Responsible Investment Association Australasia

Responsible Investment Benchmark Report
2018 New Zealand

ABOUT THE REPORT

The Responsible Investment Benchmark Report is the most comprehensive review of the responsible investment sector in New Zealand .

Published annually by the Responsible Investment Association Australasia (RIAA), the Benchmark Report 2018 details industry data on the size, growth and performance of the New Zealand responsible investment market over the 12 months to 31 December 2017 and compares these results with the broader Australian financial market.

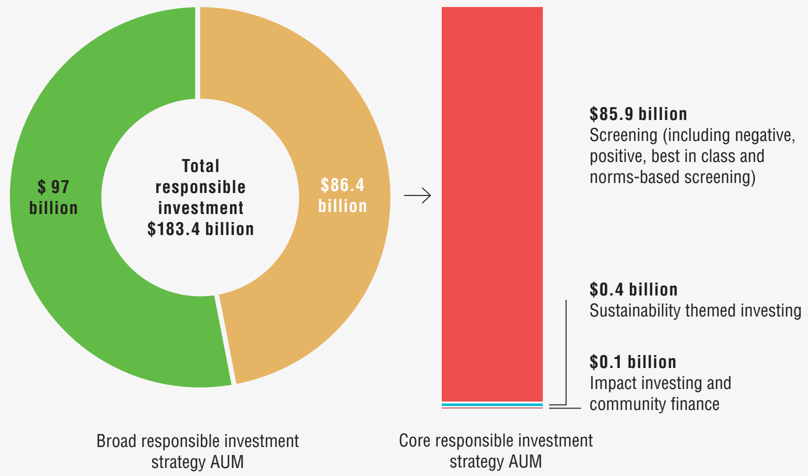
Responsible Investment now Represents Vast Majority of all New Zealand Investments

This Responsible Investment Benchmark Report reinforces that a responsible approach to investing– one that systematically considers environmental, social and governance (ESG) and/or ethical factors across the entire portfolio – is now the expected minimum standard of good investment practice in New Zealand.

Importantly, an emerging understanding that ESG factors are a driver of value across a portfolio, along with rising consumer demand, has significantly shifted more of the investment industry towards a responsible investment approach in 2017.

The 4th annual New Zealand Responsible Investment Benchmark Report 2018, the most comprehensive review of the sector, reveals the industry hitting new heights with $183.4 billion now managed as responsible investments, up from $131.3 billion in 2016 and $79 billion in 2015.

Responsible investment by approach



Of the total assets under management, Broad responsible investment approaches - whereby ESG integration is the principle responsible investment strategy - continue to make up the largest portion of total responsible investment AUM, with $97.0 billion in assets under management

These organisations span community trusts, investment managers and asset owners including crown financial institutions.

Core responsible investment strategies - specifically the use of negative screens, have emerged as a significant part of the total responsible investment AUM, jumping up substantially for the second year running by 100% to reach $86.4 billion AUM.

This increase is due primarily to the ongoing implementation of screening of weapons and tobacco companies in 2017 where this has moved beyond just KiwiSaver funds, to other managed funds.

Responsible investment AUM – totals by year

Responsible investment approach	2016 Responsible investment AUM ($bn)	2017 Responsible investment AUM ($bn)	Change
Screening (including negative, positive, best in class and norms-based screening)	42.3	85.9	103%
Sustainability themed investing	0.4	0.4	4%
Impact investing and community finance	0.1	0.1	0%
Core responsible investment total	**42.8**	**86.4**	**102%**
Broad responsible investment total ESG integration	**88.6**	**97.0**	**9%**
TOTAL RESPONSIBLE INVESTMENT	**131.4**	**183.4**	**40%**

DOWNLOAD FULL REPORT
www.responsibleinvestment.org/resources/benchmark-report

ABOUT THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

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 $9 trillion in assets globally. These members include super funds, fund managers, consultants, researchers, brokers, impact investors, property managers, banks, community trusts, faith-based groups, financial advisers and individuals.

Our goal is to see more capital being invested more responsibly – shifting more capital into sustainable assets and enterprises, as well as shaping responsible financial markets to underpin strong investment returns and deliver a healthier economy, society and environment.

In NZ, RIAA has 30 member investment organisations cross funds management, asset owners through to financial advisers.

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PERFORMANCE

For the first time this year the report looked at the performance of Core responsible investment funds against relevant benchmarks and found very strong performance:

- Core responsible investment **New Zealand share funds** as well as **multisector balanced funds** both outperformed the relevant benchmarks across all time periods: one, three, five and 10 years
- Core responsible investment **international share funds** outperformed their relevant benchmarks over the three and 10 year time horizons

Whilst analysed from a small sample in New Zealand, in similar markets such as Australia with larger samples, performance results have been similarly strong.

Performance of Core responsible investments against benchmarks

NZ share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 1-2 funds sampled depending on time period)	29.9%	17.3%	19.0%	10.0%
NZ OE Equity Region NZ	21.8%	14.6%	15.8%	8.8%
S&P/NZX 50 TR NZD	22.0%	14.7%	15.6%	7.6%

International share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 2-8 funds sampled depending on time period)	14.2%	22.6%	10.5%	6.7%
Large-cap international share fund average	20.9%	11.5%	13.3%	4.9%
MSCI World ex-Australia Index	20.0%	12.8%	15.0%	5.9%

Multi-sector growth funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 6-18 funds sampled depending on time period)	14.7%	7.0%	10.4%	6.4%
NZ OE Multisector - Balanced	12.0%	6.3%	8.5%	

Over performance Under performance

KEY DRIVERS AND DETRACTORS OF RI GROWTH

Asset managers surveyed for this research were asked to identify the key drivers of responsible investment growth and the key factors that have deterred RI growth in their opinions.

56% of respondents attributed growth to the desire by underlying clients to align their investments with their organisational missions or values.

Half of respondents (50%) identified the impact of ESG factors on performance as a key driver of growth (again a significant increase on the prior year), and a further 35% identified the recognition of ESG risks as important to portfolio valuation. Asset managers now are seeing ESG as a value creating factor rather than solely one that is driven by client demand.

A lack of demand from retail investors and an associated perceived lack of awareness of responsible investment by members of the public, identified by 40% and 27% of respondents respectively, were the two most common observations as key deterrents to growth in RI.

TOP DRIVERS

Key Driver	% of respondents
Alignment to mission	56%
ESG factors impact on performance	50%
Growing awareness of ESG risks impact on value	36%

TOP DETRACTORS

Key Driver	% of respondents
Lack of demand from retail investors	40%
Lack of awareness by members of the public	27%
Lack of demand from institutional investors	27%

SUPPORTING ORGANISATIONS

australianethical · Investment Managers · PENGANA CAPITAL · NZSUPERFUND Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

RESEARCH PARTNER

KPMG