Thank you

INDUSTRY PARTNERS

NZ SUPER FUND
The $58 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
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 50 years we have worked relentlessly to help millions of investors pursue their objectives – regardless of shifting market conditions. Our active ESG investment process is based on the same rigorous approach applied to all PIMCO portfolios and aims to support long-term, sustainable economic growth globally.

As at June 30, 2021 we managed US$2.2 trillion on behalf of our clients. Our professionals work across the globe, united by a single purpose: creating opportunities for investors in every environment.

SURVEY RESPONDENTS
We are extremely grateful to the 21 investment managers that responded to the survey. They are listed in Appendix 5.

DATA SUPPORT

MORNINGSTAR
Morningstar Australasia is a subsidiary of Morningstar, Inc., a global leading provider of independent investment research. We offer an extensive line of products and services for individual investors, financial advisers, asset managers, retirement plan providers and sponsors, and institutional investors in the private capital markets.

Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets and real-time global market data.

In July 2020, Morningstar Inc. acquired Sustainalytics, a globally recognised leader in environmental, social and governance (ESG) ratings and research. In December 2019, Morningstar Australasia Pty Limited acquired AdviserLogic, a cloud-based, financial planning software platform for financial advisers in Australia.
The annual Responsible Investment Benchmark Report Aotearoa 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 from 1 January to 31 December 2020 and compares these results with the broader New Zealand financial market. To allow the New Zealand responsible investment market to be compared to other regions, the classification of responsible investment practices used in this report is based on the seven approaches for responsible investment used by the Global Sustainable Investment Alliance (GSIA).

Out of a total of 47 investment managers that were part of this study, 21 responded to the survey. Nineteen respondents were investment managers while two were asset owners. Asset owners were only included if they directly manage investments. KPMG conducted desktop research over the remaining 26 investment managers based on publicly available information.

Throughout this report, a distinction is made between:

- the full investment management market comprised of all investment managers with operations in New Zealand;
- Total Funds Under Management (as defined by the Reserve Bank of New Zealand – RBNZ – and other sources); and
- Responsible Investment AUM (representing the assets under management covered by at least one responsible investment approach of Responsible Investment Leaders).

A distinction is also made between different entities in this report, namely:

- the Research Universe (the 47 investment managers that have self-declared as practising responsible investment); and
- the Responsible Investment Leaders (the 20 investment managers assessed by RIAA as applying a leading approach to responsible investment).

This project was led by Nicolette Boele, Zsuzsa Banhalmi-Zakar, Samantha Bayes, Elyse Vaughan, Mark Spicer, and Louise Jacobsson. RIAA commissioned KPMG to undertake the data collection and analysis for this report. KPMG also provided the platform for the online survey. Data is compiled from primary research (survey data) and secondary research on publicly available data. 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 and a sustainable financial system in Australia and New Zealand and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 400 members managing more than US$29 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. 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 recognises that we live in an era of extraordinary environmental and social challenges - unprecedented in scope, complexity and speed of change. In response, KPMG has launched “IMPACT” – a new way of working to help clients effectively navigate these challenges, fulfil their purpose, and deliver positive change to stakeholders for an inclusive, prosperous, and resilient Aotearoa New Zealand.

KPMG IMPACT provides investment managers, asset owners and private equity with multi-disciplinary teams drawn from across KPMG, united by their mission, and offering a unique range of complementary skills that include climate change risk and opportunity assessments, scenario analysis and stress testing, sustainable finance, impact measurement, TCFD-aligned disclosures, integrated reporting, and assurance.
KEY FINDINGS

1. Nearly half (20 out of 47) of investment managers engaged in responsible investing were assessed as Responsible Investment Leaders, compared to only one-quarter in 2019. Responsible Investment Leaders are investment managers that scored at least 15 out of 20 on RIAA’s Responsible Investment Scorecard. Responsible Investment Leaders demonstrate strong collaborative stewardship and consider ESG factors explicitly and systematically in the valuation of assets, construction of portfolios and allocation of capital. They are decidedly transparent, reporting publicly on their activities to improve environmental and social sustainability, and increasingly striving to do the same on the outcomes they achieve.

2. Responsible Investment AUM increased to $142 billion in 2020, representing 43% of Total Funds Under Management, up from 38% in 2019. In 2020, responsible investments grew more than twice as fast as the total market – Responsible Investment AUM grew by 28%, while Total Funds Under Management grew by 11%.

3. Responsible Investment Leaders are strong stewards through active engagement such as voting, and are more apt at managing ESG risks in financial decisions than non-leaders. Both Responsible Investment Leaders and non-leaders demonstrate strong commitment to responsible investment. Both groups falter when it comes to allocating capital to target sustainability outcomes. This signals that measurement and monitoring of real world outcomes will be the next challenge for all investment managers that are committed to responsible investment.

FIGURE 2 Growth in Responsible Investment AUM and Total Funds Under Management in New Zealand ($ billions)

FIGURE 3 Responsible Investment Scorecard results of investment managers in the Research Universe

FIGURE 4 Average scores of Responsible Investment Leaders and non-leaders on RIAA’s Responsible Investment Scorecard

Note: Total Funds Under Management for 2019 and 2020 is based on the Reserve Bank of New Zealand (RBNZ) and the ACC and NZ Super Fund. Responsible Investment AUM for 2019 has been adjusted from $153.5 billion to $111 billion due to a self-reporting error in 2019. Due to rounding of percentages, total may not equal 100%.
The top three responsible investment approaches (by AUM) are negative/exclusionary screening, followed by ESG integration, and corporate engagement and shareholder action.

Every responsible investment approach except impact investing experienced growth in coverage of AUM in 2020 compared to 2019, with positive screening and sustainability-themed investing seeing the highest growth rates.

A significant majority of the Research Universe (83%) is committed to responsible investment by disclosing responsible investment policies publicly. A further 6% has a policy that is not disclosed to the public.

Disclosure of responsible investment policies accelerated in 2020 compared to 2019, while the proportion of investment managers that do not produce a responsible investment policy decreased to 11% from 29% in the previous year.

Most investment managers (76%) have at least one asset class or at least half of their total AUM covered by an explicit and systematic approach to ESG integration. In 2020, 66% of investment managers have more than three asset classes (or 85% of their AUM) covered, up from 48% in 2019.

This growth in coverage of ESG integration mirrors trends occurring internationally – a deepening and broadening of ESG factors being factored into valuations, asset allocation and other investment decisions.
Investment managers are improving transparency through stewardship activities. Thirty-six percent of investment managers report on both activities and outcomes compared with only 24% in 2019. The proportion of investment managers who report on either activities or outcomes also increased. Still, over a quarter of investment managers surveyed do not report on corporate engagement at all.

These trends show that during 2020, active ownership practices continued to mature, with more active, considered and targeted use of corporate engagement and shareholder action.

Exclusion categories in the products offered by investment managers are not always aligned with the exclusions that consumers seek. On RIAA’s Responsible Returns online tool, over 25% of consumers sought to exclude fossil fuels in 2020 and 15% sought to exclude companies that commit human rights abuses. In contrast, the most frequently excluded themes by investment managers are tobacco (22%), followed by fossil fuels (16%) and weapons and firearms (15%).

Closing the gap between consumer demand and industry practice with respect to exclusions remains a significant opportunity for investment managers.

Sustainability-themed investing has grown dramatically as a responsible investment approach. Climate change is the most prominent sustainability theme followed by natural capital, while investments dropped significantly in all other categories compared to 2019.

The climate change theme includes investments in renewable energy, energy efficiency and low carbon. Natural capital includes biodiversity conservation, healthy waterways and sustainable land and water management.
Average performance of responsible investment funds was higher or similar to the performance of the S&P/NZX50 on all time horizons, while in the multi-sector growth fund category, the responsible investment average was on-par or slightly below Morningstar’s NZ Multi-sector Growth category.

The low number of funds remains a challenge in reporting and comparing the performance of responsible investment funds to mainstream funds this year, similarly to last year. RIAA is committed to improving this aspect of the Responsible Investment Benchmark Report Aotearoa New Zealand.

FIGURE 11 Performance of responsible investment funds and mainstream funds (average, net of fees over 10 years)

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
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</thead>
<tbody>
<tr>
<td>New Zealand share funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible investment fund average - Aus/NZ share funds*</td>
<td>18.5%</td>
<td>16.2%</td>
<td>15.6%</td>
<td>15.8%</td>
</tr>
<tr>
<td>S&amp;P/NZX50**</td>
<td>13.9%</td>
<td>15.9%</td>
<td>15.7%</td>
<td>14.7%</td>
</tr>
<tr>
<td>International share funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible investment fund average - International share funds*</td>
<td>6.6%</td>
<td>8.2%</td>
<td>9.0%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Morningstar category: NZ Multi-sector Growth**</td>
<td>10.1%</td>
<td>8.8%</td>
<td>9.4%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Multi-sector growth funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible investment fund average - Multi-sector growth funds*</td>
<td>8.3%</td>
<td>8.0%</td>
<td>7.8%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Morningstar category: NZ Multi-sector Growth**</td>
<td>10.1%</td>
<td>8.8%</td>
<td>9.4%</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

Note: Average performance of responsible investment funds was determined using the asset-weighted returns (net of fees) reported by survey respondents over one-, three-, five- and ten-year time horizons and compared to the mainstream fund performance from Morningstar Direct™. The S&P/NZX50 measures the performance of the 50 largest eligible stocks listed on the NZX by float-adjusted market capitalisation and covers approx. 90% of New Zealand equity market capitalisation.

* Data provided by survey respondents
** Data provided by Morningstar Direct™
Inherent Limitations

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 18 February 2021 and as described in the About this report section. 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 Australian Auditing and Assurance Standards Board and consequently no opinions or conclusions intended to convey assurance have been expressed.

The sources of the information provided are indicated in this report. KPMG has not sought to independently verify those sources. The information contained in this report has been prepared based on material gathered through a detailed industry survey and other sources (see Appendix 3: 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 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.

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 findings in this report have been formed on the above basis.

Third Party Reliance

KPMG’s input into this report is solely for the purpose set out in the About this report section and has been prepared for RIAA’s information. It is not to be used for any other purpose without KPMG’s prior written consent.

KPMG’s input into this report has been prepared at the request of the RIAA in accordance with the terms of KPMG’s engagement letter dated 18 February 2021. Other than KPMG’s responsibility to RIAA, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party’s sole responsibility.

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