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The information contained in this report has been prepared based on material gathered through a detailed industry survey and other sources (see methodology). The findings in this report are based on a qualitative study and the reported results reflect a perception of the respondents.

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Thank you

OUR SPONSORS

NZ SUPER
The $46 billion New Zealand Superannuation Fund invests globally to help pre-fund the future cost of universal superannuation in New Zealand. The Fund is managed by an Auckland-based Crown entity, the Guardians of New Zealand Superannuation.

The Guardians believes that environmental, social and governance (ESG) factors are material to long-term investment returns, and is committed to integrating ESG considerations into all aspects of the Fund’s investment activities.

A founding signatory of the United Nations Principles for Responsible Investment, the Guardians also provides responsible investment services to the Accident Compensation Corporation and the Government Superannuation Fund Authority, and is a member of the New Zealand Corporate Governance Forum.

PIMCO

PIMCO
As one of the world’s premier fixed income managers, PIMCO’s mission is to deliver superior investment returns, solutions and service to our clients. For nearly 50 years, we have worked relentlessly to help millions of investors pursue their objectives – regardless of shifting market conditions.

Leadership in ESG investing is essential to deliver on our clients’ financial objectives and to support long-term, sustainable economic growth globally.

As at June 30, 2020 we managed US$1.92 trillion on behalf of our clients. Our professionals work in 17 offices across the globe, united by a single purpose: creating opportunities for investors in every environment.

SURVEY RESPONDENTS

We are extremely grateful to the 22 investment managers that responded to the survey. They are listed in Appendix 4.

DATA

Thank you to Morningstar Australasia and S&P Global for their data provided for this research.
The annual Responsible Investment Benchmark Report New Zealand is published by the Responsible Investment Association Australasia (RIAA). The report details the size, growth, depth and performance of the New Zealand responsible investment market over 12 months to 31 December 2019 and compares these results with the broader New Zealand financial market.

It comes at a time when there appears to be an inverse relationship between responsible investment commitments made by the investment industry on one hand (higher than ever before and growing), and the continuing decline in the real-world global condition on the other. This puts into question whether what we promote and celebrate as ‘responsible investment’ remains relevant in today’s context.

To respond to this observation, in 2020, RIAA has broadened its definition of leading practice standards across responsible investment approaches, detailed in the introductory section of this report.

RIAA commissioned KPMG to undertake the data collection and analysis for this 2020 report. KPMG provided a platform for a survey to be distributed to 58 investment managers in New Zealand known to be applying responsible investing approaches (the Responsible Investment Research Universe), compiled the data derived from this primary research, and undertook secondary research on publicly available data.

RIAA and KPMG undertook a desktop review of:

- all New Zealand investment managers that are signatories to the Principles for Responsible Investment (PRI) (23 in total, up from 19 investment managers the previous year); and
- other investment managers on RIAA’s database known to practise responsible investment (35 in total).

Of the 58 investment managers in the Responsible Investment Research Universe, 22 provided survey responses (survey respondents). Survey respondents were split between asset owners (14%) and investment managers (86%). Asset owners were only included to the extent that they directly manage investments. For the balance of investment managers in the Responsible Investment Research Universe (36), KPMG conducted desktop research over their publicly available information.

Throughout this report, a distinction is made between:

- the full investment management market (known as the Managed funds industry as defined per the Reserve Bank of New Zealand and other sources);
- the Responsible Investment Research Universe (the 58 investment managers that have self-declared as practising responsible investment); and
- the Responsible Investment Managers (the 14 assessed by RIAA as applying a leading approach to their responsible investment processes and disclosures).

Responsible investment assets under management (AUM) reported herein is for the assets managed by the Responsible Investment Managers to at least one responsible investment approach.

There was an uplift in survey responses in 2019 (31% to 38%). However only 10 investment managers responding in 2018 also responded in 2019, meaning the commentary provided in this report on screening themes, investor sentiment etc. includes 12 new investment managers (55% of all survey responses in 2019). Twenty-four percent of investment managers in the research universe achieved a score of ≥75% and are considered to be practising leading responsible investment.

#### FIGURE 1  Research universe and New Zealand’s responsible investment market

<table>
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<th>Total professionally managed AUM (TAUM) now sits at $296.3 billion according to the Reserve Bank of New Zealand (RBNZ) and other sources</th>
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<td>Responsible Investment Research Universe comprises the investment managers and their AUM declared to be managed to one or more responsible investment approaches</td>
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<td>The responsible investment market is the responsible investment AUM of 14 Responsible Investment Managers who achieved a score ≥75% on the expanded Responsible Investment Scorecard</td>
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$296.3 billion Managed funds industry (RBNZ and other sources)

* Data for 6 of the 58 (mainly boutique and smaller) investment managers was not publicly available to use in the research universe.

* Data for one investment manager (Russell Investments) was not received in the survey period and hence ‘responsible investment AUM’ does not include its AUM.
The project was led by Nicolette Boele, Mark Spicer, Samantha Bayes, Stephan Gabadou and Elyse Vaughan. The report production was managed by Katie Braid, with editing by Melanie Scaife and design by Loupe Studio.

ABOUT THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

RIAA champions responsible investing (responsible investment) and a sustainable financial system in New Zealand and Australia and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 300 members managing more than $9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across New Zealand and Australia. Our membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

RIAA achieves its mission through:

- providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets;
- delivering tools for investors and consumers to better understand and navigate towards responsible investment products and advice, including running the world’s first and longest-running fund Certification Program, and the online consumer tool Responsible Returns;
- supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation;
- acting as a hub for our members, the broader industry and stakeholders to build capacity, knowledge and collective impact; and
- being a trusted source of information about responsible investment.

ABOUT KPMG

KPMG has one of the largest dedicated sustainability teams in New Zealand that works with investment managers, asset owners and private equity to develop environmental, social and governance (ESG) strategy, performance and reporting.

KPMG understands that a clear focus on ESG issues is required to support organisations in identifying risks and opportunities that may have significant implications to value creation and portfolio performance. There is a growing opportunity for financial organisations to manage these risks and opportunities and transparently communicate their impacts and performance to members, investors, customers and regulators. KPMG works with organisations to help them manage these emerging risks and opportunities in an integrated way to enhance all aspects of their risk management, reporting and communication.
Executive summary

BACKGROUND

RIAA’s annual Responsible Investment Benchmark Report New Zealand details the size, growth, depth and performance of the New Zealand responsible investment market over 12 months to 31 December 2019 and compares these results with the broader New Zealand financial market.

To do this, RIAA reviewed the practices of 58 investment managers known to be applying responsible investment to some or all of their investment practices. These managers control approximately $278.9 billion in assets under management (AUM), which is 94% of the total professionally managed AUM (TAUM). Twenty-two of those responses were assessed directly via survey, and supplementary desktop analysis was undertaken for the remaining 36 investment managers.

For a second year, RIAA canvassed asset owners including pension funds to the extent that they directly manage investments, acknowledging the growing trend for pension funds to bring investment management in-house.

RESPONSIBLE INVESTMENT IN 2019

In 2019, funds managed under responsible investment approaches grew as a proportion of total professionally managed investments in New Zealand.

Ever more investment managers are applying a range of responsible investing approaches – from ESG integration and negative screening to sustainability-themed and impact investing.

New data points in 2019 indicate that there is still a gap between those that claim to be practising responsible investing and those that have embedded these practices through formal policies and accountability commitments including disclosing full portfolio holdings.

Investment manager practices are also maturing with just under a quarter of managers earning the accolade of practising a leading approach to responsible investing against this year’s expanded Responsible Investment Scorecard.

For the first time, New Zealand responsible investment managers now favour ESG integration above negative screening as their primary responsible investment approach for constructing portfolios, but managers are increasingly driving capital towards impact investing allocations with AUM being managed to this approach growing more than 13 times on last year’s figures.

This year’s findings suggest that investment managers are catching up with consumer interest, with a doubling in frequency of investment manager products now applying screens to manage exposures to fossil fuel explorers, miners, and producers. Frequency in screening for alcohol and adult content production and sales has also experienced significant gains on last year.

As we enter this new decade, industry analysts and commentators are broadening their view on responsible investing, as it moves into the mainstream for professionally managed investing in New Zealand. The focus for the decade becomes the extent to which these efforts result not just in better risk-adjusted returns for clients, but also for a more stable and sustainable economy based on assets and enterprises that benefit stakeholders and contribute to societal and environmental solutions.

KEY FINDINGS

1. The responsible investment market in New Zealand was worth $153.5 billion in 2019. This represents 52% of the estimated $296.3 billion of total professionally managed assets under management (TAUM) in New Zealand.

FIGURE 2 AUM of the New Zealand responsible investment market and growth in AUM of the broader Responsible Investment Research Universe

- TAUM $261.4
- TAUM $296.3
- Responsible Investment Managers (responsible investment market)
- Portion of the research universe applying a leading approach to RI
- $188.0
- $278.9
- $73.4
- $153.5
- 2018
- 2019
- Mainstream investment
- Responsible Investment Research Universe
Many investors now claim to be responsible, and one quarter can demonstrate leading practice. Of the 58 investment managers in the Responsible Investment Research Universe, 14 (24%) are applying a leading approach to responsible investment (score ≥75% on the expanded Responsible Investment Scorecard, which now also rewards allocation of capital towards real-economy outcomes).

Only those that scored 15/20 (75%) or higher in the Responsible Investment Scorecard have been included in this report as responsible investment AUM of $153.5 billion, as stated in Figure 2.

55% of the Responsible Investment Research Universe is new in 2019.

For the first time, ESG integration (48%) replaces negative screening (10%) as the responsible investment approach that most influences the final construction of responsible investor portfolios. The findings show a shift in focus by survey respondents away from negative screening (44% in 2018) towards corporate engagement and shareholder action (40% in 2019).

Primary approach refers to a responsible investing approach deployed by an investment manager that most influences construction of their portfolios. Secondary approach refers to the approach that is used in conjunction with the primary approach.

71% of investment managers in the Responsible Investment Research Universe have a responsible investment policy and 60% make them publicly available.

This demonstrates a growing commitment to systematically implementing responsible investing through responsible investment policies.
62% of investment managers in the Responsible Investment Research Universe have at least one asset class (or 50% AUM) covered by an explicit and systematic approach to ESG integration, while 48% have more than three asset classes (or 85% of their AUM) covered.

Investment managers in the Responsible Investment Research Universe are starting to demonstrate greater transparency through their stewardship activities, with 32% reporting on activities and 24% demonstrating leading practice by reporting on activities and outcomes.

The issues most frequently screened are weapons and tobacco with both themes screened to some extent by 100% of survey respondents who use negative screening. The frequency of negative screening has generally increased across all exclusionary themes, except genetic engineering.

Screening for exposure to fossil fuel exploration, mining, extraction and production has almost doubled over the period (from 45% to 80% of all survey respondents who apply exclusionary screens).
Exclusionary screening for fossil fuel exploration, mining, extraction and production has increased significantly in popularity since 2018. The frequency in which investment managers screen to some extent for fossil fuel exploration, mining, extraction and production has increased from 45% in 2018 to 80% of survey respondents in 2019.

Exclusionary screening of fossil fuels is beginning to catch up to consumer interest. In 2018, only 3% of (negatively screened) responsible investment AUM was screened for some level of exposure to fossil fuels; this figure was 18% in 2019 - a five-fold increase.

For consumers using RIAs’s Responsible Returns online tool, the most important exclusionary screens are fossil fuels (36%), human rights abuses (17%) and armaments (12%).

For those investment managers using a sustainability-themed approach, social impact is the most popular theme, followed by climate change and energy efficiency. In 2018, the top three themes were agriculture, climate change and water management.
Impact investing AUM has grown over 13 times from $358 million in 2018 to $4.74 billion in 2019 for assets managed by financial institutions included in the Responsible Investment Research Universe. Green, Social and Sustainability (GSS) Bonds account for 88% of products using this approach.

The three most cited drivers for growth in responsible investment funds managed by survey respondents are alignment of investments with mission or values (44%); demand from retail investors (38%); and the expectation that responsible investments outperform in the long term or better mitigate risks (26%).

For the first time, financial performance data for New Zealand’s responsible investment funds have been reported. Even though it draws from a low sample size, it can be seen that responsible investment multi-sector growth funds outperformed mainstream indices over some time horizons.
Introduction

ABOUT RESPONSIBLE INVESTMENT

Responsible investing, also known as ethical or sustainable investing, is a holistic approach to investing, where social, environmental, corporate governance (ESG) and ethical themes are considered alongside financial performance when making an investment. It considers a broad range of risks and value drivers as part of the investment decision-making process in addition to reported financial risk.

Responsible investment includes systematically considering ESG factors throughout the process of researching, analysing, selecting and monitoring investments, acknowledging that these factors can be critical in understanding the full value of an investment.

Responsible investing is also about earnestly executing stewardship duties and working to improve the performance of companies comprising the economy and the stability and sustainability of the financial system more broadly.

In 2020, responsible investing is also about the intentionality of the capital invested – meaning where money is targeted – to avoid harm, benefit stakeholders and contribute to societal and planetary solutions.

INTERNATIONAL RESPONSIBLE INVESTMENT CONTEXT

According to UN Environment Programme’s Sustainable Finance Progress Report produced for the G20 Sustainable Finance Study Group, ‘there is growing evidence that demonstrates the sustainable finance policy over the last year has been characterized by strong growth, increased scope, and greater maturity’. Globally, there are now 730 hard and soft law provisions in financial regulations that embed such sustainability considerations across some 500 policy instruments, with 97% of these laws having been enacted since 2000.

Despite momentum to green up finance, environmental and civil society groups, including UN agencies, consistently report an ever-diminishing quality of natural and human resources globally. The latest Global Risks Report by the World Economic Forum points to ‘an unsettled world’ where climate threats and accelerated biodiversity loss are among the top global risks in terms of likelihood and impact.1 The last five years are on track to be the warmest on record, natural disasters are becoming more intense and more frequent, and last year witnessed unprecedented extreme weather throughout the world. The current rate of extinction is tens to hundreds of times higher than the average over the past 10 million years – and it is accelerating.

Financial markets are responding to social, environmental and climate change issues, and this response is gaining speed. Countries including China, Canada, the United Kingdom and Hong Kong, as well as the European Union, are taking measures to ensure that their economies and financial markets are resilient, inclusive, stable and prosperous into this century. This is being done through the development of sustainable finance roadmaps and action plans.

In March 2018, the European Commission presented its 10-point action plan to enable sustainable growth. March 2020 saw the publication of the Technical Expert Group on Sustainable Finance’s final report and subsequently in June 2020, European politicians provided final legal confirmation for a taxonomy for sustainable finance activities. This report defines which activities can be legitimately marketed as green or sustainable to incentivise green and climate-friendly investments. In economic terms, the taxonomy for sustainable activities provides a model for others to emulate, and a tool for regulators, investors and product issuers to provide greater harmonisation, integrity and transparency around what constitutes a ‘sustainable’ economic activity. It is anticipated that a similar taxonomy will be developed and adopted in New Zealand through the Sustainable Finance Forum. Aligning taxonomies across key trading markets is expected to improve investor confidence and reduce uncertainty and risk, subsequently lowering the cost of capital and more efficiently allocating resources.

Momentum is growing to embed sustainability and climate risks into financial sector regulation and policies. The Taskforce on Climate-Related Financial Disclosures (TCFD) – created in 2017 to help financial sector entities including banks, insurers, investment entities and asset managers identify exposures to climate risk in their portfolios – is supported by more than 480 investors representing US$42 trillion in assets. From 2020, reporting in line with TCFD metrics is required for all Principles for Responsible Investment (PRI) signatories.

In June 2020, the Central Banks and Supervisors’ Network for Greening the Financial System (NGFS), of which the Reserve Bank of New Zealand is a member, released its guide for climate scenarios. The NGFS Climate Scenarios were developed to provide a common starting point for analysing climate risks to the economy and financial system. While developed primarily for use by central banks and supervisors, they may also be useful to the broader financial, academic and corporate communities.

The Global Sustainable Investment Alliance (GSIA) released its biennial Global Sustainable Investment Review 2018, showing that global responsible investment assets reached US$30.7 trillion at the start of 2018, a 34% increase from 2016.

The COVID-19 pandemic, far from dampening momentum on sustainable finance, has reinforced the sustainability imperative and prompted campaigns to ‘build back better’, including through applying climate and sustainability criteria to government support measures.

Proposals are afoot to design and create guidelines and mechanisms for the Task Force for Nature-related Financial Disclosures in early 2021, and this will be modelled on the TCFD approach. The framework will provide companies in all sectors with leading-practice advice for measuring the financial risks they are facing as a result of the over-exploitation of natural resources (i.e. deforestation, overfishing, poor soil management) and as a result of extreme weather events. The COVID-19 pandemic is clearly a big driver or accelerating force for this.
NEW ZEALAND RESPONSIBLE INVESTMENT CONTEXT

Drawing on lessons from similar international initiatives, the industry-led Sustainable Finance Forum (SFF) – an initiative of The Aotearoa Circle – is developing recommendations for a sustainable, resilient and inclusive financial system in New Zealand by 2030.

In October 2019, the SFF presented its Interim Report. This sets out the SFF’s vision for a sustainable financial system, anchored in Te Ao Māori. It proposes a holistic and intergenerational value-creation model that considers financial and non-financial outcomes for multiple stakeholders, a system ‘where business and finance are understood to operate within natural, human and social constraints and dependencies. The economy serves the needs and long-term wellbeing of society, while protecting and enhancing natural and human capital. Financial wealth creation is not the overriding goal of business and finance, but an outcome of, and wholly contingent upon, the creation of whole system prosperity’.

The Interim Report sets out proposed pathways for achieving a sustainable financial system that are grouped into three themes: changing mindsets; aligning the financial system (‘greening finance’); and mobilising capital (‘financing green’). Specific proposed measures include:

1) Changing mindsets:
   - adopting long-term, purpose-based business models; incorporating sustainability outcomes into executive performance metrics and incentives and industry codes of conduct; developing a Stewardship Code for investment managers and service providers;
   - making consideration and management of ESG factors explicitly part of the fiduciary duties of directors, trustees and financial advisers; considering the future evolution of legal duties, noting international work on ‘sustainability impact’ duties;
   - developing a whole-of-government strategy on sustainable finance; integrating sustainability into the mandates of financial market policy makers and regulators, as well as Crown or government-backed funds and financial entities; aligning public finance and investment with New Zealand’s climate- and sustainability-related goals and intergenerational wellbeing agenda.

2) Aligning the financial system:
   - integrating sustainability into all levels of education within society and the financial system, including professional qualifications and training and licensing requirements as well as consumer education campaigns and resources;
   - requiring climate change stress testing by banks and insurers; applying sustainability criteria to capital adequacy requirements for banks; monitoring progress towards risk-based pricing in the insurance sector; applying minimum ESG requirements for KiwiSaver default providers;
   - promoting measurement and pricing of social and environmental risks and impacts, and integration into financial accounting plus asset valuation, credit rating and capital adequacy models; promoting open/shared data models; introducing mandatory disclosure requirements for companies, financial institutions and product providers.

![Figure 15: RIAA’s responsible investment spectrum](chart)

* This spectrum has been adapted from frameworks developed by Bridges Fund Management, Sonen Capital and the Impact Management Project

**FRAMEWORK OF BUSINESS DECISION MAKING**

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<th>Traditional Investment</th>
<th>Responsible Ethical Investment</th>
<th>Philanthropy</th>
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<td><strong>APPROACH</strong></td>
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<tr>
<td>Explicitly including</td>
<td>Excluding certain sectors, companies, countries or issuers based on activities considered not investable due principally to unacceptable downside risk or values misalignment</td>
<td>Providing limited or no regard for environmental, social, governance and ethical factors in investment decision making</td>
</tr>
<tr>
<td><strong>METHOD</strong></td>
<td>Screening of companies and issuers that do not meet minimum standards of business practice based on national norms and conventions; can include screening for involvement in controversies</td>
<td>Avoids harm</td>
</tr>
<tr>
<td><strong>INTEGRATION</strong></td>
<td>Executing shareholding and fiduciary duties to signal desired corporate behaviours - includes corporate engagement and filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines</td>
<td>Benefits stakeholders</td>
</tr>
<tr>
<td><strong>ENGAGEMENT</strong></td>
<td>Intentionally tilting a proportion of a portfolio towards solutions; or targeting companies or industries assessed to have better ESG performance relative to peers</td>
<td>Contributes to solutions</td>
</tr>
<tr>
<td><strong>SCREENING</strong></td>
<td>Specifically targeting investment themes e.g. sustainable agriculture, green property, low carbon; Paris or SDG-aligned</td>
<td>Investing to achieve positive social and environmental impacts - requires measuring and reporting against these, demonstrating the intentionality of investor and underlying asset investee and (ideally) the investor contribution</td>
</tr>
</tbody>
</table>

**TABLE**

<table>
<thead>
<tr>
<th>Features and Outcomes</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manages ESG risks</td>
<td>Helps to avoid harm</td>
<td>Benefits stakeholders</td>
</tr>
<tr>
<td>Contributes to better system stability and economic sustainability</td>
<td></td>
<td>Contributes to solutions</td>
</tr>
<tr>
<td>Pursues opportunities and creates real-economy outcomes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3) Mobilising capital:
   - defining and setting minimum standards and labelling requirements for ‘sustainable’ finance approaches, products and services;
   - removing barriers to and incentivising positive impact investments, emphasising the critical role of government as a facilitator and partner;
   - ensuring access to financial advice, products and services for under-served segments of the community and consumer protection against unethical behaviour;
   - developing a credible and common language on ‘sustainable’ economic activities and ‘sustainable finance’ (investment, lending, insurance) approaches and products to address ‘green washing’ concerns and accelerate the flow of capital into genuine social/environmental purpose projects and assets.

At the time of writing, the SFF was developing and consulting on a follow-up Roadmap for Action report, to be published in late 2020. This will provide practical recommendations on how to shift New Zealand to a sustainable financial system.

New Zealand is considered a leader on climate action with its aggressive policies and ambitious climate targets. As such, the green loans market is seen as an area of promising growth in New Zealand. New Zealand’s Financial Markets Authority (FMA) launched a consultation process in September 2019 to garner issuer and investor input on green bonds and other responsible investment products that express take into account environmental, social, and/or governance considerations. The purpose of the submissions is to help develop guidance for issuers.

In October 2019, Climate Change Minister James Shaw released a consultation document proposing mandatory climate-related financial risk disclosure by listed issuers, banks, general insurers, asset owners and asset managers, consistent with the TCFD framework. The Government is considering feedback on the consultation.

Finance in New Zealand is making headway in the transition to a low-emissions economy so as to adapt to the effects of climate change. New Zealand Green Investment Finance Ltd (NZGIF) was established with the purpose of accelerating investment to lower greenhouse gas emissions activities in New Zealand and has been set up with initial capital of $100 million. NZGIF recently announced its first investment, a $15-million credit facility provided to CentrePort to fund low-carbon projects at the Wellington port as part of a wider regeneration program, such as the introduction of electric vehicles, on-site renewable energy generation and energy-efficient upgrades.

**RESPONSIBLE INVESTMENT KEY DRIVERS AND APPROACHES**

To enable comparison of New Zealand’s responsible investment market with those of other regions, this report has been prepared in line with the seven approaches for responsible investment (Figure 15, previous page) as detailed by the GSIA and applied in the Global Sustainable Investment Review 2018, which maps the growth and size of the global responsible investment market.

Having arrived in 2020, we bear witness to an ever-increasing expansion of responsible investing across even the most established areas of finance – this includes the world’s largest asset manager, BlackRock, announcing its divestment from directly held investments in thermal coal companies.

The drivers underpinning the strong investor uptake as well as the surge in consumer interest are based on several factors. For investment managers, the key drivers are to:

1. protect or strengthen brand and reputation, meaning favourable treatment with stakeholders such as clients, regulators, employees;
2. deliver better risk-adjusted returns for clients and outperform the benchmark and/or peers;
3. fulfill fiduciary obligations and contribute to better overall system stability and performance; and
4. drive real-economy outcomes and use finance to make a difference in the world.

These four drivers form the basis of the expanded Responsible Investment Scorecard, noting that these – as well as an individual investor’s investment beliefs and theses, perspective on risks and opportunities and dominant client groups – will shape the extent to which each of the seven responsible investment approaches is applied.

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**FIGURE 16** How the four key drivers for responsible investment align with the seven responsible investment approaches

- **Stronger brand value**
  - Walking the talk

- **Better risk-adjusted returns**
  - Managing investment risks for clients

- **Better system stability and sustainability**
  - Building better beta for clients and the economy

- **Real-economy outcomes**
  - Allocating capital for people, animals and the planet
Why an expanded scorecard on leading practice in responsible investment?

Over the last decade, the number and coverage of AUM by signatories to the United Nations-backed Principles for Responsible Investment (PRI) have grown from 700 to 2,760 and from US$30 trillion to over US$115 trillion, respectively.

Yet, Earth’s natural systems and its resident species face significant and global challenges, from habitat and diversity loss, climate change and acidification of oceans to desertification of farmlands, decreasing river health and food insecurity, as well as peace and security issues facing a global human population of 7.8 billion living in an increasingly uncertain world.

For the purposes of this year’s report, RIAA has overlaid these four key drivers to undertake responsible investment with the GSIA’s seven approaches to responsible investment (see Figure 16, previous page). Although not perfectly aligned (i.e. norms-based screening can also be applied to deliver real-economy outcomes), RIAA aims to embed the responsible investment activities of our region’s investment managers into a story of intent. When assessed in the context of their intent, we can better make sense of leading practice and whether this results in addressing one or more of the objectives pursued by investment managers in their adoption of responsible investing practices.

The expanded scorecard continues to reward strong behaviours to integrate ESG factors but now increasingly considers those committed to building a more sustainable financial services sector and allocating capital towards solutions for our society and environment. See Appendix 3 for more information on the expanded Responsible Investment Scorecard used to analyse whether leading responsible investing is being practised by investment managers.

DEFINING LEADING RESPONSIBLE INVESTMENT IN THIS DECADE

For the purposes of defining the size of the responsible investment market in New Zealand, RIAA includes only those responsibly managed assets managed by investment managers that are practising a leading approach to responsible investment.

From 2014 to 2018, RIAA assessed investment managers against a scorecard of leading practice ESG. In 2019, RIAA has expanded its scoring methodology to more fully account for the evolution in responsible investment practices across the spectrum, from negative screening and ESG integration to corporate engagement and investing with impact.

RIAA has changed its assessment method in response to several developments:

- Increasingly, investment managers publicise a commitment to responsible investment but fall short of showing how this is implemented with effect, if at all – hence the expansion of the Responsible Investment Scorecard parameters making it more challenging to achieve a high score in 2019. Readers will note that between 2018 and 2019, the number of investment managers practising responsible investing increased from 46 to 58 – a jump of 26% – with RIAA identifying less than a quarter of these implementing responsible investment to a ‘leading’ standard.
  - The new ‘business as usual’ practices of investment managers advanced in responsible investment include the execution of a wide range of responsible investment approaches and a transition from two (returns and risk) to three axes of investing to include consideration of impact.
  - Findings from consumer research in New Zealand demonstrate that consumers expect their responsible investments to avoid harm and ideally help to solve our planet’s challenges.\(^2\)
  - The inverse relationship between an increasing responsible investment commitment and the continuing decline in the global condition confirms that activities to date have been insufficient to create significant change in outcomes (see the break-out box Why an expanded scorecard on leading practice in responsible investment?).
  - We face urgent and pressing societal and environmental issues that need to be addressed to continue to support the ongoing function of the entire economic system.
  - RIAA updated its Constitution and revised its mission at the end of 2018.\(^2\)

This has informed the organisation’s focus on assessing how the growth of responsible investment in New Zealand and Australia demonstrably contributes to future resilience, prosperity and wellbeing for New Zealanders and Australians to better align with international measurement approaches.
RESPONSIBLE INVESTMENT LEADERS

The Responsible Investment Research Universe was rated against all four drivers for undertaking responsible investing: ‘walking-the-talk’, ‘managing risk’, ‘building better beta’ and ‘allocating capital towards solutions’ (see figure 16). Only those demonstrating leading practice were included in determining the size of the New Zealand responsible investment market. Accordingly, the findings in this report are conservative in nature.

The cut-off score for leading practice has shifted from 80% to 75% this year in acknowledgment of the fact that it has become more difficult to achieve a high score on RIAA’s expanded Responsible Investment Scorecard. This is an important step change that enables RIAA to start rewarding new and deeper responsible investing behaviours, such as corporate engagement outcomes and impact reporting, and provides RIAA with broader scope in assessing the growing competition in responsible investment leadership practices for the coming decade.

The results of RIAA’s desktop research as well as from those who completed the survey are summarised in Figure 17, showing that of the 58 investment managers in the Responsible Investment Research Universe, 14 (24%) are applying a leading approach to responsible investment (score≥75% on the expanded Responsible Investment Scorecard, which now also rewards allocation of capital towards real-economy outcomes).

Leading practice investment managers demonstrate responsible investing in their investment process via:

- their policies;
- integration of ESG factors in valuation and asset allocation;
- their clearly defined approaches to stewardship;
- their active ownership (including corporate engagement and voting);
- applied screens to reduce downside risk and tilt towards solutions; and
- provide meaningful disclosures about these aspects of their investment approach.

The 14 investment managers in this group varied in size from some of the largest in New Zealand through to some of the smaller boutique managers, and across asset classes, from equities to property and infrastructure. Figure 18 lists these leading investment managers and outlines the responsible investment scores achieved together with the AUM represented. In New Zealand, both large and small investment managers can demonstrate leading practice.
Evidencing real-economy outcomes

Responsible investors have taken moves to better evidence their responsible investment practices by allocating capital towards solutions for our society and the environment. One way of demonstrating this is the adoption of alignment reporting, whereby investment managers report on the outcomes of their investments as well as activities for engagement.

In June 2020, the PRI published guidance on how investors can ‘shape the real-economy outcomes’ of their investments by using the Sustainable Development Goals (SDGs), as it prepares to introduce mandatory outcomes-based reporting for the first time, from 2021. The PRI has seen a ‘spike’ in the number of its signatories that have mentioned the SDGs in their reporting to PRI. Thirty-one percent of signatories (650) now mention the SDGs in 2020, up from 24% last year and 16% in 2018. The PRI says accounting for the 2030 goals is a critical part of investors’ fiduciary duty. In August 2019, RIAA launched the Impact Management & Measurement Community of Practice (IMMCOP) to facilitate the sharing of leading practice knowledge and resources for impact management and measurement. IMMCOP helps build RIAA members’ understanding and capabilities in this evolving area of responsible investment, as well as connect with local and global developments.

The Responsible Investment Research Universe has grown by 48% from $188 billion in 2018 to $279 billion in 2019 ($153.5 billion + $125.4 billion). The Responsible Investment Research Universe of self-declared responsible investors has also grown from 46 investment managers in 2018 to 58 in 2019.

This year and going forward, RIAA will apply a stricter definition of leading responsible investment to cover the AUM of leading investment managers on the responsible investment leader board, reported as $153.5 billion in 2019.

Figure 19 presents a snapshot of both primary and secondary approaches used by survey respondents over all of AUM managed under responsible investment approaches. They do not indicate the only approaches that are used as part of the survey respondents’ tools. Figure 20 presents a snapshot of both primary and secondary approaches used by survey respondents over all of AUM managed under responsible investment approaches. This demonstrates that when primary and secondary responsible investment approaches are taken into account, the dominant responsible investment approach is ESG integration. This is a change from last year, when negative screening dominated, followed by ESG integration.
RESPONSIBLE INVESTMENT POLICY

Investment managers are demonstrating a commitment to systematically implementing responsible investing through the development and disclosure of responsible investment policies. Sixty percent of the Responsible Investment Research Universe make their responsible investment policy publicly available, while 11% state they have a responsible investment policy but choose not to disclose this document publicly – leaving 29% of self-declared responsible investment managers without a responsible investment policy (see Figure 21).

The purpose of a responsible investment policy is to articulate the investment manager’s investment beliefs with respect to:

- managing extra-financial factors in the valuation of assets and allocation of capital;
- exercising its fiduciary duty as stewards of capital (including voting over all relevant holdings and disclosing these publicly);
- its role in working with other members of the investment community in delivering a more stable financial and economic system; and
- avoiding harm, benefiting stakeholders and contributing solutions through its engagement with investee management and allocation of capital towards sustainable assets and enterprises.

A policy is also likely to include a range of commitments for better accountability and transparency such as through disclosures related to underlying holdings, outcomes from corporate engagement and shareholder activism activities, and real-economy outcomes resulting from sustainability-themed and impact investing activities.

HOLDINGS TRANSPARENCY

Holdings transparency is a new data point for 2020. RIAA considers transparency a cornerstone of accountability and essential for an efficient and effective market-based system.

Investment managers in the Responsible Investment Research Universe are demonstrating a commitment to transparency through their disclosure of fund holdings. Despite the requirement for retail issuers to report holdings periodically to the FMA, just over 43% of the 58 investment managers included in the Responsible Investment Research Universe disclose their full fund holdings on their own websites and 22% disclose some holdings (see Figure 22). However, 35% of investment managers in the Responsible Investment Research Universe do not make any public disclosure of holdings, although some of these may disclose holdings directly to their clients only.

According to Morningstar, New Zealand has introduced a number of new disclosure initiatives since 2013, which now sees it placed equal with many countries in this study of 25 countries. Portfolio holdings disclosure coverage has increased markedly since 2015 as has the number of funds providing holdings on a monthly basis. The naming of portfolio managers and their tenures in investment managers’ disclosures and reporting is another positive step.
ESG INTEGRATION

ESG integration continues to dominate in New Zealand, Australia, the United States, and in asset-weighted terms.\(^{19}\) ESG integration is the second-largest responsible investment approach globally (US$17.5 trillion AUM) after negative/exclusionary screening (US$19.8 trillion AUM) and has experienced the greatest growth in dollar terms over the past two years.\(^{20}\)

ESG integration that is well-defined and systematically embedded in investment processes and valuation practices can be an effective investment approach. Sixty-four percent of investment managers in the Responsible Investment Research Universe have ESG considerations integrated into their investment approach, including but not limited to:
- selection, retention and realisation of assets;
- construction of portfolios;
- risk assessment and management; and
- selection, assessment and management of managers (if external managers are used).

Sixty-two percent of investment managers in the Responsible Investment Research Universe have at least one asset class (or >50% AUM) covered by an explicit and systematic approach to ESG integration, while 48% have more than three asset classes (or 85% of their AUM) covered by an explicit and systematic approach to ESG integration (see Figure 23).

Fifty-two percent of investment managers within the Responsible Investment Research Universe demonstrate the explicit and systematic inclusion of at least one of the following four ESG practices in their investment analysis and decisions:
- ESG analysis is integrated into fundamental analysis;
- ESG analysis is used to adjust forecasted financials and future cash-flow estimates;
- ESG analysis is integrated in portfolio weighting decisions;
- companies, sectors, countries and currency are monitored for changes in ESG exposure and for breaches in risk limits.

Only 7% of the Responsible Investment Research Universe can demonstrate that all four key ESG factors are incorporated.

DEFINITION:

Environmental, social and governance (ESG) integration involves the explicit inclusion by investment managers of ESG risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources. This approach rests on the belief that these factors are a core driver of investment value and risk.

AT A GLANCE:
- ESG integration is the most popular responsible investment approach employed by survey respondents.
- In New Zealand, this approach represents 49% of AUM when taking both primary and secondary approaches into account. It is predominantly the primary approach and is often paired with corporate engagement and shareholder action as the secondary approach.
- 92% of responsible investment AUM is managed with ESG integration as a primary approach, representing $140.78 billion.
- 64% of the Responsible Investment Research Universe deploys ESG integration through factors such as selection of assets, construction of portfolios, risk assessment and selection of managers.
- 62% of the Responsible Investment Research Universe has at least one asset class (or at least 50% AUM) covered by an explicit and systematic approach to ESG integration.
- 52% of the Responsible Investment Research Universe demonstrates the explicit and systematic inclusion of ESG factors in investment analysis and decisions (i.e. fundamental analysis, adjusting financial forecasts, monitoring portfolio weighting and portfolio constituents for changes in ESG exposure).

FIGURE 23 Proportion of AUM covered by an explicit and systematic approach to ESG integration
NEGATIVE/EXCLUSIONARY SCREENING

Leading practice for investment managers using an exclusionary approach involves having a transparent and systematic process of applying the screen. Where revenue thresholds are included, it is leading practice to disclose them. Within the Responsible Investment Research Universe for this report:

- 64% of investment managers have a transparent and systematic process of applying exclusionary screening; and
- 31% of investment managers disclose revenue and activity thresholds applied to screens.

Figure 24 shows the most frequently screened issues by survey respondents across their products that are covered by exclusionary screening. Given that a negative screening approach does not cover an entire portfolio of products, this represents a fraction of their entire portfolio of AUM.

Traditional categories such as weapons, tobacco and pornography continue to be the most frequently screened categories (see Figure 24). However, it also shows increasing awareness towards other issues being screened such as animal cruelty, environmental degradation, human rights abuses and pesticides. Frequency of screening for animal cruelty has increased by 18 percentage points, while environmental degradation has increased by 10 percentage points from 2018.

RIAA has expanded the survey questions in 2019 to enable a more detailed view of the kinds of exclusions being applied by survey respondents. This has included the introduction of sub-categories for fossil fuels and weapons (see Figure 25 and Figure 26 overleaf) and addressing the following issues in the survey for the first time:

- companies that don’t pay their fair share of tax;
- meat and meat products;
- pesticides;
- labour-rights violations.

For survey respondents who screen out investments in meat and meat products, the primary type is whale meat and whale meat processing. In New Zealand, no survey respondent stated that they screen for companies that don’t pay their fair share of tax, or for sugar or predatory lending.

This year, survey respondents were asked to provide more detail around their screening for fossil fuel exposures. Accordingly, ‘fossil fuels’ has been split into three categories:

1) exploration, mining, extraction and production of fossil fuels with equal to or less than 10% of revenue exposure;
2) exploration, mining, extraction and production of fossil fuels with more than 10% of revenue exposure; and
3) fossil fuel power generation.

Overall, screening of upstream fossil fuel activity has increased among survey respondents applying negative screening from 45% in 2018 to 80% in 2019 (see Figure 25). Thirty percent of survey respondents screen companies that generate power using fossil fuels.

**DEFINITION:**

Negative/exclusionary screening of investments is the systematic exclusion from a fund or portfolio of certain sectors, companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer, for example, to product categories (e.g. weapons, tobacco), company practices (e.g. animal testing, violation of human rights, corruption) or controversies.

**AT A GLANCE:**

- Negative screening is the third-most popular responsible investment approach.
- 64% of investment managers in the Responsible Investment Research Universe have a transparent and systematic process of applying exclusionary screens.
- 31% of the Responsible Investment Research Universe discloses revenue/activity thresholds applied to exclusionary screens.
- The issues most frequently screened are weapons and tobacco (100% of survey respondents using this approach); followed by fossil fuel exploration, mining, extraction and production to some extent (80%).
- Screening for animal cruelty exploded over the period (from 2% to 20%); screening for environmental degradation doubled to 20% in 2019.
- Screening for exposures to fossil fuels experienced a five-fold increase between 2018 and 2019 (from 3% to 18% of responsible investment AUM).

**FIGURE 24 Frequency of themes being screened (by number of survey respondents that negatively screen)**

<table>
<thead>
<tr>
<th>Theme</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco production</td>
<td>100</td>
<td>87</td>
</tr>
<tr>
<td>All weapons (including firearms and controversial weapons)</td>
<td>100</td>
<td>98</td>
</tr>
<tr>
<td>Fossil fuel exploration, mining, extraction and production</td>
<td>80</td>
<td>45</td>
</tr>
<tr>
<td>Pornography production and distribution</td>
<td>70</td>
<td>47</td>
</tr>
<tr>
<td>Nuclear power (including uranium mining)</td>
<td>55</td>
<td>45</td>
</tr>
<tr>
<td>Alcohol production and sales</td>
<td>55</td>
<td>33</td>
</tr>
<tr>
<td>Fossil fuel power generation</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Meat and meat products</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Human rights abuses</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Animal cruelty (e.g. cosmetic testing, live exports)</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Environmental degradation (including air, land and water)</td>
<td>29</td>
<td>10</td>
</tr>
<tr>
<td>Labour rights violations</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Genetic engineering</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Pesticides</td>
<td>5</td>
<td></td>
</tr>
<tr>
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</tr>
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At a glance - Negative/exclusionary screening of investments is the systematic exclusion from a fund or portfolio of certain sectors, companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer, for example, to product categories (e.g. weapons, tobacco), company practices (e.g. animal testing, violation of human rights, corruption) or controversies.

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Among exclusions for upstream fossil fuel exposures, 40% of investment managers screen across both revenue thresholds across their portfolio of investment products. This is because exclusions often differ across investment products, for example one product may screen out companies that derive equal to or less than 10% of revenue from fossil fuel exploration, mining and production, while simultaneously screening out more than 10% of revenue in another product.

For survey respondents using only one of the revenue screens for fossil fuels, it is most common to screen out investees that derive more than 10% of their revenue from the exploration, mining and production of fossil fuels.

Overall, frequency of weapons screening has increased from 2018 to 2019. Weapons, which include controversial weapons and civilian weapons, are one of the most prevalent exclusionary screens among New Zealand survey respondents, both by the frequency of funds applying negative screens, and by weighted percentage of AUM (see Figure 26). Following the deadly Christchurch hate crime in 2019, exclusion of civilian weapons from investors’ portfolios was to be expected.

The most important exclusionary screens according to consumers are fossil fuels (36%), human rights abuses (17%) and armaments (12%). This is based on data from RIAA’s Responsible Returns online tool, which shows the key issues consumers from New Zealand and Australia search for when choosing a responsible and ethical KiwiSaver, banking or investment product that best matches their interests. Figure 27 highlights the variation between exclusions survey respondents apply and the consumer interest.

Survey respondents have responded to consumer interest with respect to screening out armaments, with 19% of leading responsible investment AUM in New Zealand covered by a screen. Twelve percent of consumers searched for funds that avoid investments in armament manufacturers and sellers. This increase is likely investor response to new gun laws banning the circulation and use of semi-automatic firearms, which followed on from the Christchurch shootings on 15 March 2019.

**KiwiSaver mandatory exclusion of fossil fuels and illegal weapons**

Changes to operational and disclosure requirements for registered default KiwiSavers comes into force from December 2021. Operational changes are signalled to exclude stocks on the basis of proved or probable fossil fuel reserves, or having a primary business activity in exploration, mining or drilling production of oil, gas or coal. Controversial weapons, including land mines, cluster bombs and other illegal weapons, will be mandatory exclusions for all default KiwiSaver funds.
NORMS-BASED SCREENING

Thirty-six percent of survey respondents use norms-based screening in their investment approach, however it does not form part of either their primary or secondary approach.

Figure 28 illustrates the most popular norms used by the 36% of New Zealand survey participants to screen their portfolios: the UN Global Compact, the Convention on Cluster Munitions, and the UN Framework Convention on Climate Change/Paris Agreement. Aside from those norms featured in Figure 28, 13% of survey respondents also indicate that they screen using the United Nations Convention against Corruption; OECD Guidelines for Multinational Enterprises; Cartagena Protocol on Biosafety to the Convention on Biological Diversity; Ramsar Convention on Wetlands; and the UN Convention against Transnational Organized Crime.

In late November 2019, New Zealand committed to being carbon neutral by 2050. Further, one of the key focus areas and recommendations of the Sustainable Finance Forum (‘finance green’) is to mobilise new and re-direct existing capital for projects and enterprises that deliver on global sustainability goals, such as the Paris Agreement. These factors will likely cause the Paris Accord norms-based screen to increase in usage and frequency next year.

The PRI’s Investing with SDG Outcomes, released in June 2020, sets out a five-pillar framework for investors to understand real-economy outcomes of their investments and align them with the SDGs. Part of this process involves norms-based screening through mapping existing investments to the SDGs and determining the scale of investments in SDG-aligned activities. In addition, investors should take intentional steps towards setting policies and targets to achieve specific SDGs, for example food security or action on climate change.

On a practical level, these considerations will cause investors to increase their practice of norms-based screening when considering a new investment, by actively looking for holdings and screening in holdings that are transparent about their SDG contribution, in addition to screening out those that have negative SDG outcomes.

The EU’s taxonomy sets sustainability criteria for use in financial products based on minimum safeguards (e.g. OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights). This tool will help investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy.
CORPORATE ENGAGEMENT AND SHAREHOLDER ACTION

In contrast to 2018, corporate engagement and shareholder action is now the second-most popular responsible investment approach in New Zealand, taking over from negative screening (accounting for primary and secondary approaches). Corporate engagement and shareholder action is listed as a primary or secondary approach by survey respondents with $123.9 billion in AUM in 2019, compared to $72.3 billion in 2018.

During 2019, the AUM of investment managers in the Responsible Investment Research Universe using corporate engagement and voting as a secondary approach has increased from $628 billion to $840 billion. Active ownership practices continue to mature, with more active, considered and targeted use of voting and corporate engagement by responsible investors in our region and across the globe. Within the Responsible Investment Research Universe, investment managers are demonstrating active ownership and stewardship with:

- 40% engaged in voting across all possible holdings (e.g. directly held equities, or in mandates for fund manager and other third parties to action); and
- 18% engaged in voting across funds to which they are materially exposed.

However, 42% did not vote across any of their holdings.

Globally, voting against boards has increased in support of stronger action on climate change. Investors have been more willing to co-file resolutions and withdraw support from industry bodies that are lobbying against Paris Agreement alignment. This has required companies to set emissions targets on scope 1, 2 and 3 emissions, and new standards on mining tailings dams that improve safety, and even work to limit the sales of assault weapons from retail stores.

Figure 29 shows that investment managers in the Responsible Investment Research Universe are demonstrating transparency through their reporting around corporate engagement activities and outcomes:

- 32% of the Responsible Investment Research Universe demonstrates reporting on activities; and
- 24% of the Responsible Investment Research Universe demonstrates leading practice, reporting on activities and outcomes.

Forty-eight percent of investment managers within the Responsible Investment Research Universe are members of more than one collaborative initiative (for example RIAA, IGCC, PRI or Climate Action 100+). Collaborative initiatives across all parts of financial services, as well as academia, civil society and government, are vital to garner a diversity of opinion as well as provide skills and experience to realign the financial services sector to support greater social, environmental and economic outcomes for the country.

DEFINITION:

Corporate engagement and shareholder action refers to the employment of shareholder power to influence corporate behaviour. This may be conducted through direct corporate engagement such as communications with senior management or boards, filing or co-filing shareholder proposals, and proxy voting in alignment with comprehensive ESG guidelines.

AT A GLANCE:

- Corporate engagement and shareholder action is by far the most popular secondary approach, applied to $123.9 billion in responsible investment AUM.
- 40% of the Responsible Investment Research Universe uses voting and proxy voting across all holdings and 32% of investment managers demonstrate transparency by reporting on either voting or corporate and shareholder action activities.
- 48% of investment managers within the Responsible Investment Research Universe are members of more than one collaborative initiative, for example the Investor Group on Climate Change (IGCC), PRI or Climate Action 100+.
POSITIVE/BEST-IN-CLASS SCREENING

In 2019, 41% of survey respondents were using positive screening as part of their investment approach.

Figure 30 shows the most frequently screened issues by survey respondents are low carbon (56%), followed by renewable energy and energy efficiency (44%), and best of sector companies (33%). However, issues focusing on building resilience of natural systems are also becoming more prevalent. These include sustainable land management (screened by 33% of respondents), sustainable water management and use (22%) and healthy aquatic ecosystems (22%). No survey respondent claims to screen issues such as employment and vocational training, sustainable fashion/textiles, biodiversity preservation and conservation or reforestation.

Consumer searches on RIAA’s Responsible Returns online tool – as illustrated in Figure 30 and Figure 31 – demonstrate some alignment between consumer searches and investment manager screening.

The most searched theme for consumers is renewable energy and climate change solutions (36% of consumer searches). This is compared with the 44% of survey respondents that currently screen for renewable energy and energy efficiency, while the second-most searched issue, sustainable land management, is screened by 33% of funds. Consumer are also searching for investments that positively screen more sustainable companies, a category that is screened in by 33% of survey respondents.

DEFINITION:
Positive screening of investments is the inclusion of certain sectors, companies or projects selected for positive ESG or sustainability performance criteria such as the goods and services a company produces, or how well a company or country is responding to emergent opportunities such as the rollout of low- and zero-carbon energy assets. The GSIA includes best-in-class screening, the involvement in investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers. However, RIAA and its members are increasingly integrating best-in-class as a supplementary lens to ESG integration.

AT A GLANCE:

- 41% of survey respondents declare that they use positive screening as part of their investment approach.
- Positive screening is most often used in combination with negative screening.
- This regional proportion is slightly below the ~3% reported globally according to the Global Sustainable Investment Review.
- In funds that use positive screening, the most screened theme is low carbon, followed by renewable energy and energy efficiency, and best of sector companies.
- Renewable energy and climate change solutions is the most searched inclusion selected by consumers using RIAA’s Responsible Returns online tool, accounting for 36% of searches, and it is the second-most screened issue for survey respondents (44%).

FIGURE 30 Positive screening – frequency of themes screened by survey respondents

FIGURE 31 Positive screening – consumer searches using the Responsible Returns online tool (% of consumer searches)
SUSTAINABILITY-THEMED INVESTING

Sustainability-themed investing does not feature prominently in New Zealand as either a primary or secondary approach, accounting for less than 1% AUM. Two surveyed investment managers indicate that they use sustainability-themed investing as either a primary or secondary approach. Survey respondents employing sustainability-themed investing as their primary strategy are predominantly associated with sustainable land, water and agricultural management, followed by green buildings.

More broadly, for survey respondents who use sustainability-themed investing as part of their investment approach, the most popular themes by weighted assets under management are social impact (17%) followed by climate change (13%) and jointly energy efficiency and water management (12%) (Figure 32). The ‘other’ category (12%) includes investments such as sustainable fashion and textiles.

Within the social impact category, social and community infrastructure (for example affordable housing), and employment and vocational training are the most popular.

IMPACT INVESTING

Awareness of, interest in and demand for impact investing products in New Zealand are on the rise. Impact investing grew by over 13 times, from $358 million in 2018 to $4.7 billion in 2019, representing 1.6% of New Zealand’s $153.5 billion responsibly managed market. The uptake and growth of impact investing is a response to increasing investor demand and the enduring societal and environmental challenges that we face globally and locally.

GSS Bonds in absolute terms dominate the impact investment approach, with 88% of AUM of impact investment and $4.2 billion in AUM as represented in Figure 33 overleaf. The Climate Bonds Initiative New Zealand Green Bonds and Infrastructure Report – 2019 highlighted that despite New Zealand’s small size and population, it has emerged as a global leader on climate action with its aggressive policies and ambitious climate targets.19 The existing green bond market is small but has momentum, adopting global best practice in the shift towards environmental and economic sustainability.

The green loans market is also another area of promising growth in New Zealand.

The largest bond issued in New Zealand in 2019 was Contact Energy’s Climate Bond, certified under the Climate Bonds Standard at the time of execution ($1.8 billion).20 The proceeds of Contact’s programme will be used to finance existing and future renewable generation assets that meet the Green Bond Principles and the Climate Bonds Standard.21

Another notable green bond was raised by Westpac New Zealand, which has become the first New Zealand bank to raise funding through the issuance of a green bond. The five-year green bond issued by Westpac
raised $844 million from European investors to support the funding of climate change solutions. It is no surprise that environment and conservation is one of the most frequently cited impact areas for New Zealand. Seventy percent of New Zealand’s export earnings directly rely on natural capital. Around 75% of consumptive freshwater is used for irrigation. In these regions, water demand is exceeding what is available and sustainable, which will likely continue as the climate warms.

New Zealand’s impact investment market also consists of many small but impactful transactions conducted by trusts, foundations, social enterprises and investment managers. These finances have included small-scale lending, social loans and financial services that have been extended to community enterprises, charitable organisations and families through a range of specialised services and progressive philanthropic organisations.

A notable example of this includes the Impact Enterprise Fund, which has raised $8.7 million with two primary objectives: delivering market-rate financial returns, and delivering tangible societal and environmental outcomes. The Impact Enterprise Fund invests in for-profit businesses seeking to make a meaningful contribution to life in New Zealand and beyond. The target sectors of the fund include clean energy, agriculture technology, education, sustainable food production and healthcare. One of the Fund’s portfolio companies, Grounded, is committed to empowering businesses to find sustainable packaging solutions, and its ethos derives from the Ellen MacArthur Foundation’s vision for a circular economy where all packaging is 100% reusable, recyclable or compostable.

In November 2019, the Purpose Capital Impact Fund achieved its ‘first close’ target of raising $20 million. The Fund consists of corporate foundation heavyweights, high net-worth individuals, the philanthropic sector and family trusts. The purpose of the Fund is to invest in innovative solutions to New Zealand’s social and environment problems, and potential opportunities include regenerative agriculture on dairy farms, urban transportation, green housing, social housing and social improvement through horticulture projects partnering with rural iwi.

Survey respondents from RIAAs 2019 Impact Investor Insights report (n=50) were asked to indicate the impact areas to which their portfolio is weighted. Figure 34 outlines the areas that have attracted the largest percentage of current investments (not the greatest amount of money) among respondents. Overall, respondents indicated they are interested in a broad range of sectors, as shown by the relatively low percentages illustrated in the ‘top three’ infographic.

The most common impact investment areas are environment and conservation, and clean energy, making up more than 30% of current impact investments.

It is no surprise that environment and conservation is one of the most frequently cited impact areas for New Zealand. Seventy percent of New Zealand’s export earnings directly rely on natural capital. Around 75% of consumptive freshwater is used for irrigation. In these regions, water demand is exceeding what is available and sustainable, which will likely continue as the climate warms. That puts New Zealand’s key economic sectors at risk of an increasingly insecure and unsustainable resource, and hence the urgent need for investment in this sector.

Many respondents also report that they have invested in multi-sector funds, while the remaining impact investments are dispersed across the other 15 impact area options. Trusts, foundations and not-for-profits differ from other investor groups in that their current focus areas for impact investment are housing and homelessness, children and/or issues affecting young people, and employment and vocational training.

Note: The following 13 options were provided: ageing and aged care; children and/or issues affecting young people; clean energy; culture and arts; gender equality or economic opportunities for women; disability; education; employment and vocational training; environment and conservation; financial inclusion; global poverty and income inequality; health (including medical research); housing and homelessness; in-country entrenched disadvantage and income inequality; Māori community development or wellbeing/Tangata Whenua or iwi member wellbeing; Indigenous peoples outside of New Zealand; minorities and social inclusion; and other(s).
To populate this section of the report, data is used from three sources: primary research conducted for this report (survey data), desktop research, and data extracted from RIAA’s Impact Investor Insights 2019 Aotearoa New Zealand report. These data sources draw on different samples of investment managers with differing intent. This report contains data from investment managers that perform impact investing as one part of their mainstream investment approach and data from the Impact Investor Insights 2019 survey New Zealand investors completed about impact investment activity.

Impact Investor Insights

In 2019, RIAA published the Impact Investor Insights 2019 Aotearoa New Zealand report in partnership with the University of Auckland. The report highlights the level of awareness and interest, perceived barriers and priorities (impact area, geography and asset class) of investors in regard to impact investing in New Zealand. Data was sought from investors that are already making impact investments (‘active impact investors’) and those ‘investors not yet active in impact investing.’ A survey was distributed in July 2019 and received a strong response rate across most investor types, with 99 included in the final survey sample.

The key highlights of the report are as follows:

- Investments that deliver measurable, positive social and environmental impact are set to grow exponentially in Aotearoa New Zealand over coming years.
- Survey respondents anticipate allocating a total of $5.9 billion to impact investing in the medium term (5 years +).
- Environment and conservation, clean energy and health are the most popular impact areas.
- 77% of impact investors expect competitive or above market rates of return, and 81% of impact investors consider their financial expectations are being met or exceeded.
- In New Zealand, impact investments have, for example, facilitated recycling carbon waste into valuable fuels and chemicals; provided families with access to rent-to-own affordable housing; and developed AI for special-needs schools.
In a time of massive market disruption brought on by responses to the global COVID-19 pandemic, RIAA’s briefing note ‘COVID-19 and the Performance of Responsible Investments’ explores how responsible investment funds that integrate ESG have performed compared to the rest of the market. Research undertaken by MSCI, AXA Investment Managers, Fidelity International, Schroders, BlackRock and Morningstar demonstrates that more sustainable companies are performing better and responsible investment funds are largely continuing to outperform the general market. In New Zealand, ethical funds on Mindful Money’s platform were found to have outperformed the Morningstar average for January to March 2020.

For the first time in the New Zealand Benchmark report, investment manager financial performance has been reported for the one-, three-, five- and ten-year time horizons.

The average performance (see Figure 35) in each time horizon has been determined using the asset-weighted returns (net of fees) as reported by survey respondents.

Due to a relatively small sample size, the varying duration of funds in the sample and the impact of these factors on tracking error, it is not meaningful to compare the results of the domestic and international share funds with mainstream benchmarks. However, a comparison was performed for the responsible investment multi-sector growth fund against Morningstar’s multi-sector KiwiSaver index and the results show that the New Zealand responsible investment fund matched or outperformed this benchmark for all time horizons except the 10-year horizon.

| FIGURE 35 | Performance of responsible investment funds (weighted average performance net of fees over 10 years) |
| --- | --- | --- | --- | --- |
| New Zealand share funds | 1 Year | 3 Years | 5 Years | 10 Years |
| Responsible Investment Fund Average (between 1 and 12 funds depending on time period) | 11% | 7% | 9% | 4% |
| International share funds | 1 Year | 3 Years | 5 Years | 10 Years |
| Responsible Investment Fund Average (between 6 and 12 funds depending on time period) | 22% | 14% | 12% | 9% |
| Multi-sector growth funds | 1 Year | 3 Years | 5 Years | 10 Years |
| Responsible Investment Fund Average (between 9 and 20 funds depending on time period) | 17% | 9% | 10% | 7% |
| Morningstar Multisector KiwiSaver Fund Average | 16% | 9% | 8% | 8% |

| Outperformed by the average RI fund | Underperformed by the average RI fund |

**COVID-19 and the performance of responsible investments**

In a time of massive market disruption brought on by responses to the global COVID-19 pandemic, RIAA’s briefing note ‘COVID-19 and the Performance of Responsible Investments’ explores how responsible investment funds that integrate ESG have performed compared to the rest of the market. Research undertaken by MSCI, AXA Investment Managers, Fidelity International, Schroders, BlackRock and Morningstar demonstrates that more sustainable companies are performing better and responsible investment funds are largely continuing to outperform the general market. In New Zealand, ethical funds on Mindful Money’s platform were found to have outperformed the Morningstar average for January to March 2020.

The thesis that responsible investing supports stronger outcomes for society and the environment, alongside delivering superior financial returns, has been put to one of its toughest market tests with the COVID-19 pandemic. The COVID-19 crisis has highlighted that investment managers executing ESG integration approaches are more resilient to the downside experienced during economic recent economic volatility.
To gain further insight into the increased use of responsible investment approaches, RIAA asked survey respondents to indicate the key drivers pushing them towards adopting responsible investment approaches and the key factors hindering it.

**KEY GROWTH FACTORS**

Survey respondents were asked to identify the top three drivers for growth in their responsible investment funds; these are shown in Figure 36.

Survey respondents indicated that growing interest from underlying investors to align investments with mission or values is the key reason for growth (44%). Demand from retail investors is the second-largest driver for 38% of funds, followed by the expectation that responsible investment funds perform in the long term or mitigate risks (26%).

International initiatives or commitments for sustainable finance are driving growth in funds managed by survey respondents for 3% of investors, down from 5% in 2018. Developments include the EU taxonomy for sustainable activities and PRI. Such initiatives enable investors to contribute systematically to the transition to a more resilient and sustainable economy.

No survey manager in 2018 or 2019 considered SDG performance or external pressure from non-government organisations, media and trade unions.

**GROWTH DETERRENTS**

Survey respondents noted that the key factors restricting growth of AUM into responsible investments are performance concerns (35%), lack of awareness from members of the public (34%), lack of viable product options (26%) and lack of understanding and advice (19%) (see Figure 37). It is worth noting that ‘lack of viable product options’ has decreased since 2018 for survey respondents recording deterrents to responsible investing. This may reflect an increased confidence in the information available and in advisers as well as evidence of an increasing range of Certified
Responsible Investment products coming to market (see www.responsiblereturns.co.nz). The growth in ‘mistrust/concern about green washing’ is to be watched closely with local responses to this finding as well as developments from connected markets such as the EU. The EU is leading on tightening laws covering investment products that trade in the EU as ‘sustainability’ labelled.

**ESG DATA AVAILABILITY AND RELIABILITY**

Figure 38 shows sources of information used in making investment decisions on responsible investment. Survey respondents mostly use external ESG data providers, followed by the prospective company’s own sustainability reporting, or other target company reporting, for example the annual report or company website.
APPENDIX 1A: ABBREVIATIONS

AUM  Assets under management
ESG  Environmental, social and governance
EU   European Union
FMA  Financial Markets Authority
GSIA Global Sustainable Investment Alliance
GSS Bonds  Green, Social and Sustainability Bonds
IGCC Investor Group on Climate Change
IMMCOP Impact Management & Measurement Community of Practice
IMP  Impact Management Project
NZGIF New Zealand Green Investment Finance Ltd
PSF  Platform on Sustainable Finance
PRI  Principles for Responsible Investment
RBNZ Reserve Bank of New Zealand
RI   Responsible investment
RIAA Responsible Investment Association Australasia
RI AUM Responsible investment assets under management
SDGs Sustainable Development Goals
SIBs Social Impact Bonds
SFF Sustainable Finance Forum
SRI Socially responsible investing
TAUM Total assets under management
TEG  Technical Expert Group on Sustainable Finance (EU)
TCFD Taskforce on Climate-Related Financial Disclosures
UN United Nations

APPENDIX 1B: DEFINITIONS

Definitions for each of the seven responsible investment strategies:
The following guidance was provided to participants to help them with self-classifying the style of responsible investment approaches applied to their investments.

Integration of ESG
GSIA states: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis.
RIAA elaborates: the explicit inclusion by investment managers of environmental, social and governance risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources. This approach rests on the belief that these factors are a core driver of investment value and risk.

Negative or exclusionary screening
Negative screening of investments is the systematic exclusion from a fund or portfolio of certain sectors, companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer, for example, to product categories (e.g. weapons, tobacco), company practices (e.g. animal testing, violation of human rights, corruption) or controversies.

Norms-based screening
Norms-based screening involves the screening of investments that do not meet minimum standards of business practice. Standards applied are based on international norms and conventions such as those defined by the UN. In practice, norms-based screening may involve the exclusion of companies that contravene the UN Convention on Cluster Munitions, as well as positive screening based on ESG criteria developed through international bodies such as the United Nations Global Compact, International Labour Organization, United Nations Children’s Fund, and the UN Human Rights Council.

Corporate engagement and shareholder action
Corporate engagement and shareholder action refers to the employment of shareholder power to influence corporate behaviour. This may be conducted through...
measurability and contribution: satisfy three core principles: intentionality, RIAA elaborates: impact investments or environmental purpose.

provided to businesses with a clear social communities, as well as financing that is traditionally underserved individuals and where capital is specifically directed to at solving social or environmental problems.

The GSIA includes best-in-class screening, the involvement in investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers. However, RIAA and its members are increasingly integrating best-in-class as a supplementary lens to ESG integration.

Sustainability-themed investing
Sustainability-themed investing relates to investment in themes or assets specifically related to improving social or environmental sustainability. This commonly involves funds that invest in clean energy, green technology, sustainable agriculture and forestry, green property or water technology.

Impact investing
GSIA states: targeted investments aimed at solving social or environmental problems where capital is specifically directed to traditionally underserved individuals and communities, as well as financing that is provided to businesses with a clear social or environmental purpose.

RIAA elaborates: impact investments satisfy three core principles: intentionality, measurability and contribution:

Measurability
3) an investor or manager has an impact thesis; and
4) has a demonstrated process for managing impact; and
5) at least annually reports impact performance to relevant external stakeholders; and

Contribution
6) at a minimum, the investor or manager can demonstrate that they signal that impact matters (this means to proactively and systematically consider measurable positive and negative enterprise impacts in their investment decision-making); and
7) communicates this consideration to external stakeholders.

The Impact Management Project (IMP) convention classifies the impact performance (or goals) of an enterprise as either:

A. (Act to avoid harm) – the enterprise prevents or reduces significant effects on important negative outcomes for people and planet; or
B. (Benefits stakeholders) – the enterprise not only acts to avoid harm, but also generates various effects on positive outcomes for people and the planet; or
C. (Contributes to solutions) – the enterprise not only acts to avoid harm, but also generates one or more significant effect(s) on positive outcomes for otherwise under-served people and the planet.

APPENDIX 2: METHODOLOGY

REPORTING BOUNDARY
This report covers the 2019 calendar year and, where possible, data disclosed has been recorded as of 31 December 2019. Data from some investment managers was not available on a calendar year basis and in these cases, data was taken from the closest available reporting date. All financial figures are presented in New Zealand dollars.

The financial sector is a globalised industry. Responsible investment funds may be held in one country, managed in another and sold in a third, meaning that a level of estimation is applied in order to demarcate the boundary of the New Zealand market. This report is intended to inform readers of the range of responsible investment products that are available in New Zealand. As such, it includes assets managed within the New Zealand region, as well as assets managed outside the region where these are on behalf of New Zealand clients.

The Reserve Bank of New Zealand’s funds under management data has been used as the basis of approximating the size of the professionally managed investment market in New Zealand. This data specifically excluded funds from the New Zealand Superannuation Fund (NZ Super) and the Accident Compensation Corporation (ACC). Consequently, to estimate TAUM, the AUM of both NZ Super and ACC (less mandates to New Zealand investment managers already included in the analysis) were added to the Reserve Bank AUM figures.

This research is primarily targeted at investment managers, rather than asset owners, with a focus on capturing the underlying managers of the capital being deployed responsibly in this market. Data was captured from asset owners to the extent that they directly managed investments in-house.

DATA COLLECTION

Data used to compile this report was generously provided and collected from the following sources:

- directly supplied by investment managers and asset owners;
- RIAAs databases;
- RIAA’s Impact Investor Insights 2019 Aotearoa New Zealand study; and
desktop research of publicly available information regarding assets under management, performance data and investment approaches from sources including company websites, annual reports and PRI Transparency Reports.

A total of 58 investment managers were targeted as respondents to this survey; 22 financial institutions responded by providing information directly while 36 were assessed through desktop analysis. In total, this research managed to gather a comprehensive summary of the full responsible investment market in New Zealand. Responses that identify the key drivers of responsible investment and detractors were only taken from survey respondents. No data has been extrapolated from its original source.

DATA SELF-CLASSIFICATION

Those investment managers that completed the online survey were asked to self-classify their funds under management covered by the seven responsible investment approaches. For example, an investment manager would indicate that 40% of their asset classes are covered by a sustainability-themed investment approach.

Through discussion with the investment managers and an analysis of survey
responses, it was ascertained that there is a grey area when classifying sustainability-themed investing and impact investing. The latter term is being used in the market as a colloquial term for any style of themed allocation towards solution-style investments, such as renewable energy.

The research methodology includes cursory checks over self-declared data, but the data is not assured. RIAA continues to inform and educate the market about the differences between these styles of investment and how to self-classify.

**DATA ANALYSIS AND REPORTING**

The RIAA online survey aimed to capture data from funds where the investment decision is made internally/directly at the asset level and where the funds are managed on behalf of New Zealand beneficial owners.

As many investment managers apply several investment strategies, the data collection survey required respondents to identify a single primary responsible investment approach. The survey also requested that respondents nominate any secondary strategies, identify any overlap of approaches and help in categorising funds. This approach was used to create an accurate depiction of the responsible investment environment in New Zealand.

Where investment managers have applied multiple responsible investment approaches (e.g. a fund may apply ESG integration as well as approaches such as negative or positive screening), we have categorised the fund according to the primary responsible investment approach being pursued. The primary approach is identified by the organisation in its survey response, however, RIAA performs a review of all survey responses to ensure that approaches are categorised consistently across the cohort of responses and that investor responses are categorised consistently year-on-year.

Fund overlaps between survey respondents have been removed, where identified, from the reported figures. RIAA is continuously working to improve its data collection process to enhance the quality of reported figures and to ensure that all products in the New Zealand market are identified.

It is important to note that all information in this survey is ‘self-reported’ by survey respondents and only limited analysis is performed over statements made. There is no assurance of statements.

**DATA COMPLETENESS**

Many of the products in the New Zealand responsible investment market are not bound by any public reporting, disclosure requirements or independent review (assurance). This report includes both retail and wholesale investment products, and increasingly, superannuation fund mandates, individually managed accounts and separately managed accounts. Some investment custodians are reluctant to supply information for reasons of privacy or commercial confidentiality. Data pertaining to funds held outside of managed responsible investment portfolios was not accessible. For this reason, as well as matters identified in the reporting boundary section above, this report provides a conservative depiction of the responsible investment environment in New Zealand.

**APPENDIX 3: RESPONSIBLE INVESTMENT SCORECARD**

The expanded scorecard examines and scores organisations against the four drivers for responsible investing (of equal weighting):

1. Walking-the-talk
   - coverage of total AUM by responsible investment or ESG practices;
   - publicly stated commitments to responsible investment;
   - responsible investment policy; and
   - commitments to the transparency.

2. Managing risk
   - systematic processes for ESG integration as well as evidence demonstrating how this process is applied as part of traditional financial analysis;
   - disclosure of ESG integration; and
   - evidence of systematic and transparent application of screens.

3. Building better Beta
   - evidence of activity in other areas of active ownership and stewardship including voting and engagement; and
   - membership of a collaborative investor initiative.

4. Allocating capital
   - systematic and transparent positive screening and/or sustainability investment criteria; and
   - intentional, systematic and transparent process of contributing to solutions by way of impact investment criteria and measurement.

RIAA assessed New Zealand and a selection of international investment managers that have an active presence in New Zealand based on their publicly available information including websites, PRI transparency reports and all other available material. All investment managers were scored using the Responsible Investment Scorecard criteria.

This year, investment managers were given the opportunity to score themselves against the Responsible Investment Scorecard via completion of an online survey. These results were then cross-referenced against the responsible investment score awarded, and some allowances have been given for funds taking credit in areas where it was possibly not clear enough and/or for measuring other factors, and scores were harmonised if required.

Only those investment managers that scored 75% or more have their AUM included in the responsible investment AUM total. RIAA took this approach so that only those demonstrating leading practice would be included in determining the size of the New Zealand responsible investment market. This methodology was fairly applied to investment managers across all asset classes and sizes.

See table for detailed scoring methodology for this year’s report.
## Core pillars and weighting

### 1. Stronger brand value: Walking-the-talk = 5 points

<table>
<thead>
<tr>
<th>Question description</th>
<th>Scoring methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Coverage of total AUM by responsible investment</td>
<td></td>
</tr>
<tr>
<td>What proportion of all AUM is being managed with a responsible investment strategy?</td>
<td>1.0 = 100%</td>
</tr>
<tr>
<td></td>
<td>0.75 = 75% – 99%</td>
</tr>
<tr>
<td></td>
<td>0.5 = 50% – 74%</td>
</tr>
<tr>
<td></td>
<td>0.1 = 10%-49%</td>
</tr>
<tr>
<td>1.2 Responsible investment policy</td>
<td></td>
</tr>
<tr>
<td>Does your organisation have a responsible investment policy?</td>
<td>2.0 = yes and publicly disclosed</td>
</tr>
<tr>
<td>Is your responsible investment policy disclosed publicly?</td>
<td>1.0 = yes, not public</td>
</tr>
<tr>
<td>The policy needs to outline your organisation’s principles, commitments and approach to responsible investment.</td>
<td>0 = no</td>
</tr>
<tr>
<td>1.3 Commitment to transparency</td>
<td></td>
</tr>
<tr>
<td>1.3.1 Disclosure of responsible investment commitment</td>
<td>1.0 = responsible investment approach is disclosed in greater detail, such as including link to PRI Report and/or responsible investment approach</td>
</tr>
<tr>
<td>Does your organisation report its approach to responsible investing and its implementation clearly on its website?</td>
<td>0.5 = self-declared as doing responsible investment but no detail</td>
</tr>
<tr>
<td>1.3.2 Disclosure of fund holdings</td>
<td>1.0 = disclosure of FULL fund holdings</td>
</tr>
<tr>
<td>Does your organisation disclose a FULL list of its investments?</td>
<td>0.5 = some holdings are disclosed</td>
</tr>
<tr>
<td>2. Better risk-adjusted returns: Managing risk = 5 points</td>
<td></td>
</tr>
</tbody>
</table>

### 2.1 Systematic process for ESG: Is there evidence of integrating ESG into traditional financial analysis described?

<table>
<thead>
<tr>
<th>Question description</th>
<th>Scoring methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.1 ESG embedded into strategy</td>
<td></td>
</tr>
<tr>
<td>How embedded is ESG integration into strategy? Does responsible investment approach account for the explicit inclusion of ESG factors?</td>
<td>0.5 = at least one aspect considered or all 4</td>
</tr>
<tr>
<td>Select all that are relevant to your approach to ESG integration. ESG factors are systematically considered in the:</td>
<td>0 = no aspects considered</td>
</tr>
<tr>
<td>A. selection, retention and realisation of assets</td>
<td></td>
</tr>
<tr>
<td>B. construction of portfolios</td>
<td></td>
</tr>
<tr>
<td>C. risk assessment and management</td>
<td></td>
</tr>
<tr>
<td>D. selection, assessment and management of managers (if you use external managers).</td>
<td></td>
</tr>
<tr>
<td>2.1.2 Extent of relevant asset class that ESG covers</td>
<td></td>
</tr>
<tr>
<td>What is the extent of relevant asset classes covered by your explicit and systematic approach to ESG integration?</td>
<td>0.5 = equities, fixed income corporate, fixed income sovereign OR at least 85% of AUM</td>
</tr>
<tr>
<td>0.3 = at least two main asset classes OR 75% of AUM</td>
<td></td>
</tr>
<tr>
<td>0.1 = at least one main asset class OR 50% of AUM</td>
<td></td>
</tr>
<tr>
<td>0 = no option selected</td>
<td></td>
</tr>
<tr>
<td>2.1.3 ESG factors in investment analysis</td>
<td></td>
</tr>
<tr>
<td>Consider how your organisation demonstrates the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions. Select all that are relevant.</td>
<td>1.0 = all 4</td>
</tr>
<tr>
<td>A. ESG analysis is integrated into fundamental analysis</td>
<td></td>
</tr>
<tr>
<td>B. ESG analysis is used to adjust forecasted financials and future cash flow estimates</td>
<td>0.75 = at least 3</td>
</tr>
<tr>
<td>C. ESG analysis is integrated in portfolio weighting decisions</td>
<td></td>
</tr>
<tr>
<td>D. Companies, sectors, countries and currency are monitored for changes in ESG exposure and for breaches in risk limits</td>
<td>0.5 = at least 2</td>
</tr>
<tr>
<td>0.2 = at least 1</td>
<td></td>
</tr>
<tr>
<td>0 = no option selected</td>
<td></td>
</tr>
<tr>
<td>2.1.4 Disclosure of ESG integration</td>
<td></td>
</tr>
<tr>
<td>Does your organisation disclose its approach to ESG integration? (such as through PRI reporting, website etc.)</td>
<td>1.0 = yes</td>
</tr>
<tr>
<td>0 = no</td>
<td></td>
</tr>
<tr>
<td>2.2 Evidence of systematic and transparent application of screens</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question description</th>
<th>Scoring methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2.1 Applying screens to investments</td>
<td></td>
</tr>
<tr>
<td>Does your organisation have a transparent and systematic process of applying screens (such as norms-based, controversies and negative screens)?</td>
<td>1.0 = yes</td>
</tr>
<tr>
<td>0 = no</td>
<td></td>
</tr>
<tr>
<td>2.2.2 Revenue and activity thresholds applied to screens</td>
<td></td>
</tr>
<tr>
<td>Does your organisation disclose revenue and activity thresholds applied to screens?</td>
<td>1.0 = yes</td>
</tr>
<tr>
<td>0 = no</td>
<td></td>
</tr>
</tbody>
</table>
### 3. Better system stability and sustainability: Building better Beta = 5 points

#### 3.1 Evidence of activity in other areas of active ownership & stewardship: voting

To what extent does the organisation demonstrate stewardship and active ownership commitments, such as through voting and proxy voting?

<table>
<thead>
<tr>
<th></th>
<th>2.0 = voting across all possible holdings (e.g. directly held equities, or in mandates for fund manager and other third parties to action) OR 1.0 = voting across those holdings for which the fund is materially exposed 0 = no voting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

#### 3.2 Evidence of activity in other areas of active ownership & stewardship: corporate engagement

Thinking about how the organisation demonstrates stewardship commitments, such as corporate engagements, select all of the following that are true.

<table>
<thead>
<tr>
<th></th>
<th>1.0 = company engagement reporting on activities AND 1.0 = company engagement reporting on outcomes 0 = no engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</table>

#### 3.3 Member of collaborative initiative

Is the organisation a member of a collaborative initiative? E.g. Investor Group on Climate Change, Principles for Responsible Investment, Climate Action 100+, other groups?

<table>
<thead>
<tr>
<th></th>
<th>1.0 = member of more than one group OR 0.5 = member of one group 0 = no groups</th>
</tr>
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<tbody>
<tr>
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</tbody>
</table>

### 4. Real-economy outcomes: Allocating capital = 5 points

#### 4.1 Evidence of systematic and transparent positive screening and/or sustainability investment criteria

What evidence exists of a systematic and transparent process of benefiting stakeholders (positive screening and/or sustainability themed investing)? Select all that apply.

<table>
<thead>
<tr>
<th></th>
<th>1.0 = explanation of positive social or sustainability-themed screen, including disclosure of thresholds and materiality for investment (e.g. GRESB, Green Star rating etc.) 1.0 = extra-financial targets set (e.g. at least 30% lower carbon intensity than index) 1.0 = company engagement case studies or other evidence demonstrating benefit to stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

#### 4.2 Evidence of intentional, systematic and transparent process of contributing to solutions by way of impact investment criteria and measurement

Is there evidence of an intentional, systematic and transparent process of contributing to solutions (impact investing and measurement of impact)?

<table>
<thead>
<tr>
<th></th>
<th>1.0 = investment criteria including intentionality as evidenced by publicly disclosed impact thesis and/or setting of impact targets, for example AND 1.0 = measurement and reporting on real-economy outcomes from investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX 4: SURVEY RESPONDENTS

AMP Capital Investors (NZ) Limited
Anglican Financial Care
ANZ New Zealand Investments Limited
ASB Group Investments
Bay Trust
Booster Investment Management
BT Funds Management
Devon Funds Management
Harbour Asset Management
Kiwi Wealth Investments (Kiwi Wealth)
Medical Assurance Society
Mercer (N.Z.) Limited
Milford Asset Management
Mint Asset Management
New Forests
New Zealand Superannuation Fund
Northern Trust Asset Management
Pathfinder Asset Management
PIMCO Pty Ltd NZ
Simplicity
Southern Pastures Management Partners Limited
Trust Management

APPENDIX 5: OTHER ORGANISATIONS USED IN DATA (DESKTOP RESEARCH)

Accident Compensation Corporation
Antipodes Partners Limited
Aon Master Trust
Auckland Council
Avoca Investment Management
BNZ Investment Services Ltd (Bank of New Zealand)
Castle Point Funds Management Limited
Dairy Farms NZ Limited
Direct Capital
Farm Ventures Ltd
Fiducian Funds Management
Fisher Funds Management
Forsyth Barr Investment Management
Generate Investment Management
Government Superannuation Fund Authority
HRL Morrison & Co Ltd
Impact Enterprise Fund
New Ground Capital
New Zealand Green Investment Finance
New Zealand Methodist Trust Association
Nikko Asset Management
Otago Community Trust
Pencarrow Private Equity Management
Pie Funds Management
Pioneer Capital Partners
QuayStreet Asset Management
Rata Foundation
Revolution Asset Management
Russell Investments
Salt Funds Management
Smartshares
Soul Capital
Stride Property
The New Zealand Anglican Church Pension Board
Trust Waikato
WEL Energy Trust