investment funds and multisector growth funds outperformed the average mainstream funds and indices they were assessed against over all time periods.

Responsibly invested international share funds outperformed the average mainstream investment fund in the five and 10 year time horizons, but slightly underperformed against the Large Cap International Share Fund over the short term. Additionally, responsibly invested international share funds also outperformed the MSCI World ex-Australia Index over the 10 year period.

Figure 4 Performance of core responsible investments

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%

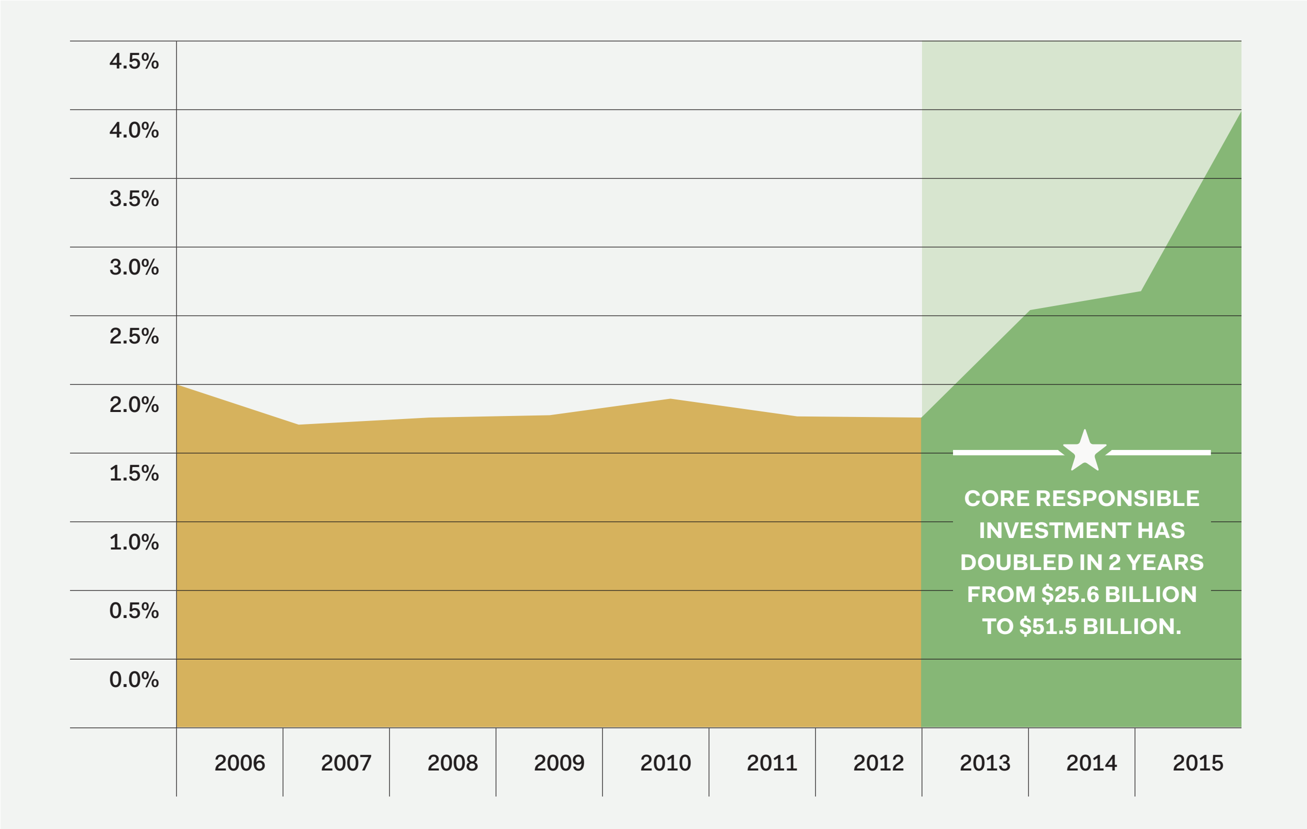


Figure 5 Core responsible investments as a percentage of TAUM since 2006

CORE RESPONSIBLE INVESTMENT AS A PROPORTION OF TAUM OVER TIME

Core responsible investment as a percentage of TAUM is a key indicator of the sector's growth that RIAA has been tracking for 15 years. Figure 5 maps the core responsible investment as a percentage of TAUM over the past 10 years. Figure 5 demonstrates that core responsible investment in 2015 was significantly higher than in previous periods, and that the core responsible investment sector has cemented its foothold in the investment industry after a period of flat relative demand reaching 3.8% of TAUM.

Although core responsible investment has experienced incremental growth during the past 10 year period, the absolute dollar growth in the sector is significant. In 2006 core responsible investment AUM was $11.9 billion, which increased to $31.6 billion in 2014. **In the past year core responsible investment AUM has increased by 65 per cent to $51.5 billion having doubled in the last two years.**

Broad responsible investment

Beyond core responsible investment, ESG integration constitutes a major force in the investment industry today. **Seventy-one Australian asset managers, including nine of the 10 largest asset managers, have declared their commitment to responsible investment by becoming signatories to the PRI.** Signatories to the PRI commit to incorporating ESG considerations into investment analysis and decision-making processes and to publically report on their performance. The 71 Australian PRI signatories collectively manage $967.5 billion AUM (or 72 per cent of TAUM in Australia).

Thirty-four Australian asset owners are also signatories to the PRI. These asset owners represent approximately 50 per cent of the largest 50 Australian super funds and manage $522.9 billion demonstrating that ESG integration is becoming a key consideration in main stream investment strategies.

RIAA has always taken a conservative approach to estimating the value of AUM that integrates ESG factors. As in the previous year, this year RIAA undertook a desktop assessment of 78 asset managers who are self-declared responsible investors (primarily from PRI signatory lists, but including others). These were reviewed against a framework of leading practice in ESG integration as determined by RIAA based on global research. The detailed section on 'How RIAA defines leading practice in ESG integration' provides an overview of the process and assessment framework applied.

This assessment shows that 15 asset managers in Australia, representing $581.6 billion AUM, are applying a leading practice ESG integration strategy as their principal broad investment approach.

These 15 asset managers were able to clearly articulate and demonstrate a systematic process to ESG integration in their investment process, as well as having policies, detailed disclosures, a clearly defined approach to stewardship and active ownership that included engagement and voting.

Managers in this group comprised some of the largest in Australia through to some of the smaller boutique managers, across all asset classes from equities, through to property and infrastructure managers. This year we also included assets managed for Australian clients by international asset managers with a presence in Australia (primarily those taken from RIAA membership lists).

The 15 asset managers scoring above 80 per cent on the ESG integration assessment are:

- AMP Capital
- Amundi Asset Management
- ATI Asset Management
- AXA Investment Managers
- BT Investment Management
- Colonial First State Global Asset Management
- Celeste Funds Management
- Dexus Property Group
- Investa Property Group
- Lend Lease Investment Management
- Perpetual
- QIC
- RARE Infrastructure
- Robeco
- Solaris Investment Management

This assessment excluded asset managers whose primary investment approach involves a core responsible investment strategy. Where asset managers also reported 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.

Figure 6 Ten largest super funds holding core responsible investment AUM

	AUM $million
Local Government	7,228.13
Uni Super	2,441.54
LUCRF Super	2,320.84
Vision Super	1,534.90
AustralianSuper	1,387.09
Christian Super	1,060.47
HESTA	981.02
Australian Ethical	907.60
VicSuper	902.33
Catholic Super	500.00

Superannuation funds in Australia

Superannuation funds are increasing their participation in the responsible investment market not only by offering specific SRI options, but ever more frequently integrating responsible investment strategies across their entire fund. The implementation of responsible investment can take many shapes including integrating an ESG process across the entire fund, undertaking direct corporate engagement, implementing targeted negative screens across the fund, as well as allocations of capital to sustainability themed investments such as clean energy, sustainable agriculture, green buildings, and low carbon strategies.

In 2014, we identified a distinct trend emerging in which super funds were applying multiple responsible investment strategies across their portfolios. This trend has continued to grow in 2015.

For the purposes of this report, analysis has focused primarily on data pertaining to the underlying asset managers as opposed to superannuation funds. However, superannuation funds that have significant responsible investment offerings, either through dedicated SRI options or by applying multiple responsible investment strategies to their portfolio, were invited to participate in the report survey. This approach was used to ensure that a comprehensive list of superannuation funds with core responsible investments were included in the report.

The total AUM held by superannuation funds has been disclosed separately to the core responsible investment AUM of $51.5 billion as there is significant overlap between funds held by asset managers and asset owners. The ten largest superannuation fund portfolios classified as holding core responsible investment funds are depicted in Figure 6. Importantly, there are many other superannuation funds now that apply a detailed responsible investment process across the full assets they manage, as well as many funds that now apply negative screens across their entire fund offering . In an attempt to retain a conservative estimate of assets managed under responsible investment strategies in Australia, we have not included those assets where only one negative screen is applied, and/or where funds are managed solely under ESG integration.

The data received from superannuation funds as part of the data collection survey highlights a continuing trend towards multiple responsible investment strategies being applied across entire portfolios.

Many superannuation funds continue to exclude specific industries from entire funds. Last year's Benchmark Report noted an emerging trend in which several funds screened tobacco related investments from their fund portfolios. This trend has continued in 2015 and has grown to include approximately 35 superannuation funds. This trend towards exclusion is now encompassing a broader range of industries, the most prominent of which are organisations involved in the extraction, processing or combustion of thermal coal and other fossil fuels, as well as organisations that fail to uphold the principles of human rights.

Financial adviser responsible investment portfolios

In addition to investing in managed responsible investment funds, some advisers directly manage investment portfolios for their clients under responsible investment policies. In the last year, there has been significant attention paid to responsible investment from the Australian adviser community and private wealth advisors, as interest has surged from charities, family offices, high net worth individuals and other retail investors.

The best available data for this comes from the Ethical Advisers' Co-operative who undertake an annual survey of their 18 specialist financial advisers. Their survey, released in February 2016, found their members to be managing $958 million in funds under management and advice.

In the past year core responsible investment AUM has increased by 65 per cent to $51.5 billion having doubled in the last two years.

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 71 Australian asset managers holding $967.5 billion AUM were signatories to the PRI.

For this report, RIAA undertook a desk top review of 78 asset managers 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 78 Australian 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.

The data presented for Australia represents 15 asset managers out of 78 scoring 80 per cent (or 19 per cent of the managers) managing $581.6 billion (or approx. 60 per cent of total AUM managed by those 78 managers).

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

Core Responsible Investment Fund Offerings in Australia

The below tables list core responsible investment funds included in the report, across retail and wholesale.

Fund Manager	Responsible Investment Fund Options
AgCAP Pty Ltd	Sustainable Agriculture Fund
Alphinity	Socially Responsible Share Fund
Altius	Sustainable Bond Fund
AMP Capital	RIL Balanced Fund RIL Conservative Fund RIL Growth Fund RIL High Growth Fund RIL Australian Share Fund RIL International Share Fund RIL Diversified Fixed Income Fund Australian Sustainable Share Strategies
Ausbil Investment Management	Candriam Sustainable Global Equity Fund
Australian Ethical	Australian Ethical Cash Trust Australian Ethical Fixed Interest Trust Australian Ethical International Shares Fund Australian Ethical Balanced Fund Australian Ethical Balanced Trust Australian Ethical Emerging Companies Trust Australian Ethical Diversified Shares Fund Australian Ethical Fixed Interest Fund
BT Investment Management	Enhanced Sustainability Australian Share Fund Institutional International Sustainability Share Fund Sustainable Balanced Fund Sustainable Conservative Fund Wholesale Australian Sustainable Share Fund Wholesale Ethical Share Fund
Colonial First State	Wholesale Worldwide Sustainability Fund
Crescent Wealth	Australian Equity Fund International Equity Fund Diversified Property Fund Islamic Cash Management Fund
Cromwell Funds Management	Box Hill Trust Ipswich City Heart trust
Dalton Nicol Reid	Australian Equities Socially Responsible Portfolio
Ethical Investment Advisers	Mid-Cap Model Portfolio
Generation Investment Management	Climate Solutions Fund I Climate Solutions Fund II Australian Equity Fund

Fund Manager	Responsible Investment Fund Options
Hunter Hall Investment Management Limited	Australian Equities Fund Australian Value Fund Global Deep Green Fund Global Equity Fund Global Value Limited High Conviction Equities Fund Value Growth Fund
Impax Asset Management	Specialists Strategy
Industry Funds Management	Enhanced Index Strategy
Infinitas Asset Management	High Conviction Socially Responsible SMA Income SMA
Investa Property Group	Investa Commercial Property Fund
Kilter Rural	Sustainability Themed Investments- Agriculture
Lend Lease	Australian Prime Property Fund Retail Australian Prime Property Fund Commercial Lend Lease International Towers Sydney Trust Lend Lease One International Towers Sydney Trust
Maple Brown Abott	Ethical Australian Shares Fund Australian Equity Fund
Martin Currie	Ethical Income Trust
New Forests	Australia New Zealand Forest Fund Australia New Zealand Forest Fund 2 (including Tasmanian Forest Trust) Forestry Investment Trust Green Triangle Forest Trust Tropical Asia Forest Fund
Northern Trust	Separately Managed Account MSCI world ex Australia
OnePath	Various funds
Perennial	Socially Responsible Share Fund
Perpetual Investments	Sustainability Mandate Wholesale Ethical SRI Fund
Russell Investments	Australian Responsible Investment ETF
Smallco	Smallco Investment Fund
State Street Global Advisors	International passive equities fund
Stewart Investors	CFS Wholesale Global Emerging Markets Sustainability Fund CFS Wholesale Worldwide Sustainability Fund
UBS	UBS IQ MSCI Australia Ethical ETF (UBA) UBS IQ MSCI World ex Australia Ethical ETF (UBW) UBS IQ MSCI Europe Ethical ETF (UBE) UBS IQ MSCI USA Ethical ETF (UBU) UBS IQ MSCI Japan Ethical ETF (UBJ) UBS IQ MSCI Asia APEX 50 Ethical ETF (UBP)

Fund Manager	Responsible Investment Fund Options
UCA Funds Management	Growth Portfolio Australian Equity Portfolio Enhanced Cash Portfolio Uniting Ethical Australian Equities Fund Development Fund Funeral Fund
Uniting Financial Services	The Uniting Church (NSW) Equity Fund The Uniting Church Fixed Interest Fund The Uniting Church (NSW) Lending Portfolio The Uniting Church (NSW) Property Portfolio The Uniting Church (NSW) Equity Income Portfolio The Uniting Church (NSW) Sustainable Bond Portfolio The Uniting Master Fund
Vanguard	Carbon Aware International Share Fund
Warakirri Asset Management	Charitable Australian Equities Fund Charitable Select Equities Fund Charitable Diversified Equities Fund

Appendix C

Other entities included in this report

Asset owners and Super Funds
Australian Catholic Superannuation and Retirement Fund
Australian Ethical Super
AustralianSuper
Catholic Super
Cbus
Christian Super
EquipSuper
First State Super
Future Super
Good Super
HESTA
Local Government Super
LUCRF Super
NGS Super
Statewide Superannuation
Sunsuper
UniSuper
VicSuper
Vision Super

Impact Investors and Community Finance Organisations
ANZ
Bank Australia
Community Sector Banking
Foresters Community Finance
Hallet Hill
Impact Investment Group
Indigenous Business Australia
NAB
QBE
Social Enterprise Finance Australia
Social Ventures Australia
Stockland
Teachers Mutual Bank
Westpac

RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

Level 9, 387 George Street
Sydney, NSW 2000 Australia

+61 2 8228 8100
info@responsibleinvestment.org
responsibleinvestment.org

RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA 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.

EY DISCLAIMER

EY's input to this Report may be relied upon by RIAA for the purpose set out in the Scope section only pursuant to the terms of EY's engagement letter with RIAA dated 23 March 2016. EY disclaims all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of EY's input, the provision of our input or the resultant Report to the other party or the reliance upon EY's input or the resultant Report by the other party.