Responsible Investment Association Australasia

MEDIA RELEASE

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Aussie super funds take up the gauntlet to improve company behaviour

Australia's largest superannuation funds are ramping up their engagement in responsible investing to drive superior financial performance, reduce risk, and better meet their members' and beneficiaries' expectations, a new report from the Responsible Investment Association Australasia (RIAA) has found.

From backing shareholder resolutions demanding company disclosure on climate risk to divesting from companies with poor governance or engaged in unethical activity, Australian super funds are increasingly flexing their muscle to influence better company behaviour.

RIAA's *Super Fund Responsible Investment Benchmark Report 2018* finds that 81% of Australia's largest super funds are committed to responsible investment (up from 70% in 2016), and 62% report annually on activity, highlighting how deeply responsible investing has become part of Australian investment markets.

The *Super Fund Responsible Investment Benchmark Report 2018* presents the results of a survey of Australia's 53 largest superannuation funds[1] – accounting for $1.4 trillion in assets under management.

Key findings include:

- 70% of super funds have their full board, or board committees, overseeing environmental, social and corporate governance risks and opportunities
- Up to a third of trustee boards are still <u>not</u> actively considering climate risk, in the face of increasing materiality
- 60% of super funds have a least one negative screen across the whole fund, up from 34% in 2016.
- The most popular fund-wide exclusions are tobacco and armaments. Fossil fuels and human rights violations are the equal third most cited exclusionary screens
- Nearly half of super funds offer a total of 75 responsible investment options (compared to 24 funds offering 54 options in 2016)
- 94% of super funds have a formal voting policy, and all but one of these funds make their policy public (up from 58% in 2016)
- Responsible investment employee numbers have doubled since 2016

The report highlights the growing commitment of leading super funds to taking a stronger stewardship approach with the assets they're managing on behalf of Australians. This is driven by both a desire to manage critical investment risks that don't sit on financial statements, and also to respond to the growing demand for responsible and ethical investments by Australians. 2017 research from RIAA shows 9 in 10 Australians expect their super or other investments to be invested responsibly and ethically.

The Report maps and informs asset owners of leading practice in responsible and ethical investment, with the aim of driving continual improvement in the development and implementation of responsible investment strategies. By assessing these 53 super funds, the report provides deep insights into how leading super funds are embedding responsible investing in their business, and how this is setting them apart from the pack.

"Australia's biggest super funds are strengthening their commitment to responsible investing. This is playing out with many funds starting to flex their muscle with companies, as they realise that a responsible investment approach and shareholder engagement on environmental, social, governance (ESG) and ethical issues positively impacts financial performance, and improves accountability to their own clients" said Simon O'Connor, RIAA CEO.

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[1] *Also includes a handful of significant asset owners in our region including the two sovereign wealth funds in Australia & New Zealand*

"The Royal Commission has highlighted the importance of financial institutions putting their clients first, and fully considering their needs and interests - a key element of a responsible investing approach."

"In recent months a number of Australian super funds have used their voting power to influence better company behaviour - ranging from engaging BHP Billiton and Rio Tinto around their membership of industry bodies, to engaging QBE and Santos on their disclosure of climate risks. Nearly half of the top funds are involved in direct company engagements and two-thirds are collaborating on engagements.

"However, many of Australia's largest super funds still have much work to do in showing clients how their money is being invested on their behalf, such as disclosing full portfolio holdings.

"While the trustees of many super funds are considering environmental, social and corporate governance factors, it's concerning to see that up to a third of trustee boards are still not actively considering climate risk, in the face of ever greater urgency and materiality" said O'Connor.

"We are pleased to partner on this important research, which plays a crucial role in mapping the rapid evolution of responsible investment by Australian super funds" said Brian Scott, CEO of Amundi Asset Management, the sponsor of the report.

"The report highlights just how deeply the superannuation industry is now shifting towards full consideration of responsible investing," said Scott.

Australian super funds that lead in responsible investment are increasingly implementing stewardship principles and practices and using a range of responsible investment approaches. Integration of environmental, social and governance factors and corporate engagement/voting are the most popular approaches, followed by negative screening and sustainability-themed investing.

Negative screens are now applied across entire funds by more than 60% of super funds. The most popular fund-wide exclusions are tobacco and armaments, followed by fossil fuels and human rights violations.

For more information or for a copy of the Report, please contact Carly Hammond – 0430 448 422 carlyh@responsibleinvestment.org.

ABOUT RIAA:

- The Responsible Investment Association Australasia (RIAA) is the peak industry body representing responsible, ethical and impact investors across Australia and New Zealand.
- RIAA has an active network of over 220 members who manage more than $5 trillion in assets globally, including superannuation funds, fund managers, consultants, researchers, brokers, impact investors, property managers, community banks, community trusts, faith-based groups, financial advisers and individuals.

OTHER USEFUL INFORMATION:

- Responsible investment funds are largely outperforming their average mainstream counterparts year on year, as the market for responsible investment continues to grow in Australia. *(RIAA's 2017 Responsible Investment Benchmark Report)*
- 7 in 10 (69%) Australians would rather invest in a responsible super fund that considers the environmental, social and governance issues of the companies it invests in and maximises financial returns, rather than a super fund which considers only maximising financial returns (31%). This attitude has increased by 27% since 2013. *(RIAA's 2017 From Values to Riches consumer research)*
- 4 in 5 (78%) Australians would consider moving super or other investments to another provider if their current fund engaged in activities not consistent with their values. *(RIAA's 2017 From Values to Riches consumer research)*
- RIAA's Responsible Returns online tool connects consumers who care about responsible and ethical investing, with over 150 certified superannuation, banking and investment products that best match their interests.
- Globally, as at 2016 there are US$22.89 trillion of assets being professionally managed under responsible investment strategies, an increase of 25 percent since 2014. *(Global Sustainable Investment Alliance 'Global Sustainable Investment Review 2016')*
- Responsible investments have more than quadrupled over the past three years to $622 billion, with nearly half (44%) of Australia's investments now being invested through some form of responsible investment strategy *(RIAA's 2017 Responsible Investment Benchmark Report)*