MEDIA RELEASE

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Strong returns for Australian investors in responsible & ethical funds

- Responsible investment market nears $1 trillion, up 13% over the year
- Annual Benchmark Report shows investing responsibly leads to better performance

Responsible investment funds are continuing to outperform most mainstream Australian and international funds, according to the latest Benchmark Report issued by the Responsible Investment Association of Australasia (RIAA).

With data compiled by KPMG, the 18th annual RIAA Benchmark Report highlights that investors in responsible funds are reaping financial rewards with higher than average returns across one, five and 10 year horizons.

“The findings of our report refute any misconception that investing responsibly comes at a cost in terms of performance, and contributes to the mounting body of evidence showing that responsible and ethical investing leads to better investment outcomes, alongside benefiting people and the planet,” said RIAA Chief Executive Simon O’Connor.

Australia’s responsible investment (RI) market continued to grow in 2018, with $980 billion in assets under management, a rise of 13% on the previous year.

This amount of assets being managed in accordance with responsible investment principles now represents 44% of Australia’s total $2.25 trillion in professionally managed assets. This compares with the $178 billion invested in responsible funds only five years ago at the end of 2013, which at the time, represented just 17% of the total assets under management.

“The exponential growth in responsible investing recognises the integral role it now plays in decision making around fund allocations,” Mr O’Connor said.

According to the Report, Australian equities responsible share funds produced an average return of 6.43% over 5 years and 12.39% over 10 years. This compares with returns of 5.6% and 8.91% respectively for the S&P/ASX 300 index.

“Consideration of environmental, social, governance and ethical factors is becoming the expected minimum standard of good investment practice, with a majority of Australian managers stating a commitment to responsible investment,” said Mr O’Connor.

<table>
<thead>
<tr>
<th>Australian share funds</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average responsible investment fund (between 17 and 34 funds sampled depending on time period)</td>
<td>-1.24%</td>
<td>5.70%</td>
<td>6.43%</td>
<td>12.39%</td>
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<tr>
<td>Morningstar: Australia Fund Equity Large Blend</td>
<td>-5.49%</td>
<td>4.87%</td>
<td>4.42%</td>
<td>7.95%</td>
</tr>
<tr>
<td>S&amp;P/ASX 300 Total Return</td>
<td>-3.06%</td>
<td>6.65%</td>
<td>5.60%</td>
<td>8.91%</td>
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<tr>
<th>International share funds</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
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</thead>
<tbody>
<tr>
<td>Average responsible investment fund (between 7 and 36 funds sampled depending on time period)</td>
<td>-0.03%</td>
<td>11.18%</td>
<td>9.48%</td>
<td>9.50%</td>
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<tr>
<td>Morningstar: Equity World Large Blend</td>
<td>-0.68%</td>
<td>6.37%</td>
<td>8.42%</td>
<td>8.97%</td>
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<tr>
<td>MSCI World Ex Australia NR AUD</td>
<td>1.52%</td>
<td>7.49%</td>
<td>9.81%</td>
<td>9.57%</td>
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<tr>
<th>Multi-sector growth funds</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average responsible investment fund (7 funds)</td>
<td>-1.13%</td>
<td>4.75%</td>
<td>5.65%</td>
<td>7.66%</td>
</tr>
<tr>
<td>Australia Fund Multi-sector Growth</td>
<td>-2.26%</td>
<td>4.39%</td>
<td>4.92%</td>
<td>7.02%</td>
</tr>
</tbody>
</table>

[Green bars] Outperformed by the average RI fund  [Red bars] Underperformed by the average RI fund
“Our Report only includes those investment managers applying a leading approach to ESG integration, and while the leaders are growing in number, there remain a majority who are yet to adequately demonstrate the effectiveness of their responsible investment commitments and are unable to evidence their ESG integration practices”.

The Report shows growing inflows into retail funds (42% of AUM up from 30% in 2017), which aligns with RIAA’s consumer research showing 9 in 10 Australians expect their superannuation and other investments to be invested responsibly and ethically.

Other key trends to emerge from the findings are:

- The dominant strategy used for RI is ESG integration, representing 45% of AUM
- Corporate advocacy and shareholder action is the second most popular RI strategy
- Strong growth in screening strategies. Negative screening is the third most popular strategy with Australian investors compared with globally where it ranks first
- Consumers demonstrate most interest in funds that avoided investment in fossil fuels and human rights violations, while the most prevalent negative screens becoming conducted by investment managers are for weapons and tobacco, followed by fossil fuels and human rights. Issues being screened continue to broaden with heightened consumer focus on responsible investment, with issues now including junk food, animal welfare and predatory lending
- The most popular positive screen is renewable energy
- Of the 120 investment managers assessed by RIAA for their ESG integration approach, only 34 (up from 24 in 2017) were recognised to have demonstrated “a leading approach” to ESG integration

The growth in responsible investment domestically reflects offshore trends, with global responsible investment assets reaching $US30.7 trillion at the start of 2018 (a 43% increase from 2016), according to data from the Global Sustainable Investment Alliance.

“Globally, RI momentum has seen European Union (EU) regulators steer capital markets towards sustainable investment approaches in order to protect the financial system from environmental and social risk, and support the achievement of the emissions reductions to meet the commitments of the 2016 Paris Agreement. The Australian Sustainable Financial Initiative is expected to have a similar impact in Australia,” says KPMG’s Head of ESG and Responsible Investment, Mark Spicer.

The Report notes that Australian regulatory authorities, including the Australian Prudential Regulatory Authority (APRA), the Reserve Bank and the Australian Securities and Investment Commission (ASIC) have all recently addressed the need for ESG integration and risk mitigation in response to climate change.
With corporate engagement constituting a significant RI strategy, usually combined with ESG integration, there is increased activity leading to changes in company behaviour. Recent collaborative action by funds through the Climate Action 100+ which resulted in Glencore committing to a ceiling on coal production capacity is one example.

Mr O’Connor said the establishment earlier this year of the Australian Sustainable Finance Initiative (ASFI) will provide a framework to guide the finance sector’s role in achieving a more resilient and sustainable economy, and result in ever stronger uptake of responsible investments.

ASFI is a collaboration between executives from Australia’s major banks, superannuation funds, insurance companies, financial services peak bodies and academia. A high level steering committee of ASFI will deliver an Australian Sustainable Finance Roadmap in 2020.

Mr O’Connor, who is co-chair of ASFI, said this initiative would provide recommendations for the industry to contribute more systematically to sustainability goals, and effectively “embed” ESG considerations into the financial system.

“Australia is at a critical juncture, with issues such as climate change and human rights necessitating action now to ensure a more sustainable future. The strengthening responsible investment sector can play a key role to help deliver this future, whilst supporting more sustainable companies, and underpinning stronger investment outcomes for our clients,” Mr O’Connor said.

“The financial services sector has a crucial role to play in shaping that transition. ASFI will continue to build this strong momentum to not only embed responsible investment as mainstream investment practice, but to ensure responsible investment is aligned with delivering a sustainable and prosperous economy, society and environment.”

The RIAA Benchmark Report is the most comprehensive review of the responsible investment sector in Australia. The 2018 report, the 18th such report, reviewed the investment practices of 182 financial institutions.

For further information, please contact:

Ian Pemberton / Sue Frost
P&L Corporate Communications
61-2 9231 5411 / 61-402 256 576