MEDIA RELEASE

Information embargoed for release until Tuesday 8 September 2020

Responsible and ethical investors reap greater rewards, with COVID no exception

Companies which look after their employees, minimise their impact on the environment, have good governance and protect human rights across supply chains are more likely to deliver superior financial returns to investors, the landmark annual study from the Responsible Investment Association Australasia (RIAA) has found.

The new RIAA report researched in collaboration with KPMG, the *Responsible Investment Benchmark Report 2020 Australia,* shows that in 2019, Australian and multi-sector responsible investment funds outperformed mainstream funds over 1, 3, 5 and 10 year time horizons. Further analysis shows the outperformance has continued amidst the major market disruption brought on by COVID-19.

“The COVID-19 pandemic has resulted in significant economic turmoil, severely impacting many people’s livelihoods and financial markets globally. However it’s become clear that responsible investors are ahead of the game. They are identifying the key themes influencing markets and returns, which helps them to better navigate turbulent times, avoid the biggest risks and capture more opportunities” said Simon O’Connor, RIAA CEO.

“Companies or assets are unlikely to thrive if they ignore issues such as climate change, health and safety, labour rights, corruption, and lack of diversity. Investors are fast realising that consideration of these issues provides more informed investment decisions, such as valuation and asset allocation."

Australia’s responsible investment market continued its upward trajectory in 2019, with $1,149 billion in assets under management, a rise of 17% from 2018. Responsible investment now represents 37% of Australia’s total $3.155 trillion in professionally managed assets.

This growth reflects the preferences of consumers, as a RIAA study released earlier this year found the overwhelming majority of Australians now expect their savings (87%) and superannuation (86%) to be invested responsibly and ethically.

“Consideration of environmental, social, governance (ESG) factors is now the expected minimum standard of good investment practice, with $1 trillion of Australia’s AUM managed using ESG integration as a primary approach. This approach is closely followed by corporate engagement and shareholder action.”

Negative screening remains an important responsible investment strategy, and weapons, tobacco, gambling and pornography are the most frequently screened categories. The screening for fossil fuel exposures is beginning to catch up to consumer expectations: in 2019, 19% of responsible investment AUM was screened for fossil fuels, up from 5% in 2018.

The report shows that the market for impact investments has continued to develop significantly, growing by 249% from 2017 to 2019 and increasing in size from $5.7 billion as at 31 December 2017 to $19.9 billion as at 31 December 2019, with 111 impact investment products widely on offer to Australian investors.

Of the 165 investment managers assessed in the study, just 44 (27%) are practising a ‘leading approach’ to responsible investment. Disclosure of fund holdings remains a key area for improvement, with 36% of investment managers not making any public disclosure of their holdings.

“The Australian investment community has a pivotal role to play in helping achieving the Sustainable Development Goals and Paris Agreement on climate change. We look forward to the launch of the Australian Sustainable Finance Initiative’s report later this year to guide the finance sector’s role in achieving a more resilient and sustainable economy, resulting in even stronger uptake of responsible investments” added O’Connor.

“There are some really great signs of a growing maturity in the RI market in Australia, however more can be done by the majority of asset managers to demonstrate how RI strategies are embedded into their investment approach and to report on the associated impact of their approach. Members want it and investment mandates are increasingly demanding greater transparency” said Mark Spicer, Director – Head of ESG/Responsible investing, KPMG Australia.

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.

The RIAA Benchmark Report is the most comprehensive review of the responsible investment sector in Australia. The 2019 report, the 19th such report, reviewed the investment practices of 165 financial institutions.

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