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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](image-url)

*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.
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).

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**FIGURE 6** Proportion of AUM covered by an explicit and systematic approach to ESG integration

**FIGURE 7** Reporting on corporate engagement activities and outcomes

**FIGURE 8** Frequency of issues being screened (by number of survey respondents that negatively screen)
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 RIAA’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 intuitions 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 out-perform 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.

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# FIGURE 12 Impact investing breakdown in New Zealand by investment category ($billion)

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green, Social &amp; Sustainability (GSS) Bonds</td>
<td>$0.57</td>
<td>$4.17</td>
</tr>
<tr>
<td>Other - including private equity and venture capital, private debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total AUM:</strong></td>
<td>$4.74</td>
<td></td>
</tr>
</tbody>
</table>

# FIGURE 13 Key drivers of market growth by survey respondents

<table>
<thead>
<tr>
<th>Driver</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Align to mission</td>
<td>25%</td>
<td>44%</td>
</tr>
<tr>
<td>Demand from retail investors</td>
<td>24%</td>
<td>38%</td>
</tr>
<tr>
<td>Expected long term performance or risk mitigation</td>
<td>29%</td>
<td>26%</td>
</tr>
<tr>
<td>ESG factors impact on performance</td>
<td>51%</td>
<td>26%</td>
</tr>
<tr>
<td>Fiduciary duty</td>
<td>13%</td>
<td>29%</td>
</tr>
<tr>
<td>Demand from institutional investors</td>
<td>27%</td>
<td>18%</td>
</tr>
<tr>
<td>ESG risk management</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Social benefit</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>International initiatives</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>Industry competition</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Regulatory requirements (FMA or TCFD)</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

# FIGURE 14 Performance of responsible investment funds (weighted average performance net of fees over 10 years)

<table>
<thead>
<tr>
<th>Fund Category</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand share funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible Investment Fund Average (between 1 and 12 funds depending on time period)</td>
<td>11%</td>
<td>7%</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>International share funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible Investment Fund Average (between 6 and 12 funds depending on time period)</td>
<td>22%</td>
<td>14%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Multi-sector growth funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible Investment Fund Average (between 9 and 20 funds depending on time period)</td>
<td>17%</td>
<td>9%</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>Morningstar Multisector KiwiSaver Fund Average</td>
<td>16%</td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>
Disclaimer

KPMG’s input into this report has been prepared at the request of the Responsible Investment Association Australasia (RIAA) in accordance with the terms of KPMG’s engagement letter dated 04 March 2020. The services provided in connection with KPMG’s engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by The New Zealand Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

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.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, asset managers and owners consulted as part of the process.

The sources of the information provided are indicated in this report. KPMG has not sought to independently verify those sources. Neither KPMG nor RIAA are under any obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form. The report is intended to provide an overview of the current state of the responsible investment industry, as defined by RIAA. The information in this report is general in nature and does not constitute financial advice, and is not intended to address the objectives, financial situation or needs of any particular individual or entity. Past performance does not guarantee future results, and no responsibility can be accepted for those who act on the contents of this report without obtaining specific advice from a financial or other professional adviser. As the report is provided for information purposes only, it does not constitute, nor should be regarded in any manner whatsoever, as advice intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Neither RIAA nor KPMG endorse or recommend any particular firm or fund manager to the public.

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The suggested citation for this report is Boele, N & Bayes, S 2020, Responsible Investment Benchmark Report 2020 New Zealand, Responsible Investment Association Australasia, Sydney.

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