

# Superfund Responsible Investment Benchmark:

RIAA's framework for assessing Responsible Investment practices of Superannuation funds and assets owners



Responsible Investment  
Association Australasia

In 2016, RIAA published the inaugural Superfund Responsible Investment (RI) Benchmark Report to show industry leading practice across different RI approaches. This was based on the development and articulation of a framework for implementation of an RI strategy by a superfund and other asset owners.

During RIAA's research for the Superfund RI Benchmark Report, RIAA developed two main tools:

1. the Framework for conceptualising the implementation and management on an RI strategy by superfunds (based on five pillars); and
2. the Scale to describe the relative performance of RI implementation and disclosures by superfunds.

This document provides an articulation of the Framework and Scale that underpin the Superfund RI Benchmark assessment. These have been informed by what was uncovered during research for the Benchmark in 2016. As an example, the scale and the examples provided for each - limited, basic, broad and comprehensive - have been guided by evidence provided by superfunds which took part in the 2016 research.

This document provides an overview of the RI Framework and describes in detail the elements of the five pillars that underpin the framework assessment process. It also articulates aspects of the performance scale RIAA uses to assess RI implementation and disclosures under each of the RI Framework's five pillars.

## THE RI FRAMEWORK AND ITS FIVE PILLARS

The RI Framework and its five pillars outlines core elements of a comprehensive responsible investment strategy. It aims to guide superfunds to comprehensively and effectively implement RI strategies consistent with their investment beliefs.

As those used in other sectors, this Framework put simply is a management system to systematically implement an RI strategy through governance, measurement, reporting and review.

### The RI Framework

**Pillar 1: Accountability & Governance** – board-level commitment to RI supported by formal accountability processes

**Pillar 2: Responsible Investment Commitment** – extent and breadth of RI approach and coverage aligned with investment and RI beliefs

**Pillar 3: Responsible Investment Implementation** – systematically demonstrable approach for delivering RI consistent with commitments and RI beliefs

**Pillar 4: Measurement and Outcomes** – systems and metrics to track and manage performance internally and externally; ways for measuring success

**Pillar 5: Transparency and Responsiveness** – disclosures that build member confidence and broader trust in the fund's governance.

The RI Framework is agnostic to the style of RI undertaken by the superfund and invites funds to describe their own way of doing RI, using the different approaches, appropriate to different styles of funds with different beneficiaries.

## THE RI SCALE AS A REPRESENTATION OF RI PERFORMANCE

As part of the process of assessing each superfund for the Superfund RI Benchmark Report 2016, RIAA considered a fund's RI implementation and disclosures against each pillar and a scaling system was adopted and applied.

The scale (limited, basic, broad, comprehensive) describes **the quality of RI approach as per disclosures** for which RIAA considered all fund data for each aspect of the five pillars. RIAA provides examples for the nature and extent of activities that contribute to RIAA scaling of fund performance.

**WHAT IS ACCOUNTABILITY & GOVERNANCE?**

Accountability refers to the demonstration of the understanding of the stakeholders to whom the fund is accountable. Governance provides the structures (processes and delegations) necessary for the strategy to be effectively implemented. A key aspect of governance is the acknowledgement of the role of key stakeholders into the fund's RI strategy, vision, mission or investment beliefs.

**Research goal:** To assess the maturity of an organisation's accountability practices (stakeholder inclusivity and responsiveness; materiality issues) and whether the organization has suitable governance structures in place to enable their RI strategy to be effectively delivered.

**KEY ASPECTS USED TO ASSESS ACCOUNTABILITY AND GOVERNANCE**

- Has commitment to RI in the overall fund strategy and internal structures in place to drive this
- Has and discloses appropriate responsibilities and accountabilities for RI
- Identifies, engages and considers stakeholders in the development and ongoing review of investment beliefs and RI strategy
- Has resources and incentives to perform duties consistent with the RI strategies and to the benefit of key stakeholders.

**THE SCALE FOR  
ACCOUNTABILITY &  
GOVERNANCE**

No or little reference to RI on fund website or documents  
No reference to stakeholder interests  
No RI accountability noted in fund documents or policies



RI beliefs/perspectives mentioned publicly  
Limited or no further reference to stakeholder interests  
No Board level accountabilities



RI commitment (such as policy) in key fund statements  
Board-level accountabilities defined  
Stakeholders referenced  
Key RI policies, as well as strategies or guidelines disclosed



RI Policy in key fund statements and public  
Board-level accountabilities with roles for delivery defined  
Stakeholder preferences or interests defined  
Key RI policies disclosed and relationship to fund governance structure clearly articulated

## WHAT IS RI COMMITMENT?

RI Commitment involves the fund's statements and activities around the promulgation of responsible investing both within the fund and within its relevant market. Statements and activities include the making of public statements (by way of a policy and underlying guidelines) to formalize a fund's RI beliefs and informing stakeholders to what they are committed. RI beliefs ordinarily contained in policies include ESG themes, key approaches for implementation (e.g. ESG integration, positive/best-in-sector screening etc.) as well as a statement about its coverage (over certain asset classes, or the whole of the fund). Policies are formal documents endorsed by executives at the highest level of the fund.

RI Commitment also includes activities such as engaging and communicating with staff and members on issues related to RI as well as industry activities such as investor initiatives, memberships and involvement in industry associations.

**Research goal:** To identify the nature and coverage of fund's RI commitments (e.g. RI beliefs as captured in policies, and through collaborations) aligned to investment beliefs, and the governance aspects supporting the fund's approaches to delivering on these commitments.

## KEY ASPECTS USED TO ASSESS RI COMMITMENT

- Has publicly stated commitment to responsible investment endorsed at the highest level of the organisation (policy and/or guidelines). Elements of the policy that ensure that it can be put into action include ambitious but specific and achievable targets and KPIs
- Specifies coverage of RI policy over the portfolio and asset classes
- Has defined commitments to RI approaches, e.g. for active ownership and stewardship practices, a process for corporate engagement and voting are in place
- Has expressions of RI commitment such as through memberships of collaborative investor initiative/s.

### THE SCALE FOR RI COMMITMENT



LIMITED

No formal RI commitment



BASIC

Commitment to consider ESG or RI but little or no specific RI approaches mentioned

Collaborative initiatives or ideas referenced



BROAD

Specific RI approaches committed to by the fund

RI approach at asset-level discussed

Collaborative initiatives and involvement or reporting identified



COMPREHENSIVE

Specific RI approaches committed to by the fund

RI objectives, including targets defined and aligned with stakeholder interests

RI policy, signed off by Board and schedule for policy update articulated

RI policies, approaches and asset-level coverage defined

Involvement in collaborative initiatives detailed and reported

### WHAT IS RI IMPLEMENTATION?

Implementation considers the operationalization of the responsible investment policy and beliefs.





Understanding RI implementation is less about what the fund has committed to in terms of RI and more about how the fund goes about doing it. Strong RI implementation starts with the fund's investment beliefs (which may or may not sit within the investment policy approved by the board and disclosed publicly) and follows an explicit process, both internally and with key external stakeholders, such as fund managers and asset consultants, to deliver investment strategies that are consistent with the fund's investment beliefs. For example, if the investment belief is "we aim to be active owners," then the evidence provided in delivering successful Active Ownership behaviours (such as corporate engagements, proxy voting policies and disclosures etc.) should take a larger role in the implementation than say, impact/community investing or other RI approaches.

**Research goal:** To assess whether the responsible investment beliefs are operationalized effectively across the fund and consistently with the RI policy and strategy.

### KEY ASPECTS USED TO ASSESS RI IMPLEMENTATION

- Can show how RI strategies are applied across asset classes within the fund (or expressed as a percentage of AUM covered)
- Can provide confidence that RI strategies are implemented through relevant channels
- Can demonstrate systematic process for RI implementation (e.g. such as how decisions are made within the organisation and between its external service providers)
- Provides confidence that these processes are applied consistently and effectively (e.g. external research providers, third party verification, industry certification, evidence of continual professional development by key personnel etc.)
- Has mechanisms for reporting internally against the policy implementation
- Has clear and formal processes in place for selecting, managing and monitoring underlying managers consistent with the fund's RI expectations
- Clearly sets RI expectations in relevant documents for, and discussions with, managers of underlying assets.

Given that a true picture of a fund's implementation is not possible without external assurance, RIAA relies on the self-declared approaches and performances to fulfil the assessment of RI implementation. A primary source for this is PRI's *RI Transparency Reports*.

THE SCALE FOR RI IMPLEMENTATION	 <p data-bbox="683 1507 906 1536">No RI implementation</p> <p data-bbox="507 1563 592 1592">LIMITED</p>
	 <p data-bbox="683 1624 1174 1686">One or two basic implementation areas identified (i.e. voting/engagement policy)</p> <p data-bbox="517 1697 582 1727">BASIC</p>
	 <p data-bbox="683 1742 1094 1771">Implementation for RI approaches defined</p> <p data-bbox="683 1787 1401 1850">Some formal and systematic processes for ensuring RI implementation defined i.e. committees, reporting or service provider requirements</p> <p data-bbox="512 1832 587 1861">BROAD</p>
	 <p data-bbox="683 1886 1398 1946">Implementation of RI strategies defined with formalized procedures for review disclosed</p> <p data-bbox="683 1962 1422 2056">Processes undertaken to ensure RI policies are implemented, measured and reported e.g. engagement reporting, voting disclosure on website with a narrative about key engagement issues and/or companies engaged</p> <p data-bbox="683 2072 1326 2132">Process to align RI policies with service providers (e.g. external managers), identified and disclosed</p> <p data-bbox="459 1975 639 2004">COMPREHENSIVE</p>

## WHAT IS MEASUREMENT & OUTCOMES?

The practice of tracking progress on RI implementation against a defined target or set of success measures; and the outcomes of investment practices on environmental, social, governance and ethical issues.

This is a new and emerging area for responsible investment. This area ties in closely with transparency and reporting, however seeks to see what approaches are currently being used by funds to measure and therefore clearly discuss the outcomes of their responsible investments.

**Research goal:** There are growing expectations from beneficiaries and other stakeholders on funds to report on the outcomes of responsible investment strategies. This pillar looks at the ways funds are starting to measure and communicate their outcomes, and assess any proxies for measuring the impacts and outcomes of responsible investment activities broader than financial results and returns.

## KEY ASPECTS USED TO ASSESS RI MEASUREMENT AND OUTCOMES

- Defines indicators (or proxies) and/or set targets to measure the performance of their RI activities and outcomes; examples include:
  - Reporting on changed company behaviours (e.g. REM) as an outcome of corporate engagements
  - Understands the sector breakdown of a fund and how far it deviates from the benchmark to measure the veracity of ESG integration
  - Estimates social impacts, such as jobs created from a tilt towards local property and infrastructure assets
  - Calculates the weighting of its portfolio towards companies producing low carbon products and services
- Uses external organisations such as research houses etc. to assist with the measurement of performance and outcomes
- Puts itself forward for external review and assessment

### THE SCALE FOR MEASUREMENT & OUTCOMES



LIMITED

No RI-related measurement or outcomes



BASIC

Disclosure indicates fund is “considering” the management of RI (e.g. starting to look at carbon risk in portfolio)

No disclosure



BROAD

Target outcomes, metrics or milestones identified across at least one asset-class (e.g. SDGs)

Fund objectives in RI defined and discussed (e.g. has commenced portfolio foot-printing for carbon intensity and exposures)

Reporting done in line with reporting conventions (e.g. GRI), collaborative initiatives (e.g. CDP) or guidelines adhered to by fund.



COMPREHENSIVE

Target outcomes, metrics or milestones identified across more than one asset-class (or at portfolio-level) aligned with investment beliefs

Process to measure RI strategies against fund beliefs or stakeholder interests demonstrated

Method to measure fund success in RI implementation discussed and disclosed

Submits for peer and/or external review (e.g. assurance over portfolio carbon intensity)

### WHAT IS TRANSPARENCY & RESPONSIVENESS?

Transparency is about the complete and reliable disclosure of investment practices and outcomes. Responsiveness is about the timely communication with relevant stakeholders in a way that is inclusive and accessible.

**Research goal:** To assess the fund's practices on transparency in reporting and stakeholder engagement with focus on inclusivity, materiality and responsiveness in responsible investing.

### KEY ASPECTS USED TO ASSESS TRANSPARENCY AND RESPONSIVENESS

- Has a demonstrated commitment to transparency of processes and approach
- Reports on the performance and outcomes of the RI strategy
- Enables key stakeholders have access to relevant and accessible information

- Provides disclosures (i.e. fund manager names, full stock holdings, fund performance)
- Communicates to beneficiaries around responsible investment issues and performance
- Makes it easy for customers and members to identify, compare and choose investment options to suit their needs
- Regularly surveys stakeholders for their RI-related interests, satisfaction with service etc.; this information is used internally for improved decision making.

Proxies identified for funds demonstrating a clear commitment to transparency of approach and RI process included, but were not limited to:

- having an accessible and comprehensive set of policies, guidelines and resources on their public websites;
- publishing *RI Transparency Reports*; and
- putting themselves forward for industry and government awards for performance related to disclosures and transparency.

#### THE SCALE FOR TRANSPARENCY & RESPONSIVENESS



LIMITED

No RI related disclosures



BASIC

Basic RI disclosures, such as RI policy, primary RI approach or RI targets disclosed on website or in publications (e.g. annual report)



BROAD

RI information regarding policies, approaches and implementation reported in a segment of either annual or other reporting on an annual basis

Public disclosure on RI approach across at least one asset-class (e.g. equities)

Public disclosure of the underlying fund managers.



COMPREHENSIVE

Commitment to transparency through regular disclosures of:

- RI approaches on website and/or published formal documents/media.
- Underlying fund manager names, full stock holdings, required by law
- Disclosure against one or more RI collaboration or reporting conventions

Commitment to stakeholder responsiveness by:

- Enabling access to information so it is relevant and accessible, such as via the use of international reporting conventions
- RI activities and offerings updated online with easy to use tools
- Regularly, proactively surveying stakeholders about RI-related interests, satisfaction with service. Etc.
- Engages with members about the issues that affect their investments



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