MEDIA RELEASE

Information embargoed for release until Wednesday 8 September 2021

Responsible investment growth outpaces wider market: RIAA Benchmark Report 2021

The market for responsible investments in Aotearoa New Zealand has continued to soar in popularity to $142 billion in 2020, with responsible investment assets growing at more than twice the rate of overall professionally managed investments – the landmark annual study from the Responsible Investment Association Australasia (RIAA) has found.

The new RIAA report, researched in collaboration with KPMG, Responsible Investment Benchmark Report Aotearoa New Zealand 2021, shows that while the majority of the mainstream investment market claims to be responsibly invested, those funds engaging in leading practice responsible investment have seen an explosion in assets under management, increasing 28% to $142 billion in 2020 from $111 billion in 2019.

Additionally, the proportion of professionally managed funds now managed with leading practice responsible investment has grown to 43% in 2020.

“The proportion of New Zealand’s investment managers practising a leading approach to responsible investment nearly doubled in 2020, to comprise nearly half of investment managers purporting to engage in responsible investing,” said Nicolette Boele, Executive, Policy and Standards for RIAA.

“This trend suggests the quality of practice in New Zealand is pulling ahead of the Australian marketplace, where only a quarter of investment managers are engaging in leading practice responsible investment.”

“Meanwhile we are seeing those investment managers with ineffective responsible investment policies and poor processes being left behind as the capital moves out”.

“The shift of capital is being fuelled by changing consumer expectations, increasing regulation, strong financial performance and the rising materiality of different social and environmental issues - from climate change to racial inequity.”

“This is an industry in transition. There are rapid developments taking place across countries, regions and markets that are resetting expectations of both companies and investment managers. New standards and regulations are moving the industry towards leading standards of practice that contribute measurably to a more sustainable world. New Zealand is emerging as a leader in this regard.”

“The Sustainable Finance Forum’s Roadmap, and the recently launched Centre for Sustainable Finance, will also influence how well New Zealand aligns capital with the long term objectives of the country.”

“A key area for improvement for New Zealand responsible investors, and investment managers more generally, is in the specific allocation of capital to target sustainability outcomes. Increasingly, responsible investment is being defined not just by the strategies involved, but by the short and long term social and environmental outcomes that investors are targeting and generating through their responsible investment approaches.”
The promises and ‘ESG claims’ made by investment managers are coming under increased scrutiny. With regulation on sustainable investment on the rise both in New Zealand and globally, investors face increasing risks from legal action if claims made about their responsible investment products are not accurate" said Alton Pollard, Head of Sustainable Finance at KPMG New Zealand.

Climate change is front of mind for both the public and responsible investment managers. But negative screening approaches and the expectations of consumers don’t always align. For example, after fossil fuels, consumers most seek products that screen for human rights abuses and animal cruelty, while responsible investment managers focus on excluding tobacco, and weapons and firearms.

“There is an opportunity here for investment managers to design products which better match consumer values and issues of concern such as climate change, human rights, and animal cruelty” said Boele.

The study highlights that responsible investment transparency has developed, but there remains room for improvement. 83% of investment managers now publicly disclose their responsible investment policy and 49% disclose their full fund holdings.

Sustainability-themed investments are on the rise and increased more than 15-fold since 2019 to $21.7 billion AUM. Investment in climate change and natural capital-related themes make up the vast majority (94%) of these investments.

The RIAA Benchmark Report is the most comprehensive review of the responsible investment sector in Aotearoa New Zealand. The 2021 report reviewed the investment practices of 47 financial institutions.

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