Contact us

RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

Ground Floor, 555 Bourke St
Melbourne, VIC 3000
Australia

+61 3 7018 7653
info@responsibleinvestment.org
responsibleinvestment.org

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PIMCO is pleased to sponsor RIAA’s Responsible Investment Super Study 2021. Just as we are proud to partner with many clients who demonstrate leadership in pursuing sustainability goals, it is an honour to partner with RIAA to deliver this significant industry report. Asset owners in Australia and New Zealand are bellwethers for sustainable investing in the Asia region, and globally, so it’s incredibly important to have insights into how they are allocating capital.

In our view, the pandemic has elevated the importance of sustainable investing. It is our firm belief that healthy societies and healthy markets go hand-in-hand. Markets and economies cannot survive – let alone prosper – in a world facing environmental devastation, health scourges, and gross social inequities and imbalances.

This makes it more important than ever for us to work toward a sustainable, inclusive, and prosperous global economy. Sustainable growth is good for societies and communities, and good for business.

We believe there is enough global capital to meet the needs for a more sustainable global economy, but we need greater alignment among corporates, governments, asset owners, and asset managers in focusing efforts toward sustainable and inclusive global growth.

Let’s make it happen together.

Ryan Korinke
Managing Director and Global Head of Sustainability
PIMCO

ABOUT 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 PIMCO’s time-tested approach and aims to support long-term, sustainable economic growth globally.

As at September 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.
The Responsible Investment Association Australasia (RIA) champions responsible investing and a sustainable financial system in Australia and New Zealand. RIA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 450 members managing more than AU$40 trillion in assets globally, RIA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand.

### THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

The Responsible Investment Super Study 2021 builds on research published in 2016 and 2019 to map the array of responsible investment approaches used by Australia’s largest super funds and other large asset owners. The Responsible Investment Super Study complements the Responsible Investment Benchmark Report Australia series. The Super Study provides insights into changes in practice between July 2019 and December 2020. This project seeks to articulate the evolution of responsible investment among super funds since 2016 to highlight the leading practices in the market and drive continuous improvement.

The Responsible Investment Super Study 2021 covers 53 asset owners, including the largest 48 superannuation funds in Australia, regulated by the Australian Prudential Regulation Authority (APRA), as well as five other asset owners that pursue underrepresented responsible investment approaches (notably faith-based or underrepresented sectors (public or retail super funds).

Two funds included in the study are not regulated by APRA: the Australian Government Future Fund (Australia’s sovereign wealth fund) and the Emergency Services Superannuation Board (ESSS). The three other funds included are the faith-based Christian Super, the retail fund Macquarie Investment Management and the public sector fund Fire and Emergency Services Superannuation Board. These five entities were also included in the 2019 study. Two funds that were among the top 50 APRA regulated funds in 2020 but were not included this year due to a lack of information or because their structure did not satisfy inclusion criteria were Perpetual Superannuation Limited (number 43) and WA Local Government Superannuation Plan (number 45).

This study focuses on institutional investment practices and, as such, does not cover self-managed super funds.

In this report, we distinguish between four types of super funds: industry, retail, corporate and public sector super funds. **Note that our definitions of retail, super fund and public sector fund are different to those used by APRA. Please refer to Table 1 for the definitions used in this report.**

Nineteen out of the 53 funds (39%) responded to our request for information. The 51 APRA regulated funds (excluding the Future Fund and the ESSS) included in this research manage 90% of total assets held by APRA-regulated super funds as at 30 June 2020, representing $1.9975 trillion in assets under management.

### RESEARCH UNIVERSE

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### TABLE 1 Super fund categories used in this report

<table>
<thead>
<tr>
<th>Fund category</th>
<th>Description</th>
<th>Profit status</th>
<th>APRA regulated</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry super fund</td>
<td>A super fund run to benefit members only (as opposed to also benefitting external shareholders)</td>
<td>Non-profit</td>
<td>Yes, all</td>
<td>Active Super (formerly Local Government Super) Australian Super, Aware Super, Christian Super, Unisuper</td>
</tr>
<tr>
<td>Retail super fund</td>
<td>A fund that is developed by a financial institution or insurance company to cater for anyone interested in investing and saving for retirement</td>
<td>For profit</td>
<td>Most but not all</td>
<td>Australian Ethical Superannuation, BT Funds Management, Mercer Superannuation</td>
</tr>
<tr>
<td>Corporate super fund</td>
<td>A fund that is only available to employees of a particular corporation and, in some cases, to former employees or relatives of current employees</td>
<td>For profit or non-profit</td>
<td>Yes, all</td>
<td>ANZ Staff Superannuation, Telstra Super, Qantas Super</td>
</tr>
<tr>
<td>Public sector fund</td>
<td>Funds catering only for employees working in the public or government sector</td>
<td>Non-profit</td>
<td>Some yes, others, such as sovereign funds, no</td>
<td>Commonwealth Superannuation Corporation, Australian Government, QSuper, Vision Super</td>
</tr>
</tbody>
</table>
SUPER FUND STAKEHOLDERS

RIAA acknowledges that all super funds have a key stakeholder group – their beneficiaries. However, different funds have different labels for this group. Retail funds tend to have ‘clients’ or ‘customers’, corporate and industry funds have ‘members’ and public/non-regulated funds have ‘members’ or ‘beneficiaries’. A sovereign wealth fund such as the Future Fund has ‘future generations of Australians’. In this report, the terms ‘clients’ and ‘members’ describes the key stakeholder groups.

All amounts are expressed in Australian dollars (AUD) unless shown otherwise.

ACKNOWLEDGEMENTS

RIAA heartily appreciates the support of PIMCO, that enabled us to resource this research project.

We truly appreciate the 19 super funds that responded to our request for information, contributed data and information, and offered feedback. Their contribution provided the basis for this research and report. These funds are listed in Appendix 4.

This report has been researched and authored by Zsuzsa Banhalmi-Zakar, Nicolette Boele, Fiona Silke and Estelle Parker, with data made available by APRA, and the 53 funds covered in the report.

RIAA thanks Farren Williams for conducting a peer review of this report.
Executive summary

Australia’s superannuation sector has grown considerably in recent decades and is now a major component of household assets and Australia’s financial system. Super funds are among the largest asset owners in Australia and globally.

Super funds represent $3.3 trillion in assets, equal to 160% of GDP as at 30 June 2021. They are therefore in a unique position to influence the conduct of companies and are increasingly doing so, through a strong uptake of responsible investment approaches. For the first time, responsible investment approaches are influencing strategic asset allocation for the majority of super funds in Australia (55%, up from 39% in 2019).

Super funds are improving their responsible investment practices: 42% of total superannuation assets in Australia are now covered by asset owners practicing a leading approach to responsible investment (up from 28% in 2019). This means they are managed with a demonstrated commitment to good governance and accountability; they implement and measure responsible investment approaches through activities such as engagement and environmental, social and governance (ESG) integration; they properly measure outcomes; and they have a high degree of transparency.

More super funds are also reporting on their responsible investment activities. There have been marked improvements in annual reporting on responsible investment by Australian super funds since this study began in 2016.

This shift towards responsible investment, despite the challenges the COVID-19 pandemic posed for investors across the board in 2020, has been largely driven by four factors:

1. a greater acceptance that ESG factors are critical to investment decisions due to their impact on valuations and returns;
2. a growing interest from Australians in ensuring their retirement savings are being invested in a responsible manner, with heightened consumer interest in ESG issues;
3. an increasing focus on ESG issues by finance sector regulators clearly articulating the financial relevance of these issues in investment decision-making, including climate change risk; and
4. an ever-increasing breadth and volume of laws and regulations being adopted in other jurisdictions that impact directly and/or indirectly on how Australian super funds make investment decisions.

Characteristics of super funds that are doing responsible investing well include greater board gender balance and sufficient resourcing to support a team of three or more ESG specialists who are integrated into corporate decision-making structures.

The vast majority (92%) of super funds now allocate responsibility for responsible investment to boards or board committees, and 64% go so far as to tie board performance to the successful delivery of responsible investment strategies. Increasingly, super funds engage with the management and boards of companies in which they have shares, testing the strategies and pace of companies readying for a marketplace where goods and services with net zero emissions are preferentially traded, and where human rights performance and supply chains are ever more scrutinised. This engagement activity is done at the fund level on behalf of beneficiaries.

Super fund leadership is increasingly focused on responsible investment, notably on climate risk, commensurate with efforts by Australia’s regulators to encourage the consideration of climate risk by companies and boards. But while climate risk is fast becoming a standing item on board agendas, the reporting of climate-related financial disclosures remains nascent.

Expectations of external managers to deliver on super funds’ responsible investment commitments has risen. In fact, 98% of super funds now identify external managers as being responsible for helping funds implement responsible investment strategies to some degree, and super funds now monitor managers’ performance in this area more closely. Despite increasing reliance on external service providers, voting practices have not changed substantially. Half of funds cover environmental issues and social issues in their voting policies and a third vote on ESG-related shareholder resolutions.

Australia’s responsible investment industry is in transition. Industry collaborations such as the Australian Sustainable Finance Initiative (now the Australian Sustainable Finance Institute)7, Investor Group on Climate Change and initiatives of RIAA have lifted expectations of sustainable investment, and are helping move the industry towards leading standards of practice that contribute measurably to a more sustainable world. Legal decisions and opinions have provided clarification on climate change risk disclosures.

Couple this with the task of financing the transition to net zero carbon emissions no later than 2050 and the economic recovery from the COVID-19 pandemic, and responsible investing has never been so relevant for the superannuation sector to embrace.

Since 2019, many super funds have moved from being simply long-term investors for beneficiaries, to keen collaborators focused on resourcing the system of underlying assets and infrastructure – real and social – that support the productive capacity and long-term profitability of the enterprises which make up Australia’s economy. Some universal owners are now engaging directly and publicly with government to improve and strengthen laws that work counter to protecting cultural heritage and respecting human rights.

But despite progress towards more responsible investment by asset owners, challenges remain. The vast majority of super funds are yet to set quantifiable performance targets on ESG issues to ground the implementation of responsible investment strategies. Since most funds recognise that responsible investment is fundamental to achieving long-term investment goals, managing investment risks, and ultimately delivering benefits for members and meeting member expectations on these issues, the challenge for many funds now is to achieve leading practice. The information in this report about what actions super funds are taking to achieve leading responsible investment practice should provide a clear pathway for others to follow.

Responsible Investment Super Study 2021
There is good news for members. Funds that implement responsible investment practices continue to outperform their peers; using responsible investment approaches is in the best financial interests of super funds’ members.

What is also clear is that in the decade of the 20s, the role of responsible investment for super funds has broadened, become more complex and is increasingly challenging, but ever more fundamental for the prosperity of Australian society, our economy and the environment on which our collective futures depend.

KEY FINDINGS

1. Super funds that are doing responsible investment well are taking a bigger share of the market than they were two years ago. A quarter of super funds (13 out of 53) are leading responsible investment super funds, meaning they demonstrate commitment to good governance and accountability; they implement and measure responsible investment approaches through activities such as engagement and ESG integration; they properly measure outcomes; and they have a high degree of transparency. While the proportion of leaders and non-leaders is similar to 2019, the leaders now hold a significantly greater proportion of the market than they did two years ago. Together, the leading responsible investment super funds hold 42% of total assets. Leading responsible investment super funds are all industry or retail funds.

2. Super funds that implement responsible investment practices continue to outperform their peers. The average performance of leaders’ My Super products is better than non-leaders over three-, five- and seven-year timeframes.

3. For the first time, responsible investment approaches are influencing strategic asset allocation for the majority of super funds (55%, up from 39% in 2019). This means that responsible investment is considered when allocation between different asset classes is rebalanced, to meet financial return targets, reflect risk tolerance and time horizon.
4. Greater gender balance on super fund boards is a hallmark of better responsible investment practice. The boards of leading responsible investment super funds are, on average, more gender-balanced than super fund trustee boards in general. While leading super funds only make up a quarter of total funds, they have 44% of the total gender-balanced boards.

5. Accountability for responsible investment at the highest level has become more widespread and specific. Ninety-two percent of super funds identify their boards or board committees as being accountable for responsible investment, up from 79% in 2019 and 70% in 2018. Sixty-four percent of funds also tie the performance of their board, in part to the successful delivery of responsible investment strategies. Ninety-two percent of funds indicated that climate risk is actively assessed at a trustee/board/guardian level; up from 74% in 2019 and 64% in 2018.

6. Super funds overwhelmingly expect external managers to effectively implement the fund’s responsible investment commitments. Ninety-eight percent of super funds identify external managers as being responsible for providing ESG information to super funds to some degree, a significant increase from 77% in 2019, and 70% in 2018. For the first time, the majority of super funds (71%) that engage external managers demand ESG reporting in Investment Management Agreements (IMAs), an increase of 32 percentage points from 39% in 2019. These findings are particularly important, given that almost three-quarters of super funds manage less than 10% of their assets internally.

7. Leading responsible investment super funds employ a team of ESG/responsible investment staff, which has become key to implementation of more systematic and comprehensive responsible investment practices. Leading responsible investment super funds invest in employing a team of specialist ESG staff (at least three) which allows them to deliver responsible investment in a more systematic manner than non-leaders. The ESG teams of leading responsible investment super funds provide input into key operational decisions by actively participating in manager and asset class reviews and providing input into investment decisions.
8. The top motivations for considering ESG in investment decision-making are to improve financial returns (33%) and help manage investment risk (31%). For many funds (22%), meeting fiduciary duty is the top driver for considering ESG, and for 14% of funds it’s to meet member/consumer expectations.

9. A quarter of super funds (13 out of 53) have been assessed as demonstrating leading responsible investment practice, based on RIAA’s Framework of Good Responsible Investment Governance. RIAA’s Framework (see Table 6, p.20) evaluates the quality and scope of responsible investment based on disclosures. Leading super funds achieved a score of 70% or more on the Framework. This year, 13 of the 53 funds articulated and demonstrated a leading approach to responsible investment across RIAA’s five pillars (Table 2).

<table>
<thead>
<tr>
<th>TABLE 2 Leading responsible investment super funds 2021 (alphabetical order)</th>
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<tbody>
<tr>
<td>Fund name</td>
</tr>
<tr>
<td>Active Super (formerly Local Government Super)</td>
</tr>
<tr>
<td>Australian Ethical Super</td>
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<tr>
<td>AustralianSuper</td>
</tr>
<tr>
<td>Aware Super</td>
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<tr>
<td>BT Superannuation</td>
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<tr>
<td>CareSuper</td>
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<tr>
<td>Christian Super</td>
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<tr>
<td>HESTA</td>
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<tr>
<td>Mercer Superannuation (Australia) Limited</td>
</tr>
<tr>
<td>Rest</td>
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<tr>
<td>Unisuper</td>
</tr>
<tr>
<td>United Super (Cbus)</td>
</tr>
<tr>
<td>Vision Super</td>
</tr>
<tr>
<td>Fund category</td>
</tr>
<tr>
<td>Industry</td>
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<tr>
<td>Retail</td>
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<td>Industry</td>
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ABOUT SUPER FUNDS

Superannuation funds are among the largest asset owners both in Australia and globally (see ‘Asset owners explained’). They represent $3.3 trillion in assets, equal to 160% of GDP as at 30 June 2021. Employees in Australia are typically entitled to compulsory superannuation contributions from their employer, set at a guaranteed rate of their ordinary earnings. Employees can also add some of their own earnings if they choose. This makes super funds immensely important in Australia’s financial system and society.

Similar to other key players in the finance sector, the superannuation industry is highly regulated. Funds accumulated in superannuation can only be withdrawn upon retirement or other specific circumstances (e.g. health issues of members). APRA and the Australian Securities and Investments Commission (ASIC) are among the key regulators. APRA publishes the Superannuation Fund-Level Statistic, which is an important resource for this study.

INDUSTRY OVERVIEW 2021

Super funds can be classified in different ways. RIAA uses its own classification system to distinguish between industry, retail, public sector and corporate super funds, as these categories align with the different business models the organisations deploy, which impact fund’s responsible investment practices. Super funds self-select the category they are designated for the purposes of this study.

The majority of the asset owners included in this study (the research universe) are industry super funds (60%), followed by retail (21%), public (11%), and corporate (8%) funds (Figure 9). Not surprisingly, most assets are also managed by industry super funds (47%), followed by public (29%), retail (20%) and corporate funds (4%).

Industry funds also manage the most member accounts (66%), followed by retail funds (26%), public (7%) and corporate (1%) (Figure 10). The Australian Government Future Fund, a large asset owner in the public sector category, is not a super fund, but a sovereign wealth fund that holds 30% of public sector assets and 8.8% of total assets in the research universe. Since the Future Fund but does not have any ‘member accounts’, the share of member accounts by public funds is small (Figure 10) compared to share of assets.

The vast majority (88%) of super funds in Australia are not-for-profit (Figure 11), which means that all profits are used to benefit members. Only retail super funds have a for-profit status, where the profits benefit external stakeholders (shareholders).

Asset owners explained

Asset owners are also often called ‘end-investors’ or ‘clients’ by investment manager firms. In addition to super funds, asset owners include sovereign wealth funds, pension funds, insurance companies, banks, foundations, endowments and individual investors. As an asset owner, these investors are ultimately responsible for these assets.

All but one of the 53 entities included in this study are super funds. The only exception is Australia’s sovereign wealth fund, the Australian Government Future Fund (Future Fund) (see ‘Sovereign wealth funds explained’ overleaf). Together, these 53 asset owners own more than $1.9 trillion in assets and comprise over 19 million client accounts.
APRA collects information about board composition and remuneration of trustees (see ‘Trustees explained’ for an overview of boards and trustees). While the number of trustees on boards ranged from three to 23, boards typically have three to 13 trustees. Remuneration of trustees is correlated with the total assets owned by funds. Funds that own higher values of assets have higher average remuneration for trustees.

The propensity of internal management of assets is important when assessing the responsible investment practices of super funds. The vast majority of super funds (94%) in this study rely on investment managers to manage assets on their behalf, with only three super funds (6%) managing more than half of their total assets internally (Figure 12).

Almost three-quarters of super funds (39 out of 53) manage 10% or less of their assets internally and a further 13% (7 out of 53) manage only 11–20% of their assets internally. When assets are not internally managed, super funds rely on a variety of professionals external to their organisation to act on their behalf. A key issue that this study aims to identify is how and to what extent super funds can ensure that their responsible investment goals and policies are delivered through the external organisations they engage.

DISCLOSURE OF HOLDINGS AND EXTERNAL MANAGERS

While most super funds readily disclose the external managers they engage, the disclosure of full portfolio holdings remains limited. Ninety-one percent of asset owners identify their external managers. Asset owners and investment managers often disclose holdings publicly on their websites or communicate this information directly to clients (for example, via direct emails). Holdings disclosure allows clients to know precisely which companies their investments are supporting (see ‘Holdings disclosure explained’ overleaf). As Figure 13 shows, full holdings disclosure is not prevalent among the biggest super funds in Australia, with the majority (62%) disclosing a limited amount of information (ranging from none to the top 20 holdings).

Only 23% of super funds disclose their full holdings to the public, which is a growing trend compared to 2019 (12%) but still very limited. Another 11% disclose the largest 21 to 50 holdings, while a third of the funds (30%) disclose only the largest nine holdings or less, or do not provide regular disclosure at all.

GENDER ON BOARDS

It is generally acknowledged that company boards lack diversity across a number of categories, including race, ethnicity, disability and socioeconomic status.

With regards to improving gender balance, several initiatives have been launched, such as a 30% gender diversity target for ASX listed companies endorsed by Australian Council of Superannuation Investors (ACSI) members, the Club 30 initiative and the Australian Government’s own 50% target for female representation.

This study has, for the first time this year, examined the correlation between super funds’ board gender balance and the use of responsible investment approaches. Data related to gender on boards was sourced through the Future Fund, the Future Drought Fund, the Future Fund, the Medical Research Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the Future Fund, an important asset owner with a unique mandate to invest for the benefit of future generations of Australians. It includes six separate mandates: The Future Fund, the Medical Research Fund, the DisabilityCare Australia Fund, the Aboriginal and Torres Strait Islander Land and Sea

Sovereign wealth funds explained

Sovereign wealth funds are state-owned investment funds that invest in a wide range of assets to benefit a nation’s people and economy. Australia’s sovereign wealth fund is the Future Fund, an important asset owner with a unique mandate to invest over the long term for the benefit of future generations of Australians. It includes six separate mandates: The Future Fund, the Medical Research Fund, the DisabilityCare Australia Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the Future Drought Fund and the Emergency Response Fund. The Future Fund operates independently from government; thus it is not regulated by APRA and is governed by a Board of Guardians rather than directors or trustees.

Trustees explained

Superannuation funds are governed by boards, whose members are known as trustees or directors. These individuals are equally and legally responsible for operating the fund for the benefit of the super fund members, solely for purposes specified in the trust deed and relevant legislation. They make decisions that affect the retirement interests of members and may be personally liable for the outcomes of decisions made. (A number of trustee companies exist in the superannuation industry in Australia, but these are not included in this study.)
from APRA, which only reports on male and female genders. RIAA recognises that boards may comprise people of other gender identities not captured by APRA. Despite progress on board gender diversity, board representation is still skewed towards men. In terms of overall numbers, 60% of the 524 trustees are men, while only 40% are women (Figure 14).

The gender imbalance is even more apparent when the number of gender-balanced boards (50% men and women) are compared with the number of boards with a female or male majority (Figure 15a). Significantly more boards (66%) have more men than women trustees, in fact, more than gender-balanced and majority-women boards combined. The inequality also translates to the value of assets controlled by boards with different majority representations, where again, male-majority boards dominate (Figure 15b). Balanced boards govern 25% of total assets, female-majority boards just 13%, while male-majority boards govern 62% of assets.

While board remuneration is a function of total assets of super funds, when we compared the average remuneration on boards with different gender composition, we found that members on balanced boards have the highest average remuneration ($93,333 p.a.), followed by male majority boards ($76,636 p.a.) with female majority boards the lowest ($60,375 p.a.).

### AN OVERVIEW OF RESPONSIBLE INVESTMENT IN THE SUPERANNUATION INDUSTRY IN 2021

### INCREASED FOCUS ON THE IMPORTANCE AND INFLUENCE OF SUPERANNUATION

A global acknowledgement of the influence that accompanies the accumulation of private wealth resting in the hands of super fund trustees has led to a focus on how decisions are made and where capital is being allocated by these largest of Australian institutions. Couple the resulting scrutiny by regulators and consumers with the enormously important task of financing the economic recovery from the COVID-19 pandemic, and responsible investing has never been so relevant for this sector to embrace.

What we have witnessed since 2019 is a move by industry, retail, corporate and public super funds from being prudent long-term investors for beneficiaries, to keen collaborators focused on resourcing the system of underlying assets and infrastructure – real and social – that support the productive capacity and long-term profitability of the enterprises which make up our economy.

Super funds now courageously and cleverly engage with the boards of companies in which their beneficiaries have shares, testing the strategies and pace of economically significant companies readying for an internationally competitive marketplace where goods and services with net zero emissions are preferentially traded. Some universal owners are even engaging directly and publicly with elected government officials and bureaucracies to improve and strengthen laws that work counter to protecting cultural heritage and respecting human rights.
What is clear, in the decade of the 20s, is that the role of the responsible super fund has broadened, become more complex and is increasingly challenging. This shifting focus and resourcing on common goals such as managing climate risk is consistent with delivering to the best financial interests of beneficiaries as their interests are inextricably linked to the success of the Australian society, its economies, and the environment on which our collective futures depend.

INCREASED FOCUS ON RESPONSIBLE INVESTMENT APPROACHES

We are witnessing a strong up-take in the range of responsible approaches deployed by large asset owners to managing retirement savings for their beneficiaries. We are also seeing an increase in the level of transparency on engagement and voting activities and outcomes, portfolio holdings, modern slavery, and climate risk, as well as an increase in other responsible investing behaviours that successfully deliver long-term risk adjusted returns for beneficiaries. All of this is being prioritised by super funds because of the increasingly significant role super funds play in the financial stability of our economy and the resourcing of the long-term viability of the systems (such as education, communication, housing, transport, and energy) on which all other assets are based.

This shift towards responsible investment by super funds and other asset owners has been driven by four factors:

1. an acknowledgement that the consideration of ESG factors is critical to investment decisions due to their impact on valuations, risk and returns;
2. a growing interest from Australians in ensuring their retirement savings are being invested in a responsible manner, with heightened consumer interest in ESG issues;
3. an increasing focus on ESG issues by finance sector regulators that are clearly articulating the financial relevance of these issues in investment decision-making, including climate change risk; and
4. an ever-increasing breadth and volume of laws and regulations that impact directly and/or indirectly on how Australian super funds make investment decisions and construct their portfolios and engage with external managers and companies in which they hold shares. For example, in New Zealand, mandatory climate risk disclosures (aligned with the TCFD), and for registered default KiwiSaver providers a requirement to have an ESG policy and exclude exposures to fossil fuel exploration and extraction; in Europe the Sustainable Financial Disclosure Regulation requiring all financial sector players including pension funds to disclose their sustainability-related risks; in the United Kingdom, the Stewardship Code broadening the expectations of ‘appropriate’ stewardship.

To the third and fourth of these factors, several recent developments have provided momentum to leading responsible investment super funds, encouraging them to deliver strategies aligned with clients’ best interests; better manage investment portfolios that observe ESG factors; enhance engagement with consumers through better disclosures; and play their part in helping the global transition to a net zero carbon emissions economy. These developments are outlined below.

REGULATOR ACTIVITY

Several policy developments from other jurisdictions have set frameworks that enable the super fund sector to contribute more systematically and in a coordinated way towards global financial stability. These include but are not limited to the European Union’s Sustainable Finance Disclosure Regulation (SFDR), which requires financial products to disclose sustainability risks and self-classify how they align to the EU (European Union) taxonomy for environmentally sustainable activities.

Closer to home, New Zealand is mandating Task Force on Climate-related Financial Disclosures (TCFD) reporting for all managers of registered investment schemes (other than restricted schemes) with greater than $1 billion in total assets under management, which affects several Australian investors.

Published in November 2020, the Australian Sustainable Finance Roadmap recommendations acknowledge the role of super funds in delivering the Sustainable Development Goals (SDGs), Paris Agreement and Sendai Framework for Disaster Risk Reduction. The first 1,000 modern slavery statements commensurate with the Modern Slavery Act 2016 were also published in November 2020, providing super funds with improved data for due diligence around identifying, assessing, and responding to modern slavery incidences in operations and super fund portfolio supply chains.

Undoubtedly, it has been a busy time for regulatory activity since 2019.

One of the most impactful legislative changes has been the Your Future Your Super suite, which revises the Superannuation Industry (Supervision) Act 1993 and the Corporations Act 2001 with respect to how trustees are expected to allocate resources for, and on behalf of beneficiaries, and reversing the burden of proof on trustees in charge of these decisions. The suite also codified ‘financial’ into the definition ‘best interest duty’, creating much debate in legal and financial circles about the effect of this on investment decision-making vis-à-vis responsible investing, particularly ethical investing that aligns investments with religious or moral objectives as well as financial ones.

Although the first instance of reporting falls outside of this report’s data period, the MySuper Product Performance test, assessing MySuper products with at least five years of performance history against a stated benchmark, also provided the super industry with much discussion about what ‘good’ looks like.
Other regulatory activities include, but are not limited to:

- early access to super to help Australians in hardship better resource themselves from the impacts of COVID-19;
- proxy advice consultation, which questioned the independence of advice providers to super funds;
- requirement of APRA-regulated Registrable Superannuation Entities (RSEs) to disclose their portfolio holdings effective 31 March 2022;
- linking or ‘stapling’ of super fund accounts to individual beneficiaries;
- implementing the Modern Slavery Reporting requirement; and
- the ASIC review into the occurrence of greenwashing, including in the superannuation sector, cognisant of the large inflows to socially responsible investment options ballooning over the period.

With respect to regulations focused on climate risk, in April 2021, APRA provided further direction about the expectations of APRA-regulated institutions are managing the risks and opportunities that may arise from a changing climate, and that financial promises made by APRA-regulated institutions are met within a stable, efficient, and competitive financial system.

The draft Prudential Practice Guide (PPG) states: “The risks of a changing climate extend to all sectors of the economy. The need to adapt to the changing climate will also bring new business opportunities. Within the financial sector, a prudent institution will consider both the opportunities and the financial risks of climate change as it sets its strategy.” This PPG reflects the established framework for considering and managing climate risks developed by the Financial Stability Board’s TCFD as well as good practice observed through APRA’s own analysis.

In November 2020, the out-of-court settlement of the McVeigh vs Rest case provided unequivocal clarification for Australian RSEs of the expectations of key stakeholders in terms of climate change risk disclosures and set the industry on a path of no return.

FROM POLICY TO ACTION

Since December 2020, the Australian superannuation sector has initiated and/or participated in the following activities that have elevated super funds’ place as an important responsible investor cohort:

- the launch of the Dhawura Ngilan Business and Investor Initiative bringing together First Nations, business and investor communities focused on strengthening Australia’s First People’s heritage laws and standards for the private sector to uphold the human rights of First Peoples;
- a surge in the number of super funds formally adopting net zero emission reduction targets including interim targets for 2030 and/or over specific asset classes;
- an uplift in the frequency of ESG-related shareholder resolutions being submitted and supported, including super fund members voting in favour of three independent board members on Exxon Mobil;
- Climate Action 100+ – reporting by one of the world’s largest investor-led initiatives engaging with the world's largest greenhouse gas emitters to improve their climate performance and ensure transparent disclosure of emissions;
- a 21% percent increase over calendar year 2020 in the world's first and longest-running ‘true-to-label’ initiative, RIAAs Responsible Investment Certification Program, which seeks to find further measures to manage the downside risk of greenwashing to super funds and other providers of responsible investment products into the Australian and New Zealand markets; and
- super funds joining in and leading on the work of managing nature risk, via RIAAs Nature Working Group.

Throughout this report, RIAA highlights findings that illustrate the performance of the research universe that align with some of the Productivity Commission’s recommendations and the areas of interest highlighted by APRA as relevant to its enhanced supervision focus on the assessment of extra-financial risk.

As the findings in this report show, super funds apply responsible investment strategies such as integration of ESG factors, exclusion of detrimental industries and activities, and engagement of company executive and boards to more accurately price and manage long-term risk, allocate capital to reflect the best interest of clients and – overall – deliver better member outcomes.

RIAA is the leading membership body working to grow the up-take and deepen the impact of a wide range of ESG issues that make up responsible investment. Within this context, this report aims to provide improved clarity and definition around the constituent parts of super funds' responsible investing approaches to enhance the performance and sustainability of the superannuation sector as a whole. By benchmarking leading practice, we help our members and the industry more broadly show progress towards meeting the changing expectations of beneficiaries and regulators on managing material ESG risk and opportunity.
For the first time, the majority of super funds (55% or 28 out of 53) are taking responsible investment into account at the level of portfolio construction. This represents a 16 percentage point increase since 2019 and 19 percentage point increase since 2016 (Figure 17).

**Asset allocation and strategic asset allocation explained**

Asset allocation is an important strategy used to balance risk and return in an investment portfolio. Asset allocation is fundamentally influenced by an investor’s risk appetite, investment targets and period where the underlying principle is that diverse types of assets perform differently over time and can complement each other to provide a smoother, less volatile investment experience. Strategic asset allocation refers to a long-term asset allocation strategy, where the allocation is rebalanced periodically.

**MOST PREVALENT RESPONSIBLE INVESTMENT APPROACHES**

ESG integration and active ownership are the two most prominent responsible investment strategies used by asset owners in Australia (Figure 18). Negative/exclusionary screening is also important for several funds. Only a small proportion of funds target sustainability-themed investment and only one targets each of positive/best-in-class screening, and impact/community investing.

For consistency across global definitions of responsible investment practice, we aligned the language and assessment approach to other global frameworks including the PRI Reporting Framework 2019 Overview and Guidance and the Global Sustainable Investment Alliance’s (GSIA) set of seven strategies for responsible investment. The GSIA strategies have been nuanced for the Australian market and summarised below as well as in RIAA’s responsible investment spectrum in Figure 20 overleaf.

- ESG integration
- Active ownership – corporate engagement and voting
- Negative/exclusionary screening
- Norms-based screening
- Positive/best-in-class screening
- Sustainability-themed investing
- Impact investing and community investing

The role of external managers in responsible investment cannot be overstated. Ninety-eight percent of super funds identified external managers as responsible for providing ESG information in full or in part (Figure 19).
DEDICATED RESPONSIBLE INVESTMENT OR ESG STAFF

After nearly doubling from 2018 to 2019, responsible investment resourcing stayed the same in 2020. The number of funds employing one or more full-time equivalent (FTE) staff with significant responsibility for responsible investment remained at 51% in 2020. Non-leading super funds typically do not have a single staff member who spent most of their time on responsible investment or employed just one or two people in this role (Figure 21). Meanwhile, leading super funds typically employed three to nine ESG specialist staff members.

A dedicated team or staff member who specialises in responsible investment or ESG is a great resource for super funds. Leading super funds recognise this and engage dedicated staff strategically in the asset class and external manager reviews, and in assessment of internally managed equities. Thirty-six percent of funds have a dedicated team that specialised in, is responsible for ESG or responsible investment. Nearly all (92%) leaders have a dedicated responsible investment or ESG team, compared to just 18% of non-leaders, while most non-leading super funds (58%) lack a dedicated team (Figure 22 overleaf). Thus, having a team of three or more specialist staff appears to be essential to embedding and maintaining leading responsible investment practices and achieving leadership status.

Despite the trend of insourcing specialist responsible investment staff, many funds also reported that responsible investment is outsourced to asset consultants and investment managers, that in many cases have dedicated responsible investment teams. This is not represented in these statistics.

![Figure 20: RIAA's responsible investment spectrum](image)

- **TradiTional Investment**
  - **ESG Integration**
  - **Exclusionary/negative screening**
  - **Norms-based screening**
  - **Corporate engagement and shareholder action**
  - **Positive/best-in-class screening**
  - **Sustainability-themed investing**
  - **Impact investing**

- **Philanthropy**
  - **Using grants to target positive social and environmental outcomes with no direct financial return**

**Method**
- Providing limited or no regard for environmental, social, governance and ethical factors in investment decision making
  - Implicitly including ESG risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources
  - Excluding certain sectors, companies, countries or issuers based on activities considered not investable due principally to unacceptable downside risk or values misalignment
  - Screening of companies and issuers that do not meet minimum standards of business practice based on international norms and conventions; can include screening for involvement in controversies
  - Executing shareholder rights and fulfilling 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
  - Intentionally tilting a proportion of a portfolio towards solutions; or targeting companies or industries assessed to have better ESG performance relative to benchmarks or peers

**Intention**
- Avoids harm
- Benefits stakeholders
- Contributes to solutions
- Delivers competitive financial returns
- Manages ESG risks
- Contributes to better system stability and economic sustainability
- Pursues opportunities and creates real-economy outcomes

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

**Figure 21: Number of FTE staff who spend more than 50% of their time on delivering responsible investment among leaders and non-leaders**

- **Leaders**
  - 0: 13
  - 1–2: 3
  - 3–5: 10
  - 6–9: 5
  - >10: 2

- **Non-leaders**
  - 0: 1
  - 1–2: 1

**Responsibility Investment Super Study 2021**
RESPONSIBLE INVESTMENT SUPER FUNDS AND MYSUPER PERFORMANCE

Super funds that implement responsible investment practices continue to outperform their peers. At the product level, the average net return of MySuper products of leading responsible investment super funds was better than non-leaders, for all three timeframes (Table 3). Super funds offer many distinct products to meet the varying investment needs and goals of clients. The mix of assets in a product generally varies, depending on how close a client is to retirement, because different assets are associated with different risk-return profiles (e.g. high growth, growth, balanced, etc.). Since MySuper products have similar characteristics (see ‘MySuper products explained’), comparison of the performance of MySuper products provides insight into how individual super funds perform across a single, similar product.

Although the net returns of individual MySuper products vary, clients that invest in the MySuper products of leading responsible investment super funds can expect a better return.

Leaders also fare better than non-leaders at the fund level for all three time periods as measured by APRA (Table 4). On average, leading responsible investment super funds also gained more clients than non-leaders over the 12 months to 30 June 2020. While leaders saw a 4% increase in the number of client accounts on average overall, client accounts of non-leaders decreased by 5%. While the reasons that clients change super fund providers are manifold, the data suggests that those super funds that practice a leading responsible investment approach provide clients with what they are looking for, more so than non-leading funds.

MySuper products explained

MySuper products are government regulated accounts characterised by lower fees and restricted in terms of the types of fees that can be charged. Most MySuper funds offer a single diversified product, usually called ‘balanced’, with around 70% invested in higher risk growth assets and 30% in lower risk defensive assets. The risk/return profile remains at medium-high throughout the client’s working life (with estimated negative returns between three to five years of over 20 years, on average). MySuper accounts that use a ‘lifecycle’ or ‘lifestage’ approach are becoming more popular. These products automatically move savings from ‘growth’ investments when the client is younger to more ‘defensive’ investments as the client is approaching retirement.

TABLE 3 Average net return of MySuper products of leader and non-leader super funds

<table>
<thead>
<tr>
<th></th>
<th>Past 3-year net return</th>
<th>Past 5-year net return</th>
<th>Past 7-year net return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leaders MySuper 2020</td>
<td>8.44%</td>
<td>9.10%</td>
<td>8.29%</td>
</tr>
<tr>
<td>Non-leaders MySuper</td>
<td>7.57%</td>
<td>8.36%</td>
<td>7.73%</td>
</tr>
<tr>
<td>Difference</td>
<td>+0.87%</td>
<td>+0.74%</td>
<td>+0.56%</td>
</tr>
</tbody>
</table>

Note: Current as of June 2021, based on a balance of $50,000. Data does not include Future Fund which does not have a MySuper product.

TABLE 4 Average rate of return of leaders and non-leaders and change in member accounts based on APRA annual fund-level superannuation statistics

<table>
<thead>
<tr>
<th></th>
<th>1-year rate of return</th>
<th>5-year rate of return</th>
<th>10-year rate of return</th>
<th>Change in number of client accounts to June 30, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leaders</td>
<td>-0.26%</td>
<td>5.76%</td>
<td>7.23%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Non-leaders</td>
<td>-0.73%</td>
<td>5.20%</td>
<td>6.69%</td>
<td>-5.00%</td>
</tr>
<tr>
<td>Difference</td>
<td>0.47%</td>
<td>0.56%</td>
<td>0.54%</td>
<td>9.00%</td>
</tr>
</tbody>
</table>

Note: Based on June 30, 2020, including the Australian Government Future Fund, and including Tasplan now Spirit Super, and Equip Super and Catholic Super, now both part of Togethr. Rate of return & defined as net earnings after tax, divided by cash flow adjusted net assets.
Leading responsible investment among asset owners is determined using RIAA’s Framework of Good Responsible Investment Governance (the Framework), similar to previous years. The framework was developed in consultation with RIAA super fund members and comprises five pillars.

To be named a leading responsible investment super fund, a fund must demonstrate a comprehensive responsible investment approach across the five pillars of the Framework by achieving an overall score of 70% (Figure 23). The proportion of leaders to non-leaders is similar to previous years. In 2019, 14 out of 57 funds were assessed as comprehensive; in 2018 15 funds; and in 2016, just 12.

RIAA’s Framework captures how responsible investment can fit within a fund’s broader investment beliefs and processes (Table 6). The five pillars cover the main elements of good governance by asset owners from commitment through to implementation, measurement, reporting and review. Noting the many styles of responsible investment – from ESG integration to ethical approaches to a focus on stewardship responsibilities – the framework is agnostic to the specific

### Table 5: Leading responsible investment super funds for 2021 (alphabetical order)

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Fund category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Super (formerly Local Government Super)</td>
<td>Industry</td>
</tr>
<tr>
<td>Australian Ethical</td>
<td>Retail</td>
</tr>
<tr>
<td>AustralianSuper</td>
<td>Industry</td>
</tr>
<tr>
<td>Aware Super</td>
<td>Industry</td>
</tr>
<tr>
<td>BT Superannuation</td>
<td>Retail</td>
</tr>
<tr>
<td>CareSuper</td>
<td>Industry</td>
</tr>
<tr>
<td>Christian Super</td>
<td>Industry</td>
</tr>
<tr>
<td>HESTA</td>
<td>Industry</td>
</tr>
<tr>
<td>Mercer Superannuation (Australia) Limited</td>
<td>Retail</td>
</tr>
<tr>
<td>Rest</td>
<td>Industry</td>
</tr>
<tr>
<td>Unisuper</td>
<td>Industry</td>
</tr>
<tr>
<td>United Super (Cbus)</td>
<td>Industry</td>
</tr>
<tr>
<td>Vision Super</td>
<td>Industry</td>
</tr>
</tbody>
</table>

### Table 6: RIAA’s Framework of Good Responsible Investment Governance 2021

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Name</th>
<th>Description</th>
<th>Maximum score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Governance and accountability</td>
<td>Board-level buy-in to responsible investment supported by formal accountability processes</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>Commitment</td>
<td>Extent and breadth of responsible investment approach and coverage aligned with investment and responsible investment beliefs</td>
<td>10</td>
</tr>
<tr>
<td>3a.</td>
<td>Implementation</td>
<td>Engagement, active understanding, voting, advocacy (as applicable)</td>
<td>10</td>
</tr>
<tr>
<td>3b.</td>
<td>Implementation</td>
<td>ESG integration, manager selection and monitoring (as applicable)</td>
<td>10</td>
</tr>
<tr>
<td>3c.</td>
<td>Implementation</td>
<td>Values investing, impact investing</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Measurement and outcomes</td>
<td>Systems and metrics to track and manage responsible investment performance internally and externally; ways for measuring success</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>Transparency and responsiveness</td>
<td>Disclosures that build member confidence and broader stakeholder trust in the super fund’s governance of responsible investment (as applicable)</td>
<td>10</td>
</tr>
</tbody>
</table>

Total possible score = 70
responsible investment style. Rather, it invites funds to describe their own approach to responsible investment and demonstrate how their approach is consistent with the five pillars of good governance.

Figure 24 shows that leading responsible investment super funds’ average score was consistently higher than non-leaders across every category of the Framework. Leading and non-leading super funds’ highest average scores were in ‘Transparency and responsiveness’, though for non-leaders this scored equal highest with ‘Governance and accountability’. Leading super funds averaged the second highest on the ‘Commitment’ pillar.

Leading and non-leading super funds performed the weakest on ‘Measurement and outcomes’. The biggest difference between leaders and non-leaders was in the category of ‘Commitment’ and ‘Engagement, active understanding, voting and advocacy’. Non-leaders were closest to catching up to leaders in the ‘Governance and accountability’ category.

All leading responsible investment super funds demonstrated leading practice in the areas of ‘Governance, Commitment’ and ‘Transparency’. Some non-leaders demonstrated leading practice on pillars ‘Governance, Committee’, ‘ESG integration, manager selection and monitoring’ and ‘Values investing, impact investing’ parts of ‘Implementation’ and ‘Transparency and responsiveness’.

However, none of the non-leaders demonstrated leading practice in the areas of ‘Engagement, active understanding, voting, advocacy’ or ‘Measurement and outcomes’.

Despite representing only 25% of asset owners, leading responsible investment super funds owned more than 42% of total assets, meaning that some of Australia’s largest asset owners demonstrate leading responsible investment practices (Figure 25).

Leading responsible investment super funds had more gender-balanced boards than non-leaders, while both leaders and non-leaders had a similar proportion of female-majority boards (Figure 26). Non-leaders had more boards with male majority than expected based on industry average.

All leading responsible investment super funds were from either industry or retail funds. This is perhaps not surprising, as these categories had the highest number of funds. However, the proportion of leading super funds in the industry category was higher than expected (Figure 27).
Findings by pillar

1. ACCOUNTABILITY AND GOVERNANCE

Accountability refers to the demonstration of an understanding of the stakeholders to whom the fund is accountable. Governance provides the structures (processes and delegations) necessary for the strategy to be effectively implemented. A key aspect of governance was the acknowledgement of the role of key stakeholders in the fund’s responsible investment strategy, mission or investment beliefs. Clients tended to be a fund’s key stakeholder group, but a fund may have considered others as well, for example, broader society, future generations, the environment or government/regulators.

AT A GLANCE

- 85% of super funds explicitly state their responsible investment vision, mission, strategy or investment belief; 81% publish this information on their website
- Accountability for overseeing responsible investment by boards or board committees increased in 2020 to 92%, from only 23% in 2016
- 92% of funds indicated that climate risk is actively assessed at a trustee/board/guardian level; up from 74% in 2019 and 64% in 2018
- 51% of funds employ one or more full-time employees with significant responsibility for responsible investment, suggesting that approximately 93 responsible investment staff are employed by these 29 funds. This represents a four-fold increase in resources devoted to responsible investment in the super sector since 2016

RESPONSIBLE INVESTMENT POLICIES AND ACCOUNTABILITY

In 2020, 85% of funds stated responsible investment commitments explicitly in a standalone policy or in their investment beliefs, increasing from 77% in 2019, 74% in 2018 and 70% in 2016. Eighty-one percent (43 out of 53) of super funds publish their responsible investment commitment or belief on their website. Eighty-one percent of funds that have a stand-alone responsible investment policy, had their policy signed off by trustees or CEO.

ACCOUNTABILITY FOR RESPONSIBLE INVESTMENT WITHIN FUNDS HAS BECOME MORE SPECIFIC. ACCOUNTABILITY FOR OVERSEEING RESPONSIBLE INVESTMENT BY BOARDS OR BOARD COMMITTEE INCREASED IN 2020 TO 92%, FROM 79% IN 2019, 70% IN 2018 AND 23% IN 2016. FURTHERMORE, IN 64% OF FUNDS, BOARD ROLES INCLUDED RESPONSIBILITY FOR DELIVERING A RESPONSIBLE INVESTMENT STRATEGY (FIGURE 28). IN 55% OF FUNDS, THIS RESPONSIBILITY EXTENDED TO THE INVESTMENT COMMITTEE.

SPECIFICALLY ON ACCOUNTING FOR MANAGING CLIMATE RISKS, 92% (OF SUPER FUNDS FOR WHICH RIAA HAD DATA) INDICATED THAT CLIMATE RISK IS ACTIVELY ASSESSED AT A TRUSTEE/BOARD/GUARDIAN LEVEL; UP FROM 74% IN 2019 AND 64% IN 2018.

KEY ASPECTS USED TO ASSESS ACCOUNTABILITY AND GOVERNANCE:

THE SUPER FUND:
- has a commitment to responsible investment in the overall fund strategy and internal structures are in place to drive this;
- has and discloses appropriate responsibilities and accountabilities for responsible investment;
- identifies, engages and considers stakeholders in the development and ongoing review of investment beliefs and responsible investment strategy; and
- has incentives in place to perform duties consistent with the responsible investment strategies and to the benefit of key stakeholders.

Accountability for responsible investment within funds has become more specific. Accountability for overseeing responsible investment by boards or board committee increased in 2020 to 92%, from 79% in 2019, 70% in 2018 and 23% in 2016. Furthermore, in 64% of funds, board roles included responsibility for delivering a responsible investment strategy (Figure 28). In 55% of funds, this responsibility extended to the investment committee.

Specifically on accounting for managing climate risks, 92% (of super funds for which RIAA had data) indicated that climate risk is actively assessed at a trustee/board/guardian level; up from 74% in 2019 and 64% in 2018.

FIGURE 28 Roles in which satisfactory performance is tied to successful delivery of responsible investment strategy

<table>
<thead>
<tr>
<th>Role Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>64%</td>
</tr>
<tr>
<td>Investment committee</td>
<td>55%</td>
</tr>
<tr>
<td>Analysts/investment staff</td>
<td>45%</td>
</tr>
<tr>
<td>Portfolio managers</td>
<td>40%</td>
</tr>
<tr>
<td>Dedicated responsible investment staff</td>
<td>36%</td>
</tr>
<tr>
<td>External manager</td>
<td>36%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

FIGURE 29 Primary approaches for key stakeholders to provide input into funds’ investment beliefs

- Via ad hoc or occasional direct engagement (e.g., via call centre, or member survey, or other) 2%
- Via systematic and frequent direct engagement (e.g., call centre issues review, member survey, or other) 8%
- Via systematic and frequent non-direct engagement (e.g., call centre issues review, member survey, or other) 14%
- Via trustees as representatives of stakeholders 76%
STAKEHOLDERS IDENTIFIED AND ENGAGED

Central to good governance is the explicit acknowledgement of key stakeholders and the issues that matter to them.

Trustees are recognised as representatives of stakeholders, and for more than three-quarters of super funds (76%), trustees shaped a fund’s investment beliefs (Figure 29, previous page). In addition, 14% of funds had the means to analyse data regularly from call centres and member surveys.

Sixty-one percent of super funds gathered information about stakeholders’ appetite for and interest in responsible investment issues through annual surveys (21% at least annually and 40% through regular monitoring including client surveys) (Figure 30). Forty percent of funds also conduct regular monitoring of responsible investment issues in call centres. One fund reported on the benefit of an annual member AGM to step up engagement with members about issues of high interest to members and importance to the fund.

2. RESPONSIBLE INVESTMENT COMMITMENT

Responsible investment commitment relates to a fund’s statements and activities around the promulgation of responsible investing both within the fund and within its relevant market. Statements and activities include public statements (by way of a policy and underlying guidelines) to formalise a fund’s responsible investment beliefs and informing stakeholders about commitments. Responsible investment beliefs ordinarily contained in policies include ESG themes and key approaches for implementation (for example, ESG integration, positive/best-in-class screening), as well as a statement about the policy’s coverage (over certain asset classes or the whole of the fund). Policies are formal documents endorsed by executives and directors at the highest level of a fund. Responsible investment commitment also includes activities such as engaging and communicating with staff and clients on relevant issues as well as industry activities such as investor initiatives, memberships and involvement in industry associations.

AT A GLANCE

• Improved financial returns and managing investment risk are the top motivators for super funds to consider ESG in decisions
• 42% of super funds now set specific responsible investment targets in their investment and/or responsible investment policies

KEY ASPECTS USED TO ASSESS RESPONSIBLE INVESTMENT COMMITMENT:

THE SUPER FUND:
• makes a public commitment to responsible investment that is endorsed at the highest level of the organisation (policy and/or guidelines);
• elements of the policy that ensure that it can be put into action include ambitious but specific and achievable targets and KPIs; and
• has full coverage of responsible investment policy over the total portfolio and asset classes.

• 34% of asset owners have mandated targets for portfolio alignment with the Paris Agreement or net zero by 2050 (as at December 31, 2020)

BOARD LEVEL ACCOUNTABILITIES AND TARGET SETTING

Increasingly, responsible investment is recognised by super fund trustees as having an impact on long-term investment outcomes. For this reason the top two drivers to consider ESG in investment decision-making for super funds is to improve financial returns (33%) and help manage investment risk (31%) (Figure 31). The third top motivator was meeting fiduciary duty, while 14% indicated that expectation by members or consumers was among the top drivers.

FIGURE 30: Ways funds identify stakeholders’ responsible investing interests to inform strategy development

FIGURE 31: Top drivers for super funds to consider ESG in investment decision-making
One way that funds can demonstrate their commitment to responsible investment is by mandating specific ESG targets in policies and strategies. In 2020, just 42% of the funds had specific targets – with most funds (34%) setting targets for portfolio alignment with the Paris Agreement or net zero by 2050 (as at December 31, 2020), 8% (4 funds) mandating voting targets, and 6% (3 funds) setting decarbonisation targets or a proportion of AUM to be fully ESG integrated (Figure 32).

Encouragingly, 57% of funds (29 funds) had a systematic process in place to track performance against organisational targets.

**COVERAGE OF RI APPROACHES TO ASSET CLASSES**

Different asset classes are covered by responsible approaches to different extents (Figure 33). International equities and Australian equities have the highest coverage (with an average contribution to portfolios of 26.1% and 24.8%, respectively). The ‘other’ category, which most often includes alternatives or growth and defensive options was third (10.2% of portfolios), followed by property (9.1% of portfolios) and infrastructure (8.1% of portfolios).

The most common responsible investment approaches deployed among super funds is ESG integration and active ownership (which includes engagement and voting) in most asset classes. A notable exception was fixed income, where negative screening was more prevalent that active ownership. Forestry, as an asset class increased from 2019 (now 0.5% of portfolios) with four super fund investors applying ESG integration, sustainability-themed investing and engagement and voting. Three funds declared investments in commodities (0.9% of portfolios) but with no responsible investment overlays applied to this asset class. Excluding the public sector funds, hedge funds made up between 1.1% and 5.5% of portfolios with negative screening, ESG integration, active ownership and sustainability-themed investing as the responsible investing approaches applied.

**COMMITMENT TO A SUSTAINABLE AND RESILIENT MARKET**

Over this period, a commitment to sustainable financial markets was demonstrated by 12 of the 13 leading responsible investment funds (and many of the non-leaders) by resourcing specialist staff to the Australian Sustainable Finance Initiative (ASFI) – an unprecedented collaboration co-initiated by RIAA to help shape an Australian economy that prioritises human wellbeing, social equity and environmental protection, while underpinning financial system stability.

In November 2020, ASFI released its Roadmap setting out a bold plan to align Australia’s financial system to support a thriving Australian society, a healthy environment and a strong and prosperous economy. The Roadmap makes 37 recommendations that will enable the financial services sector, together with regulators and governments, to strengthen Australia’s financial system with the aim of recovering from the impacts of COVID-19 and delivering a transition to a net zero, resource-efficient and inclusive economy.
3. RESPONSIBLE INVESTMENT IMPLEMENTATION

Responsible investment implementation considers the operationalisation of the responsible investment policy and beliefs. Strong responsible investment implementation starts with the fund’s investment beliefs and follows a systematic and thorough process internally. It must involve key external stakeholders, such as external managers and asset consultants to the extent they are involved in managing or advising on assets.

For example, if one of the investment beliefs is ‘we aim to be active owners’, then the evidence provided on the process involved in delivering successful active ownership behaviours (such as company engagements, proxy voting policies and disclosures) should be prioritised as a significant aspect of successful implementation, particularly where it has been emphasised over other responsible investment approaches.

AT A GLANCE

- Responsible investment is influencing the strategic asset allocation of 55% of super funds, up from 39% in 2019
- Super funds rely heavily on external managers, ESG research and ESG metrics or benchmarks to ensure that ESG integration is robust.
- Leading responsible investment super funds are more systematic about ESG integration and are more likely to commission ESG research that specifically addresses their needs
- 92% employ asset consultants with responsible investment expertise up from 65% in 2019 and 55% in 2018. Only 52% formally monitor their responsible-investment-related services; 35% of funds conducted informal monitoring.

THE SUPER FUND:

- can show how responsible investment strategies are applied across material asset classes within the fund (or expressed as a percentage of AUM covered);
- can provide confidence that responsible investment strategies are implemented through relevant channels;
- can demonstrate systematic process for responsible investment implementation (e.g. such as how decisions are made within the organisation and between its external service providers);
- provides confidence that these processes are applied consistently and effectively (e.g. external research providers, third-party verification, industry certification, evidence of continual professional development by key personnel);
- has mechanisms for reporting internally against the policy implementation;
- has clear and formal processes in place for selecting, managing and monitoring of underlying managers consistent with the fund’s responsible investment expectations;
- clearly sets responsible investment expectations in relevant documents for and discussions with managers of underlying assets; and
- has clear processes for delivering responsible investment approaches (e.g. ESG integration, sustainability-themed) across the fund’s various asset classes.

ACTIVE UNDERSTANDING

For the first time, responsible investment influenced strategic asset allocation for more than half of super funds (55%), an increase from 39% in 2019.

Responsible investment considerations influenced asset allocation in several ways, including through:

- application of a range of portfolio-level tools developed in house, for example, an asset owner’s own sustainability or resilience scorecard;
- analysis of ESG ratings and carbon metrics of the overall portfolio;
- negative screening of certain types of assets;
- setting targets, for example, to reduce carbon intensity of the portfolio over time;
- stress-testing against different climate scenarios or using portfolio analysis tools with embedded climate modules;
- applying external (third-party) tools, for example the Paris Agreement Capital Transition Assessment (PACTA tool);
- applying macro-scenario analysis;
- conducting internal climate scenario assessment or other third-party risk assessment; and
- collaboration with asset consultants and investment managers.

ESG INTEGRATION

ESG integration remained the main responsible investment approach used by super funds in 2020; therefore, how super funds deliver on this approach warrants an in-depth look. The results indicated that external managers were crucial to ESG integration. While the majority (82%) of super funds held external managers fully or largely responsible for providing ESG information, leading super funds always shared this responsibility with external managers (Figure 34 overleaf).

CASE STUDY: AWARE SUPER

To help it set and meet climate objectives, Aware Super undertook a baseline scenario analysis that considered:

- a business-as-usual scenario (3.5°C average temperature rise, with high physical impacts of climate change);
- delayed policy action scenario (physical climate risks are more moderate but the late onset of policy action results in higher transition risks);
- global action scenario (characterised by immediate coordinated effort to reduce emissions, thus moderating the physical impacts from climate change and transition risk); and
- emergency scenario (aggressive policies and major technology shifts create high transition risk, but lower physical risks).

In addition to stress-testing, Aware Super sets targets for investment in low-carbon, renewables and climate related businesses, divested from thermal coal and is targeting a 30% reduction in emissions across its listed equity investment portfolios by 2023.

By October 2020, the fund had divested from thermal coal mining and committed approximately $1 billion to renewables and low-carbon technologies.

Strategic asset allocation explained

Strategic asset allocation refers to decisions about how funds are allocated between i) different asset classes, ii) assets in different locations (markets) and iii) weighting of different sectors. It is also the process where specific issues can be identified as risk and can also impact asset allocation decisions.
In addition to external managers, super funds also relied heavily on ESG research and ESG metrics or benchmarks (Figure 35). Again, leading super funds invested more resources on ESG integration in-house as they tended to use multiple processes and were more likely to commission ESG research that specifically addressed their needs, rather than relying on existing research.

All leading super funds had a systematic process in place to review the potential significance of ESG factors rather than relying on external managers or conducting ad hoc reviews (Figure 36).

**EXTERNAL MANAGER EXPECTATIONS, SELECTION AND MONITORING**

Investment manager selection and monitoring practices are becoming more robust. In 2020, 60% of super funds discussed minimum responsible investment expectations with managers, as opposed to 47% in 2019. Again, leaders were significantly more systematic in engaging with external managers and communicating their expectations in delivering responsible investment than non-leaders (Figure 37).

In addition, for the first time, the majority of super funds (71%) that engaged external managers demanded ESG reporting in Investment Management Agreements (IMAs), an increase of 32 percentage points from 39% in 2019 (Figure 38 overleaf).

The number of super funds tasking investment managers with executing voting policies in alignment with the funds’ investment beliefs and strategy also increased compared to 2019, to 22 funds (out of 53) from 15 (out of 57 funds) in 2019 (Figure 39 overleaf).

Leaders demanded more from investment managers and were three times more likely to mandate responsible investment expectations in IMAs than non-leaders.

**ASSET CONSULTANT SELECTION AND MANAGEMENT**

Ninety-two percent of super funds engaged asset consultants that had comprehensive or some expertise in responsible investment. Asset consultants provide advice on a range of important issues, through participating in strategic meetings to review managers’ performance and asset class strategies to influencing manager decisions (Figure 40 overleaf). Again, leading super funds were significantly more likely to strategically engage asset consultants on responsible investment issues than non-leaders.
More than half of the super funds (52%) formally monitor or conduct ongoing dialogue with asset consultants regarding the delivery of responsible investment related services. Another 35% of funds conducted informal monitoring.

ENGAGEMENT AND ADVOCACY

Super funds engage on responsible investment issues directly with companies or other issuers, or indirectly through joining collaborative engagements or through their different service providers such as investment managers and consultants.

Forty-five percent of funds had a formalised policy and/or process for engagement. Nearly half (47%) of super funds undertook direct engagement activities and the same proportion produced an engagement report following those activities. Fifty-seven percent of super funds provided information on engagements that service providers conducted on their behalf in the engagement reports or by including a link to the service provider’s information on their websites.

Engagement through service providers means that the role of many super funds becomes limited and informal (Figure 41). Only 16% of super funds claim to be comprehensively involved in engagements through their service provider. Akin with the PRI’s Active Ownership 2.0, fiduciaries today often engage with the companies they are invested in. Examples include addressing privacy and hate-crime issues with social media companies and engaging with oil and gas companies on their strategies to decarbonise in line with the Paris Agreement. Furthermore, modern and effective fiduciaries collaborate to lend further weight to their engagements and increase the likelihood of success.

Seventy-four percent of super funds participated in collaborative initiatives or industry groups, and more than half were members of the Principles for Responsible Investment (PRI), ACSI and the Investor Group on Climate Change (IGCC) (Figure 42 overleaf). Engagement in climate-change-related initiatives was overwhelming through membership or signature of IGCC, Climate Action 100+, Carbon Disclosure Project (CDP) Climate Change, and Climate League 2030.

Information on engagements was often not systematically conveyed to the public. Only 13% of super funds provided information on engagements to the public systematically, while 44% only did some of the time.
In 2020, 68% of funds advocated for responsible investment, including all 13 of the leading responsible investment super funds, compared to just 60% in 2019. Direct advocacy and advocacy through collaborative initiatives was undertaken by 34% of funds. The top advocacy issues listed by super funds in 2020 are shown in Figure 43.

VOTING

Exercising voting rights allows super funds to express their views regarding a company’s strategy, leadership and activities ranging from remuneration to mergers and acquisitions, to ESG practices and disclosure.

Super funds can exercise voting rights in different ways, including:

- undertaking all voting activities, applying their own voting policy or a third party’s voting policy;
- delegating voting to their investment managers to undertake all or some voting activities, applying their voting policy or a third-party service provider’s policy (26% of super funds task investment managers with executing voting policies in alignment with the super fund’s investment beliefs and strategy);
- outsourcing voting activities to a third-party service provider; and
- a combination of approaches, depending on how the investments are held, resourcing capabilities and the materiality of holdings.

Quality professional advice and information is essential for investors to navigate the increasingly complex area of corporate governance and environmental and social issues. However, it is not practicable for super funds to vote their shares if their international equities portfolio is managed by large index/quant funds with many thousands of clients and without the capacity to enact individual client voting instructions.

In 2020, 26% of super funds held 21% or more of their international equities as passive or enhanced-passive managed funds and another 12% of super funds held between 6% and 20% exposure to these. This is a notable change from 2019, when no super funds held more than 21% of their international equities via passive or enhanced-passive funds and only 17% of funds held between 6% and 20% in these. The rise in passive investments is one of the key emerging challenges in accountability and stewardship facing the super fund industry. It is expected that a professional industry should be able to support this significant and important task – proxy advisers play a crucial role supporting investors with advice and information.

Eighty-five percent of funds had a voting policy and all voting policies were public. While the vast majority of voting policies covered decision-making processes, transparency and governance issues, half of the funds (50%) indicated that their voting policies also covered environmental factors and social factors (48%) (Figure 44). Topics covered by super fund voting policies as they relate to environmental and social issues may be greater than shown in Figure 44. This is because votes categorised as ‘decision making processes’, ‘transparency’ and ‘director independence and remuneration’ are likely linked to sustainability themes such as climate disclosures (transparency) and board performance in relation to climate risk management.

While several super funds indicated that they did not collect information on the percentage of ESG-related shareholder resolutions they supported, 30% of funds voted for ESG-related resolutions in 2020 (Figure 45 overleaf). Ten percent of those funds supported more than 50% of ESG-related resolutions.
Questions probing voting practices in general had a low response rate, with only about half of the funds providing answers to these questions. However, what can be ascertained is that i) the majority of voting recommendations by service providers tended to be reviewed by funds, ii) funds tended to participate in voting when their service providers raised concerns with companies ahead of voting and iii) funds tended to inform companies why they abstained or voted against management recommendations. Furthermore, a higher proportion of leading responsible investment super funds indicated a higher level of engagement in voting compared to funds on average.

Total voting data for 2020 is displayed in Figure 46. There were 34% less total votes reported than in 2019, with the share of votes against the board, proxy adviser and both remaining similar to 2019. Most votes were made against the board, followed by proxy adviser and lastly, votes against both. However, there was a notable increase in the proportion of votes against the board in 2020 compared to 2019 among respondents. Votes against boards increased by 30 percentage points in 2020 (32 votes out of 44 in 2020 and 28 votes out of 65 in 2019, not counting zero % votes). At the same time, votes against proxy advisers fell to 11% from 22% (not counting zero % votes). The jump in votes against boards in 2020 indicates that super funds have been more actively holding boards to account on all resolutions, including those related to environment and social issues. The drop in votes against proxy advisers may be due to service providers providing clearer and more directive ESG recommendations consistent with the needs and interests of super funds, especially around climate risk disclosures.

These findings are consistent with those reported by ASIC\(^1\), which has stated that there ‘were also reports during the 2017 AGM season of large institutional shareholders deciding to vote against resolutions that were the subject of a ‘for’ recommendation by proxy advisers. This is consistent with representations made to ASIC by institutional shareholders that they do not follow proxy advisers’ recommendations automatically but make their own voting decisions.’

VALUES-BASED INVESTING

Values-based investing refers to providing standalone investment options with negative and/or positive screens, application of fund-wide exclusions or basing investment decisions on an ethical charter. In 2020, 62% of super funds applied fund-wide screens or exclusions, with tobacco and controversial weapons being the most prominent screens applied by funds (Figure 47). The majority of fund-wide exclusions (43%) were informed by members and consumers through member surveys, members services teams and fund-wide responsible investment policies.

Fifty-one percent of funds offered at least one specific responsible investment option to members or customers.

IMPACT OR SUSTAINABILITY-THEMED INVESTING

Super funds targeted a wide range of themes, although climate-related themes including renewable energy, net zero targets and reduction of carbon intensity featured widely. Figure 48 shows that despite leading responsible investment super funds making up just one-quarter of total funds, they contributed the majority of the total assets that were allocated to impact or sustainability-themed investing in 2020 – 76% or $11.8 billion.
Impact investing state of play for asset owners (including super funds)

RIAAs 2020 Australian Impact Investment Survey gathered data on Australian investor attitudes towards impact investing, by probing the awareness of and interest in impact investing among investors not yet active in impact investing as well as the motivations, intentions and perceived roadblocks to increased investment among Australian investors already engaged in impact investing.

125 respondents participated in the 2020 Survey – including 15 asset owners (including superannuation funds), 87% of these being active impact investors.

Key findings relating to asset owners (including super funds) were as follows:

Allocations to impact investing:
- the average impact investment AUM for each asset owner respondent was $94 million;
- as an investor group, asset owners allocated the lowest proportion of AUM to impact investments (the estimated weighted average impact investment AUM as a % of total disclosed AUM was 0.3%), standing in stark contrast to individuals & family offices who report the highest proportional allocations to impact investments at 12% of AUM; and
- in aggregate, asset owners identified that they would ideally allocate 4% of their investment portfolio to impact investments over the next five years.

Motivations for investing among active impact investors:
- achieving measurable social, environmental or cultural impact (77%), followed by mission alignment (46%), financial returns (38%) and client/member/trustee demand (38%) were the top four motivations for asset owners active in impact investing to making impact investments.

Impact themes and asset classes:
- for asset owners, their current impact investments are spread across a diverse range of outcome areas, with clean energy (12%), environment and conservation (9%) and housing and homelessness (10%) rating highest. This in part may reflect not only respondents’ individual preferences, but also product availability and the disproportionate contribution of green bonds and clean energy investments to the available product universe;
- for future impact investments, asset owners articulate a clear preference for impact investments in clean energy (24%), environment and conservation (13%) and in a marked divergence from other investor groups: Indigenous Peoples (13%); and
- asset owners prefer a diverse range of investment types for their impact investments. The preference for future impact investments is in the form of private equity or venture capital (16%) followed by real assets (19%), pay-for-performance instruments (19%), and public debt (16%).

Enablers for increased impact investing:
- asset owners active in impact investing cite more investable deals (77%), evidence of financial performance or longer track record (46%) and larger deal sizes (46%) as the most important factors that will likely enable them or their organisations to increase their allocations to impact investment in the future.


4. MEASUREMENT AND OUTCOMES

Measurement and outcomes refers to the practice of tracking progress on responsible investment implementation against a defined target or set of success measures, as well as the outcomes of investment practices on environmental, social, governance, sustainability and ethical issues. There are growing expectations from clients and other stakeholders that super funds benchmark, measure and report on both stewardship and the real world outcomes of responsible investment strategies.

AT A GLANCE
- 40% of super funds set targets to measure responsible investment outcomes in 2020, increasing from just 25% in 2019
- 40% of super funds set targets to achieve environmental objectives, 21% set targets for governance objectives and 13% set targets for social objectives
- 40% of funds have an internal or external review or assessment processes in place to track performance against targets

KEY ASPECTS USED TO ASSESS RESPONSIBLE INVESTMENT MEASUREMENT AND OUTCOMES:

THE SUPER FUND:
- defines indicators (or proxies) and/or sets targets to measure the performance of its responsible investment activities and outcomes;
- has processes to measure responsible investment strategies against fund beliefs or stakeholder interests demonstrated;
- has a method to measure fund success in responsible investment implementation;
- uses external organisations such as research houses to help with the measurement of performance and outcomes; and
- puts itself forward for external review and assessment.

BENCHMARKS

Compared to 2019, the trend to set targets to measure performance against objectives has grown – particularly around managing climate change risk and opportunity. Of the 21 funds (40%) that set targets linked to responsible investment outcomes, 15% (eight funds) did so across most investment activities, and a quarter (13 funds) had a target covering at least one area such as engagement or impact investment.

Targets linked to environmental objectives were most common, used by 40% of funds. This involved, for example, measuring carbon intensity of the portfolio. Tracking performance against governance objectives, such as TCFD-aligned reporting, was practiced by 21% of super funds, while those against social objectives such as alignment with Sustainable Development Goals, was pursued by 13% of funds (7 funds). How funds chose to benchmark their performance against these objectives is shown in Figure 49 overleaf. Almost a quarter of funds tracked performance against their own responsible investment policy commitments (including, for example, incidences of independent voting and successful engagement outcomes).
Funds use a range of different benchmarks, metrics and indicators to monitor and measure performance, including:

- tracking against internal organisational responsible investment goals, such as ESG exclusions, proxy voting and direct corporate engagement policies, expectations of investment managers (such as signatory status and engagement in ESG collaborative initiatives);
- carbon intensity exposure, climate change exposure, portfolio carbon footprint;
- ‘sustainable impact revenue’ or revenue contributing to SDGs earned by companies;
- alignment of (energy) investment with different net zero, 1.5-degree transition, science-based targets, or specific decarbonisation paths;
- job creation;
- access to affordable housing;
- waste avoidance;
- contribution to a circular economy;
- portfolio level global ESG benchmark for real assets (e.g. Global Real Estate Sustainability Benchmark (GRESB) or National Australian Built Environment Rating System (NABERS));
- tracking the actions of service providers on ESG issues such as modern slavery, climate change, and diversity;
- benchmarking against similar investment options;
- conducting carbon portfolio audits;
- measuring active return from responsible investment strategies;
- greenhouse gas emissions;
- investment in green energy;
- environmental and social risk assessments;
- MSCI ESG screens, and ratings; and
- climate-related shareholder resolutions.

The announcement, in November 2021, to establish an International Sustainability Standards Board as a cousin to the International Accounting Standards Boards, will provide a framework to formally test and codify these extra-financial metrics into a global standard.

Specific to impact investing, and now more broadly used across mainstream investing, the Impact Management Project has helped super funds and their service providers assess and classify styles of investments based on the contribution made towards achieving real world outcomes. The Global Impact Investing Network’s investor guide Compass: the methodology for comparing and assessing impact also makes a valuable contribution to better measure, monitor and report on real world outcomes.

**TARGETS AND INDICATORS**

Super fund pledges to collaborative initiatives such as the Net-Zero Asset Owner Alliance is on the rise. As of December 31, 2020, 34% of the 50 largest APRA regulated funds had set have portfolio-wide targets to achieve net zero by 2050; many also had announced targets for 2030. HESTA, the first to publicly commit, set a 2030 target of 33% emissions reduction across its investment portfolio, including passively held stocks and unlisted asset classes. This includes increasing investments in low-carbon assets, such as renewable energy or green infrastructure. Others have taken an asset class approach. For example, Aware Super chose to reduce emissions by 30% across its equity portfolio by 2023 and 45% across its entire portfolio by 2030. Its strategy to achieve this included divesting shares in companies that derive more than 10% of their revenue from thermal coal mining by October 2020. Others still, have taken a policy-alignment approach to achieving their emission reduction targets. UniSuper, for example, has a target of 100% of portfolio companies to have Paris-aligned operational commitments by the end of 2021.

Climate targets are just part of the new way that super funds are choosing stronger accountability. Unsurprisingly, leading super funds set, and publicly commit to, targets across a wide range of ESG issues (see Figure 50). Others include setting targets with investee companies on what they want to achieve in terms of gender representation on boards, senior management and the workforce more broadly (see 30% Club and also 40:40 Vision). Voting across all possible holdings is part of the modern fiduciary’s stewardship obligations, but some funds also include it in their public commitments (8%).

An increasing trend among super funds is the use of the SDGs, with their 169 underlying targets, to benchmark performance. RIAA’s assessment of the super funds that reported against the SDGs undertook ‘alignment’ reporting, rather than benchmarking against specific targets related to the themes of the SDGs. Alignment reporting is a reasonable first step in understanding portfolios’ support of the SDGs, but meaningful reporting against environmental and social sustainability targets and objectives must include the setting and tracking of specific targets.

**EXTERNAL REVIEW AND ASSESSMENT**

Forty percent of super funds reported having both internal and external processes in place to seek assessment or verification of their responsible investment performance or outcomes. Another 15% of funds rely on internal processes only, while 45% have no such processes in place.
5. TRANSPARENCY AND RESPONSIVENESS

Transparency refers to the visibility and complete and reliable disclosure of responsible investment practices and outcomes. Responsiveness is about timely communication with relevant stakeholders in a way that is inclusive and accessible.

AT A GLANCE

- 70% of super funds include key information such as their responsible investment policy on their website
- 89% of super funds publish information about responsible investment in a report (such as an annual report, sustainability report, stand-alone responsible investment report, integrated report or PRI Transparency Report) at least an annual basis
- 30% of leading responsible investment super funds, but only 8% of all super funds, seek external assurance over the responsible investment data they publicly report
- Leading super funds are significantly better at promoting their responsible investment activities and achievements than non-leader super funds

Websites are the primary means that super funds communicate with stakeholders about responsible investment, with 60% of super funds using websites only and another 28% of funds also using media channels and proactive stakeholder outreach programs. To date, few (only four) super funds use online tools that allow members or potential members to select and compare options that include responsible investment. Another nine funds have online tools that do not incorporate responsible investment information.

Although the overwhelming majority of funds (89%) publish information about responsible investment in a report format at least annually, only 8% independently assure responsible investment reports. Report types that contain responsible investment information include annual reports (58% of super funds), stand-alone responsible investment reports (17%), sustainability reports (8%), integrated report (4%) and PRI Transparency Report (2%) (Figure 51).

Leaders are better at capitalising on responsible investment activities and achievements by actively promoting them more extensively than non-leaders (Figure 52). Whether through a dedicated team or by engaging with a fund’s marketing department, 69% of leading super funds ensure that responsible investment is part of the fund’s overall promotion strategy compared to just 32% of non-leaders.

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### KEY ASPECTS USED TO ASSESS TRANSPARENCY AND RESPONSIVENESS:

#### THE SUPER FUND:
- has a demonstrated commitment to transparency of approaches and processes;
- reports on the performance and outcomes of the responsible investment strategy;
- enables key stakeholders to have access to relevant and accessible information:
  - provides regular disclosures including underlying fund manager names, full stock holdings, fund performance;
  - communicates to clients around responsible investment issues and performance;
  - makes it easy for clients to identify, compare and choose responsible investing option/s over others; and
- regularly surveys stakeholders for their responsible investment related interests and satisfaction with service; this information is used internally for improved decision-making.

Proxies identified for funds demonstrating a clear commitment to transparency of approach and responsible investment process included, but were not limited to:
- having an accessible and comprehensive set of policies, guidelines and resources on their public websites;
- clear and regular client communications including responsible investment matters;
- publishing responsible investment transparency reports; and
- putting themselves forward for industry and government awards for performance related to disclosures and transparency.

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### FIGURE 51 Different ways that super funds inform stakeholders about responsible investment, at least annually

<table>
<thead>
<tr>
<th>Method</th>
<th>Percent of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Include in fund’s annual report</td>
<td>58</td>
</tr>
<tr>
<td>Communicate directly with members (e.g. in newsletters)</td>
<td>26</td>
</tr>
<tr>
<td>Inform through the fund’s website</td>
<td>25</td>
</tr>
<tr>
<td>No reporting on responsible investment</td>
<td>25</td>
</tr>
<tr>
<td>Publish a stand-alone responsible investment report</td>
<td>17</td>
</tr>
<tr>
<td>Include in super fund’s sustainability report</td>
<td>14</td>
</tr>
<tr>
<td>Include in integrated report</td>
<td>8</td>
</tr>
<tr>
<td>PRI Transparency Report</td>
<td>2</td>
</tr>
</tbody>
</table>

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### FIGURE 52 Differences in how leaders and non-leaders promote or convey their responsible investment activities

<table>
<thead>
<tr>
<th>Promotion Activity</th>
<th>Percent of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part of the fund’s overall promotion strategy</td>
<td>69</td>
</tr>
<tr>
<td>Regular references in marketing/promotion materials</td>
<td>32</td>
</tr>
<tr>
<td>Annual reference in marketing/promotion material</td>
<td>38</td>
</tr>
<tr>
<td>Having a dedicated promotion team</td>
<td>29</td>
</tr>
<tr>
<td>Rarely mentioned in marketing/promotion</td>
<td>25</td>
</tr>
</tbody>
</table>

Leaders: Green  Non-leaders: Blue
APPENDIX 1: RESEARCH METHODOLOGY

The data in this report is derived from a combination of primary and secondary research. Firstly, RIAA undertook desktop research on each of the super funds’ public information. We sought additional input from funds to verify the data we sourced in the desktop research and to enhance our understanding of how a super fund implements responsible investment throughout its fund. We were especially keen to ensure that we collected information relating to the quality of implementation of responsible investment by way of evidence of integration processes across the fund, rather than proxy considerations in the form of high-level published statements and/or formal policies.

This report primarily covers the period 1 January 2020 to 31 December 2020. There are some exceptions to this, chiefly data sourced from participants’ websites and third-party ALM and performance data was sourced from August to November 2021. Data sourced from Principles for Responsible Investment (PRI) transparency reports published in 2020 primarily covers the financial year ending on 30 June 2020.

Secondary data came from publicly available sources such as corporate websites (e.g. policies, guidelines and annual reports); PRI transparency reports; RIAAs Responsible Investment Certification Assessment Program; and other publicly available information including news and media. Primary data was collected from super funds by way of a detailed information request form sent to super funds between August and September 2020. The form was prefilled with information collected through desktop research where possible. Funds were asked to check prefilled information was correct and provide additional data. We collected this data to help us more deeply understand internal governance processes related to the implementation, measurement and outcomes of respective responsible investment strategies.

Super fund responses were collected in September, subsequently data was cleaned and analysed using Excel. The scoring was based on RIAAs Framework of Good Governance (Appendix 2), responses were assigned scored according to the framework. Leading super funds were those that achieved 70% or more overall. This cut-off yielded 25% of super funds who were referred to as leading super funds in this report. Data was analysed for each question through quantitative or qualitative means. There were 12 questions that were identified as not applicable to all funds. These questions related to the engagement of investment managers and asset consultants. If a question was not applicable to a fund (i.e. n/a), it was removed from the maximum total score, to yield a maximum possible score for each fund. However, if the response was zero or if a response was not provided, it was included in the maximum potential score. The Future Fund was assessed using the Framework, but independently. As the only sovereign wealth fund in the study, it represented its own category. Appendix 2: RIAA’s Framework of Good Governance

The assessment framework is modelled from similar initiatives globally, specifically the Dutch responsible investment pension fund survey issued annually since 2006 by the Dutch Sustainable Investment Organisation. The framework consists of five pillars (see below), with the implementation pillar divided into three sub-categories, to extensively cover the different possible approaches of funds, agnostic of asset owner business approach. Maximum possible scores for each pillar and for each category in the implementation pillar, was 10, for a total of maximum score of 70. The weighting of the scores reflects RIAAs belief expressed in the Responsible Investment Benchmark Report 2021 Australia and New Zealand, emphasising outcomes and impact.
APPENDIX 2: RIAA’S FRAMEWORK OF GOOD RESPONSIBLE INVESTMENT GOVERNANCE

<table>
<thead>
<tr>
<th>Pillar Name</th>
<th>Description</th>
<th>Number of questions</th>
<th>Maximum possible score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance and accountability</td>
<td>Board-level buy-in to responsible investment supported by formal accountability processes</td>
<td>11</td>
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<tr>
<td>Commitment</td>
<td>Extent and breadth of responsible investment approach and coverage aligned with investment and responsible investment beliefs</td>
<td>7</td>
<td>10</td>
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<tr>
<td>Implementation</td>
<td>Widely used quality systems for delivering responsible investment consistent with commitments to responsible investment approaches</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Engagement, active understanding, voting, advocacy (as applicable)</td>
<td>14</td>
<td>10</td>
<td></td>
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<tr>
<td>b. ESG integration, manager selection and monitoring (as applicable)</td>
<td>13</td>
<td>10</td>
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</tr>
<tr>
<td>c. Values investing, impact investing</td>
<td>5</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Measurement and outcomes</td>
<td>Systems and metrics to track and manage responsible investment performance internally and externally; ways for measuring success</td>
<td>5</td>
<td>10</td>
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<td>Transparency and responsiveness</td>
<td>Disclosures that build member confidence and broader stakeholder trust in the super fund’s governance of responsible investment (as applicable)</td>
<td>10</td>
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Maximum possible score = 70

APPENDIX 3: ABBREVIATIONS

ACSI  Australian Council of Superannuation Investors  
AIST  Australian Institute of Superannuation Trustees  
AGM  Annual General Meeting  
APRA  Australian Prudential Regulation Authority  
ASFA  Association of Superannuation Funds of Australia  
ASFI  Australian Sustainable Finance Initiative  
ASIC  Australian Securities and Investments Commission  
AUM  Assets under management  
CDP  Carbon Disclosure Project  
CPR  Gross Domestic Product  
ESG  Environmental, social and governance  
ESG RA  ESG Research Australia  
EU  European Union  
FSC  Financial Services Council  
FTE  Full-time equivalent  
FUM  Funds under management  
GRESB  Global Real Estate Sustainability Benchmark  
GSIA  Global Sustainable Investment Alliance  
IGCC  Investor Group on Climate Change  
IMA  Investment Management Agreement  
NABERS  National Australian Built Environment Rating System  
PACTA  Paris Agreement Capital Transaction Assessment  
PPG  Prudential Practice Guide  
PRI  Principles for Responsible Investment  
RIAA  Responsible Investment Association Australasia  
RSE  Registrable superannuation entity  
SDGs  Sustainable Development Goals  
SFDR  Sustainable Finance Disclosure Regulation  
TCFD  Task Force on Climate-related Financial Disclosures
### APPENDIX 4: FUNDS FEATURED IN THE REPORT

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Registrable Superannuation Entity Name</th>
<th>Fund Category</th>
<th>Research respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANZ Staff Superannuation (Australia)</td>
<td>ANZ Staff Superannuation (Australia) Pty. Limited</td>
<td>Corporate</td>
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<td>AUSCOAL Superannuation</td>
<td>AUSCOAL Superannuation Pty Ltd</td>
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<tr>
<td>Australian Ethical Superannuation</td>
<td>Australian Ethical Superannuation Pty Ltd</td>
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<tr>
<td>Australian Government Future Fund</td>
<td>Australian Government Future Fund</td>
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<tr>
<td>Australian Meat Industry Superannuation</td>
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<td>AustralianSuper</td>
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<tr>
<td>AvSuper</td>
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<td>Aware Super</td>
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<tr>
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<tr>
<td>BUSS (Queensland)</td>
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<td>CARE Super Pty Ltd</td>
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<tr>
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<td>Christian Super Pty Limited</td>
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<td>Club Plus Superannuation</td>
<td>Club Plus Superannuation Pty Ltd</td>
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<td>Colonial First State</td>
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<td>Commonwealth Bank Officers Superannuation</td>
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<td>Commonwealth Superannuation Corporation</td>
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<tr>
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<td>Energy Industries Superannuation Scheme</td>
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<tr>
<td>Fire and Emergency Services Superannuation Board</td>
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<td>HESTA</td>
<td>H.E.S.T. Australia Ltd.</td>
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<tr>
<td>Host-Plus</td>
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<td>IOOF Investment Management</td>
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<td>LUCRF</td>
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<td>Local Government Super/Active Super</td>
<td>LGSS Pty Limited</td>
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<td>Macquarie Investment Management (Macquarie Superannuation Plan ONLY)</td>
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<td>Maritime Super Pty Limited</td>
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<td>Media Super</td>
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<td>Board of Trustees of the State Public Sector Superannuation Scheme</td>
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<td>REST</td>
<td>Retail Employees Superannuation Pty. Limited</td>
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<td>SCS Super (Australian Catholic)</td>
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<td>SPIRIT Super (Motor Trades Association of Australia Superannuation MERGED WITH Tasplan)</td>
<td>Motor Trades Association of Australia Superannuation Fund Pty. Limited</td>
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<td>Statewide Superannuation</td>
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<td>Telstra Super</td>
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<td>Togethr(Catholic Super, Equip, My life My super)</td>
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</table>
The information contained in this report has been prepared based on material gathered via desktop research of publicly available information and through an information request to funds in the survey sample (see methodology). The report is intended to provide an overview of responsible investment approaches adopted and being implemented by the largest Australian super funds. The Responsible Investment Association Australasia (RIAA) also scales funds’ data found in disclosures, relative to an assessment framework defined by RIAA.

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