

Responsible Investment Benchmark Report 2015 Australia



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As a pioneer of the responsible investment community, Australian Ethical has maintained its position as one of the leading ethical investment companies in the world. For 29 years we have been helping our clients harness the power of money to deliver both competitive returns and positive change for society and the environment. Our philosophy is founded on the Australian Ethical Charter - a set of principles and practices that guide not only our research and investment process but our own corporate behaviour. In addition, every year we donate 10 per cent of our profits through our grants program, one of the highest percentages of corporate giving in Australia. We are proud to once again support RIAA and the vital work of the benchmark report.



BT Financial Group

BT Financial Group (BT) is Australia's largest administrator of superannuation, retirement and investments and is a signatory to the Principles for Responsible Investment. BT considers its role as one of a universal owner and long term investor on behalf of our beneficiaries. We believe that the research, assessment and management of environmental, social and governance (ESG) factors enhance our ability to meet the long term investment objectives for our funds, consistent with our fiduciary duty. It also provides greater insight into investment risks across all time frames. Managing for a long-term investment outcome is not only beneficial for this generation, but for generations to come. BT also recognises that by applying the principles underpinning consideration of ESG factors, there may be a better alignment between investor outcomes and the broader objectives of society.



New Zealand Superannuation Fund

The NZ\$30 billion New Zealand Superannuation Fund invests globally to help pre-fund the future cost of universal superannuation in New Zealand. The Fund is managed by an Auckland-based Crown entity, the Guardians of New Zealand Superannuation. The Guardians believes that environmental, social and governance (ESG) factors are material to long-term investment returns, and is committed to integrating ESG considerations into all aspects of the Fund's investment activities. A founding signatory of the United Nations Principles for Responsible Investment, the Guardians also provides responsible investment services to the Accident Compensation Corporation and the Government Superannuation Fund Authority and is the Secretariat of the New Zealand Corporate Governance Forum.



Northern Trust Asset Management

Northern Trust Asset Management manages \$960.1 billion in assets (as at 31 March 2015), across a wide range of strategies including Engineered Equity (smart beta), ESG and Index Management providing personalised solutions to investors around the world. Northern Trust Asset Management has more than 25 years of experience managing Responsible Investment portfolios and more than US\$62 billion in positive and negatively screened assets under management. We understand that there is a broad set of motivations driving our clients into responsible investing. In doing so, we have designed a suite of capabilities to give clients flexibility in their approach and the assurance that their strategies will be supported by the full resources of our world class investment management processes and execution.



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Responsible Investment Association Australasia



The Responsible Investment Association Australasia (RIAA) is the peak industry body representing responsible and ethical investors across Australia and New Zealand. RIAA is a growing active network of over 150 members managing more than \$500 billion in assets, including super funds, fund managers, consultants, researchers, brokers, impact investors, property managers, banks, community trusts and financial advisers.

RIAA's goal is to see more capital being invested more responsibly. RIAA works to shift more capital into sustainable assets and enterprises and shape responsible financial markets to underpin strong investment returns and a healthier economy, society and environment.

We do this by actively promoting the concept of responsible investment, across the finance industry and to the investing public, with the objective of increasing the uptake and deepening the impact of responsible investment.

RIAA works closely with and for its members on this cause, offering valuable services and benefits for members including:

- Being a hub of relevant and timely ESG and ethical information for our members, through our program of regular research, events, conferences, field trips and webinars.
- Acting as a strong voice for the industry through media and communications, to promote and grow demand for responsible and ethical investment
- Working to build the capacity of the industry in responsible investing through education, networking and thought leadership.

As this report shows, there has never been a more important time to be on top of the developments in responsible investing and there's no better way than by becoming a member of RIAA.

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Executive summary

In 2014, responsible and ethical investing received mainstream attention in Australia, as investors across the industry took stronger positions on issues including fossil fuels and tobacco and increasing numbers of consumers aligned investment of their retirement savings with their own values.

This year's Australian Responsible Investment Benchmark report finds that responsible investment assets managed by asset managers, super funds, banks and advisers continued to grow strongly, both at retail levels and institutional levels, across all responsible investment strategies:

- **Total assets managed under responsible investment strategies** have grown to encompass 50% of Australian total assets under management (TAUM), at \$629.5 billion AUM as at 31 December 2014.
- **Investments managed under core responsible investment strategies** – those traditionally referred to as ethical or Socially Responsible Investments (SRI), including screening, as well as impact investments, community finance, and sustainability themed investments – rose again this year by 24% to \$31.6 billion AUM (after having increased 50% the previous year).
- **Investments undertaking ESG integration (environmental, social and governance - referred to as broad responsible investment in this report)** have been assessed under a different and more detailed methodology this year, and represent \$597.9 billion AUM, reflecting the strong take up of ESG integration by many of Australia's largest asset managers.

The strong uptake of responsible investment can be attributed to four key drivers:

- An increasing number of examples of companies' poor management of environmental, social, governance (ESG) and ethical issues impacting shareholder value;
- Growing demand from consumers to align retirement savings with their beliefs and values;
- An increase in activist and civil society groups engaging the finance sector as a means of affecting change within investee companies.
- An increasing awareness by fiduciaries that consideration of ESG issues is an important element of their responsibilities, particularly in light of the growing ESG megatrends such as climate change with broad and wide ranging investment implications.

Importantly, alongside this growth in assets, this report also assesses the performance of responsible investment funds compared with their benchmark index and the average of equivalent mainstream funds. This report finds once again that the myth of underperformance of responsible investments is unfounded:

- **Core responsible investment Australian Equities funds** strongly outperformed both the ASX300 and the average Large Cap Australian equities funds in all time periods across 1, 3, 5 and 10 years.
- **Core responsible investment International Equities funds** displayed strong results, including outperforming the average Large Cap International equities fund over 1, 3 and 5 years, but slightly underperforming over 10 years (both mainstream and responsible funds underperformed the MSCI World ex-Australia Index over 5 and 10 years)
- **Core responsible multi-sector growth funds (i.e. balanced funds)** also outperformed their equivalent mainstream multi-sector growth funds across all time periods of 1, 3, 5 and 10 years

These results are good news for investors seeking to have a strong positive impact and strong financial returns from their retirement savings. With polling indicating that 69% of Australians¹ believe it is important that super funds make responsible investments and avoid harmful investments, these strong results show that a responsible investment approach is clearly consistent with good investment outcomes.

Core responsible investment Australian Equities funds strongly outperformed both the ASX300 and the average Large Cap Australian equities funds in all time periods across 1, 3, 5 and 10 years.

¹ RIAA Commissioned Polling, 28 November 2013. See media release and results here - <http://responsibleinvestment.org/resources/media-releases/>

This year's report again shows that the consumer demand continues to grow for responsible investment, with the core responsible investment rising again not only in absolute terms but also relative to TAUM to 2.5% of TAUM, slightly above last year's results. This small but important increase masks some significant growth in assets invested by retail investors (through asset managers or super funds) with core responsible investment AUM having doubled in the last two years (from \$15.2 billion to \$31.6 billion).

RIAA anticipates that increasing interest from the public and media will further increase focus on responsible investment, which in turn is likely to translate to more of the public choosing responsible investment options.

This year's research has also observed new responsible investment product offerings coming to market targeting both retail and institutional investors and across asset classes. These have included exchange-traded funds (ETFs), fixed interest funds, banking products, ESG smart beta funds, impact investment offerings, as well as themed bond issuances.

...core responsible investment AUM having doubled in the last two years

However, the growth of the industry is not being seen just through emerging responsible investment product offerings, but also through the deepening of the way investors – in particular asset managers and super funds – are implementing responsible investment strategies.

For super funds, this has manifested in many funds now using multiple responsible investment strategies across their entire portfolios rather than merely offering a discrete responsible investment option to members. Examples of this are super funds applying ESG integration across all asset classes, with some selective equity level exclusions (selective divestment), as well as corporate engagement and some allocations to sustainability themed investments. Despite this development making categorisation of funds increasingly challenging, this trend appears consistent with more mature responsible investment markets, and increasingly is becoming the approach of this region's larger sophisticated asset owners.



Total assets managed under responsible investment strategies have grown to encompass 50% of Australian total assets under management (TAUM), at \$629.5 billion AUM

For this first time this year, RIAA undertook a review and assessment of asset managers who are self-declared responsible investors against a framework developed based on global definitions of leading practice in ESG integration. This was undertaken in order to estimate the level of AUM managed by asset managers showing a leading approach to ESG integration. The AUM reported in the broad responsible investment category was determined using this approach after assessing 85 asset managers across Australasia. This framework and assessment process is outlined in detail in the report and is intended to help progress discussion about what it means in practice to implement a leading ESG integration strategy.

Conclusion

Responsible Investment is a broad term capturing a wide diversity of investors and investment strategies. What unites this group of investors is the understanding that there are more factors driving investment returns than just what is disclosed in a company's financial statements. Whether the purpose for an investor is to invest ethically or better understand valuation drivers, all of these investors are applying responsible investment strategies within their investment decision-making processes.

This report finds once again that the myth of underperformance of responsible investments is unfounded

Consistent with global trends in responsible investment, it is clear that leading investment organisations understand that responsible investment is now the benchmark of good investment practice, is increasingly demanded by clients (whether institutional investors or members of the public) and provides greater insights to inform good investment decision-making.



About the Report

Good investors have long known that there is more that drives investment returns than just what is disclosed in financial reports.

Responsible investors understand that companies and assets won't thrive whilst ignoring environmental issues (pollution, climate change, water and other resource scarcity issues), social issues (local communities, employees, health and safety), corporate governance issues (prudent management, business ethics, strong boards, appropriate executive pay) or ethical issues.

In formal terms, responsible investing is a systematic investment process that takes into account environmental, social, governance (ESG) and / or ethical issues into the investment process of research, analysis, selection and monitoring of investments.

Responsible investment represents a commitment to look at a broader array of risks and value drivers in investment decision-making, beyond and in addition to reported financial risk, and to systematically assess how these factors impact on the value of the investment. This is in acknowledgement that investment value is driven by many factors that are not disclosed in financial reports. These are ESG factors – environment, social and corporate governance - that are ever more frequently proving to be critical to understand a full picture of the value of an investment.

“

Responsible investment ...is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting.

UN Principles for Responsible Investment

”

These ESG factors include company culture and management, brand value, good governance and corporate ethics, quality control, pollution control, carbon emissions, occupational health and safety, good human resources practices, stakeholder management and more. ESG factors differ on a sectoral basis, company specific basis and on an asset class basis, with all investments holding different levels of exposures (in the same way market trends impact different companies in different ways). This complexity of issues is why there is no template for assessing ESG risks, but rather it takes skilled investment expertise and a systematic process along with deep knowledge to fully integrate these factors into investment decision-making.



In addition to ESG as a value driver, responsible investors also include those who overlay values or ethical decisions on their investments in order to align their investments with personal or organisational values and beliefs. Again, values and ethics are not homogenous, and as such, the underlying investor is best positioned to ascertain how to reflect their beliefs across their investments. Consequently, across the many ethical investment products, there are a variety of approaches, including many different industries that are ultimately screened out of ethical products.

As this report demonstrates, responsible investment is a growing component of the finance industry across superannuation, asset management, banking, community finance and financial advisory services. It represents a spectrum of offerings from large investment managers who integrate ESG factors in their decision-making, to so called 'deep green' ethical investment funds that apply screening criteria over their investments. As this report discusses, the maturing of the industry is resulting in many investment organisations applying multiple responsible investment strategies to reflect both the assessment of ESG risk alongside an ethical position for better outcomes for their underlying beneficiaries.

What unites all responsible investors is the acknowledgement that there is more driving investment outcomes than just what is found in the financial reports.

Purpose of the report

This report (and its companion New Zealand report) provides industry data on the size, growth and performance of the Australasian responsible investment market over the 12 months to 31 December 2014, and compares this with Australasia's broader financial market. This Responsible Investment Benchmark Report 2015 is the 14th annual benchmark report prepared by RIAA.

International context

RIAA is a proud member of the Global Sustainable Investment Alliance (GSIA), together with ASrIA (Association for Sustainable & Responsible Investment in Asia), Eurosif (The European Sustainable Investment Forum), UKSIF (UK Sustainable Investment & Finance Association), US SIF (The Forum for Sustainable & Responsible Investment) & VBDO (Dutch Association of Investors for Sustainable Development). To enable comparison of Australasia's responsible investment market with those of other regions, this report has been prepared in line with the GSIA categories and definitions¹ of responsible investment as applied in the Global Sustainable Investment Review 2014, the report mapping the growth and size of the global responsible investment industry.



Responsible Investment Strategies

This report, consistent with the GSIA, recognises seven major strategies for responsible investing. To maintain a global standard of classification, this report is aligned with these seven categories:

- 1 Negative/exclusionary screening
- 2 Positive/best-in-class screening
- 3 Norms-based screening
- 4 Integration of ESG factors
- 5 Sustainability themed investing
- 6 Impact/community investing
- 7 Corporate engagement and shareholder action

Full definitions of each responsible investment strategy can be found in the Glossary.

¹ Read the Global Sustainable Investment Review 2014 here <http://www.gsi-alliance.org/members-resources/global-sustainable-investment-review-2014/>

Core versus Broad Responsible Investment

For the purpose of this report, we differentiate between core and broad responsible investment strategies.

Core responsible investment strategies are defined as investments that apply as a primary responsible investment strategy at least one of the approaches of: screening (negative, positive or norms-based); sustainability themed investing; impact/community investing; or corporate engagement.

Broad responsible investment strategies are defined as those investments that apply ESG integration as a their primary responsible investment strategy.

This distinction is made to provide a useful differentiation of the data in a way that offers more granularity on the nature of the industry. Specifically, the core responsible investment strategies are made up in large part of those funds traditionally referred to as SRI or ethical strategies, with many of them being retail investment offerings (including the underlying managers for many superfund SRI options). As such, the core responsible investment data represents our closest proxy to retail take up of responsible investments.

In contrast, broad responsible investment tends to be made up of large institutional funds, for which ESG integration is undertaken as part of a mainstream investment offering (as opposed to a client chosen ethical, SRI or themed investment).

Increasingly, funds are applying multiple responsible investment approaches – for example ESG integration plus screening plus engagement. In this case, we allocate the fund to the primary responsible investment strategy being pursued, as determined through the survey responses, in conjunction with a RIAA review for consistency of classification with other equivalent or similar funds.

Currently in Australia and New Zealand, there are 82 asset manager signatories to the UN Principles of Responsible Investment, which means that all 82 asset managers are self declared responsible investors who have committed to integrate ESG into their investment decision making (among other commitments). According to PRI RI Transparency Reports, the 73 Australian asset managers represent approximately AU\$821 billion in AUM and the 9 New Zealand asset managers NZ\$ 12.7 billion (based on available data).

However, for the purposes of this report, our intention is to set out the size of the responsible investment industry including only those we consider to be demonstrating leading practice in ESG integration, and as such, we have undertaken a detailed desktop analysis of all those asset managers who are signatories of the PRI plus other asset managers our database indicates are practicing ESG integration. For more detail on the assessment methodology, see the breakout box in the Broad Responsible Investment section of the report.

Methodology

Reporting boundary

This report covers the calendar year 2014 and all data is as at 31 December 2014, where possible. In some cases, data was not available on a calendar year basis and on these occasions data was taken from the closest available reporting point. Australian figures are presented in AUD, while New Zealand figures are presented in NZD.

The investment industry is highly internationalised. Responsible investment funds can be located in one country, managed in another, and sold in a third, meaning defining an Australasian market is increasingly difficult. This report is intended to provide a guide to the range of responsible investment options available in the Australasian market. It therefore includes assets managed in the region, as well as some products managed outside the region, but sold in Australia.



Data collection

Data used in compiling this report was generously provided and collated from the following sources:

- Directly supplied by more than 70 asset managers, super funds, financial advisers, and community investment managers via a data collection survey for assets under management (AUM), investment approach and performance
- Morningstar for Total Assets Under Management (TAUM) in Australasia and average performance of mainstream managed fund categories, as well as a secondary source of AUM for many of the funds listed
- RIAA database and industry contacts
- Desktop research of publicly available information regarding assets under management, performance data and investment strategies, including websites, annual reports and PRI RI Transparency Reports.

The response rate to this year's survey was 58% from Australian investors and 41% from New Zealand investors representing the vast majority of AUM as the respondents were skewed towards the larger asset managers. Where data was not available, there has been no extrapolation of data.

In some cases the 2013 data has been recalculated for this year's report where new or updated information was made available in order to maintain consistency for year on year comparison. For this reason, some data may be reported differently to that reported in last year's report.

Data was generously provided by 70 asset managers, super funds, financial advisers, community and impact investment managers

Data analysis and reporting

Due to the complexity of identifying a single primary responsible investment strategy, this year secondary responsible investment strategies were also nominated through the RIAA data collection surveys. These were used to identify the depth of the responsible investment approach and to identify overlap between responsible investment strategies to give a better view of the responsible investment market in Australasia.

Any identified double counting, resulting from overlapping investments, has been removed in the reported figures. RIAA is continuously working to improve its data collection processes to enhance the quality of data and broaden the scope of data collected.

The response rate to this year's survey was 58% from Australian investors and 41% from New Zealand investors

Data completeness

It is important to note that for many areas of responsible investment data there is no requirement for disclosure. As such, some investment custodians may be reluctant to supply information for reasons of privacy or commercial confidentiality. As a result, despite all efforts to include all assets managed under responsible investment strategies in this report, for categories outside of managed responsible investment portfolios it is likely that some data was not accessible. For this reason, data in this report should be considered conservative.

Responsible Investment in Australia

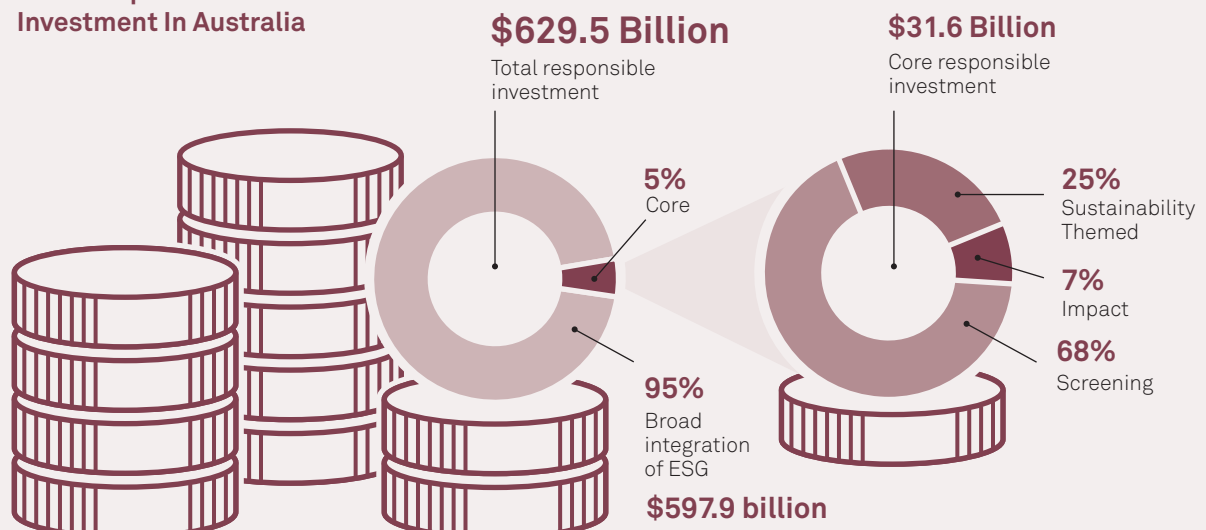
The responsible investment industry in Australia continued to grow strongly throughout calendar year 2014 to further solidify its position as a substantial portion of the total investment market. As at the end of 2014, the total responsible investment industry accounted for \$629.5 billion in assets under management, managed across a diverse array of responsible investment strategies.

According to Morningstar, total assets under management (TAUM) in Australia (managed funds) at the same point in time was \$1,270 billion (an increase of 15% on the previous year), meaning that **total responsible investment portfolios represent 50%** of TAUM in Australia.

Broad responsible investment – defined as those investors integrating ESG – was \$598 billion AUM in 2014, forming 95% of the total responsible investment AUM. (Due to a change in methodology this year, this data is not comparable to last year so the percentage growth rate cannot be estimated).

Core responsible investment funds in Australia – those applying screening, sustainability themes or impact investments – grew significantly in the year increasing to \$31.6 billion at December 2014, a 24% increase from the previous year’s total of \$25.6 billion. This increase was contributed to by investment returns, new inflows, an increase in funds that

Total Responsible Investment In Australia



qualified as core responsible investment (using the methodology described in this report) and \$655 million of new core responsible investment products that launched during the year, listed here:

- Hunter Hall High Conviction Equities Trust
- Australian Ethical Fixed Interest Trust
- Altius Sustainable Bond Fund
- Future Super

Core responsible investment is made up in large part of those funds traditionally referred to as SRI or ethical with many of them being retail investment offerings (or underlying managers of superfund SRI options) and as such are the best proxy available for retail demand for responsible investment.

At \$31.6 billion AUM, this gives a slightly higher share of TAUM (2.49%) than 2013 (2.39%) .

Responsible Investment Approach	2014 Responsible Investment AUM (\$m)	Revised 2013 Responsible Investment AUM (\$m)	Change (based on revised 2013 figures)
Screening (including negative, positive, best in class and norms-based screening)	21,375	18,017	19%
Sustainability themed investing	8,094	6,055	34%
Impact / community investing	2,143	1,518	41%
Core Responsible Total	31,611	25,590	24%
Broad Responsible Total ESG integration	597,852		
TOTAL RESPONSIBLE INVESTMENT	629,463		50% of TAUM

Core Responsible Investment Assets

At the end of 2014, core responsible investment portfolios in Australia totalled \$31.6 billion, which included 29 asset managers managing 72 products comprising a number of responsible investment approaches across screening, sustainability themed investment and impact investment. A full list of core responsible investment products is included in Appendix A.

Screening

Screening, continues to represent the majority of the core responsible investment assets, with this largely being made up of negative screens. The 19% growth in this category is quite substantial, however this masks a much greater movement in 2014 to screen industries from entire investment portfolios. For example, over the last two years, approximately 30 super funds have excluded tobacco stocks from their entire funds, with much of this occurring in 2014. For the purposes of this report, we have not included those funds. It does however demonstrate that exclusions are becoming much more common, and not just for ethical investors. Indeed, most of the recent divestment of tobacco has been by large

mainstream super funds. We anticipate that screening and divestment as a responsible investment strategy will continue to become more prevalent across the industry as funds make targeted exclusions, particularly on the back of rising super fund member engagement on such issues - whether tobacco, weapons, fossil fuel stocks, or other issues arising.

... which included 29 asset managers managing 72 products

The surging interest and focus by consumers on how their super is managed - with activist groups recently focused on fossil fuel divestment - is likely to be a contributing factor to this 19% growth of screened AUM. However, with core responsible investment remaining at only 2.49% of TAUM, **we would anticipate that there remains a lot more latent demand for screened funds and that we are likely only witnessing the early stages of this growth in core responsible investment funds.**

Impact investing

Impact investing grew by over 40% during the period as investors demanded more than just a financial return. Impact investing became a hot topic in 2014, with strong contribution by Governments. The New South Wales (NSW) State Government issued its first two social bonds and the New Zealand Government launched a pilot social bond program in the second half of 2013.

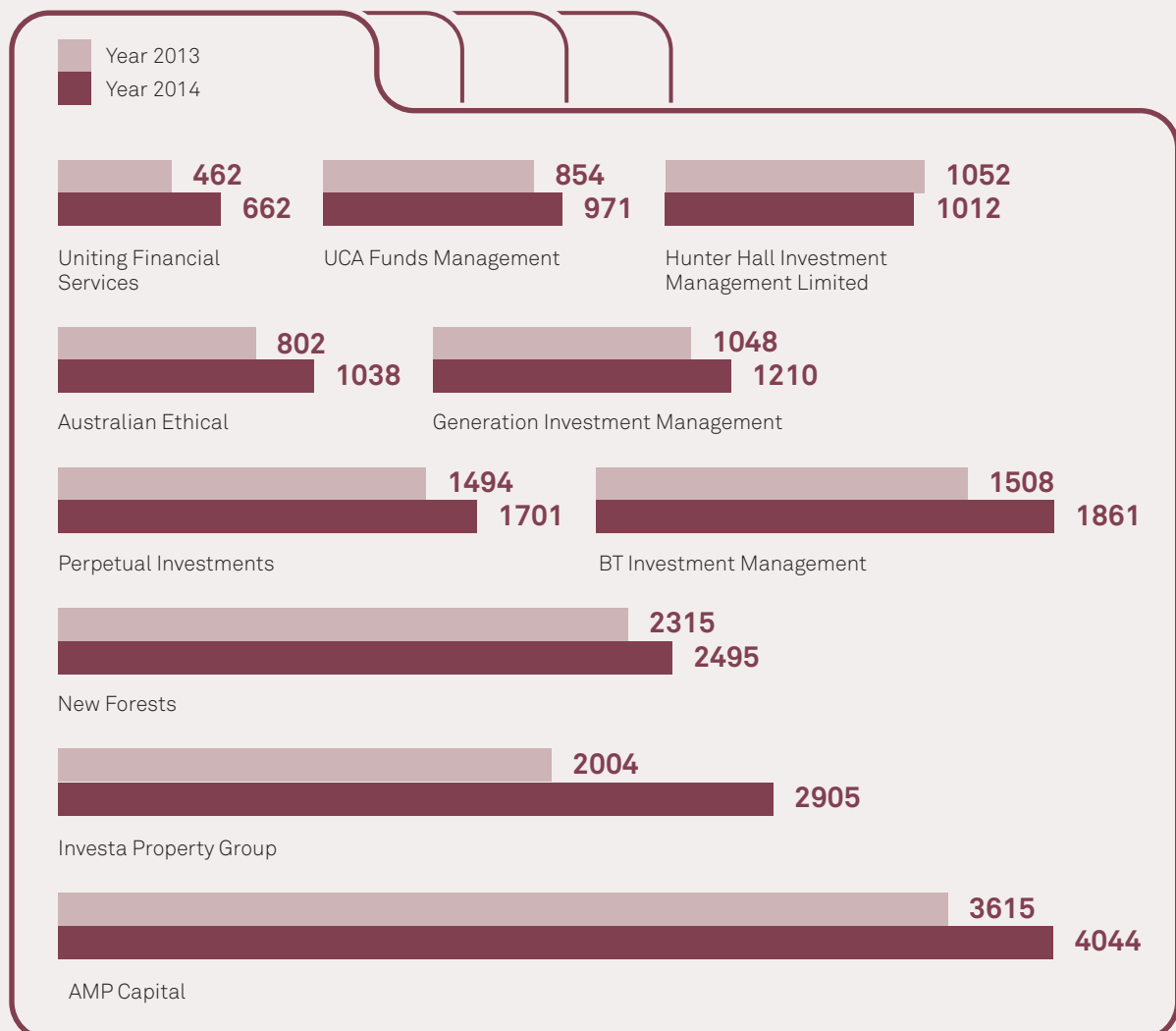
In addition, we've seen strong continued growth by impact investment intermediaries - including many who have been in the market for some years - such as Foresters, Social Ventures Australia, Social Enterprise Finance Australia, Impact Investment Group and Indigenous Business Australia. A number of banking products are also captured in this data including programs from Bankmecu and Community Sector Banking, as well as two of the 4 big banks, Westpac and NAB.

Sustainability themed investing

Sustainability themed investing also underwent strong growth during 2014, driven by sustainable agricultural funds, forestry funds, as well as green property, green bonds and other low carbon funds. We would anticipate a continuing growth in these types of funds over the coming year particularly as we are seeing a number of commitments being made to decarbonise portfolios, including the Montreal Pledge and the UN's Portfolio Decarbonisation Coalition, in the lead up to the Paris Conference Of Parties in December 2015. New issuances of green bonds by Australian banks, NAB and ANZ, in late 2014/early 2015 will also contribute in 2015.

The graph below shows the largest asset managers of core responsible investment portfolios as at December 2014. We continue to see a growing number of asset managers with core offerings tipping across the \$1billion AUM mark, with eight managers now managing funds above this threshold, and the 9th (UCA Funds Management) not far from crossing that milestone.

Largest asset managers of core responsible investments



Performance of Core Responsible Investment funds

The following table compares the performance of responsible investment funds with mainstream funds for three major investment categories over different timeframes. The average return is based on asset-weighted returns from each responsible investment fund within its category (where funds have provided performance figures) and returns have been reported net-of-fees. Mainstream indices and funds comparison data were calculated by Morningstar using a comparable methodology.

Core responsible investment funds generally performed better when assessed against the average mainstream fund. In fact, responsible investment Australian Share Funds and Multi-Sector Growth Funds outperformed their relevant benchmarks over the short, medium and long term.

In fact, responsible investment Australian Share Funds and Multi-Sector Growth Funds outperformed their relevant benchmarks over the short, medium and long term

Responsibly invested international share funds slightly outperformed the average mainstream investment fund in the shorter and medium term but slightly underperformed the average Large-Cap International Share Fund over the 10 year horizon. (The ten year result is partly a consequence of only two responsible investment funds providing 10 year data, making the sample size very limited.) Interestingly, both responsible investment International Share Funds and mainstream Large-Cap International Share Funds underperformed the MSCI World ex-Australia Index over 3, 5 and 10 years.

Australian Share Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 16-30 funds sampled depending on time period)	6.9%	17.6%	8.0%	8.1%
	Large-Cap Australian Share Fund Average	4.3%	14.2%	5.8%	6.8%
	S&P/ASX300 Accumulation Index	5.3%	14.7%	6.5%	7.4%

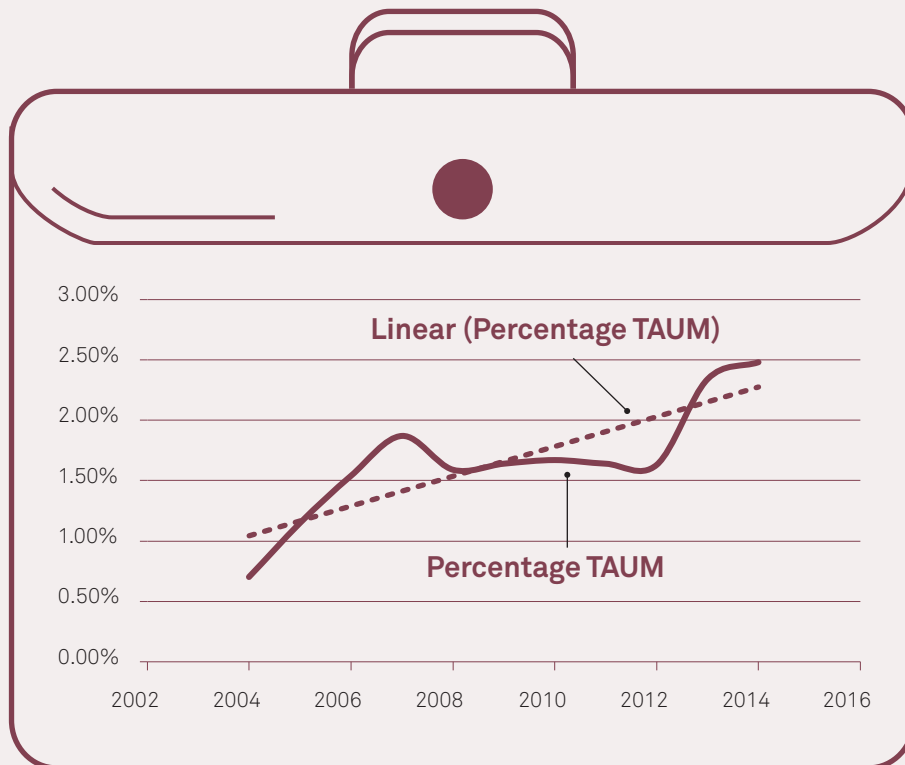
International Share Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 2-13 funds sampled depending on time period)	15.5%	24.7%	11.7%	4.2%
	Large-Cap International Share Fund Average	12.5%	22.9%	11.1%	4.9%
	MSCI World ex Australia Index \$A	15.0%	24.8%	12.5%	5.5%

Multi-Sector Growth Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 4-10 funds sampled depending on time period)	10.9%	13.9%	7.6%	7.7%
	Multi-Sector Growth Fund Average	7.8%	12.9%	7.2%	5.6%

Core Responsible Investment as a proportion of TAUM over time:

An important measure of the responsible investment industry over time is core responsible investment as a percentage of TAUM. The chart below maps the percentage of TAUM over ten years and shows clearly that the last two years has seen the strongest trend growth in that time, after a long period of relatively flat demand.

Although the proportional growth against TAUM has been incremental, it's worth noting that the absolute dollar value growth of AUM has been quite substantial. A decade ago in 2004, there was \$4.5 billion AUM in core responsible investments, rising to \$15.2 billion AUM in December 2012, and just **two years later this has more than doubled to \$31.6 billion AUM** (data taken from previous RIAA Benchmark Reports).



Core responsible investments as a % of TAUM

Broad Responsible Investment Assets

Beyond the core responsible investments, ESG integration constitutes a major force in the investment industry today.

In Australia, **9 out of the 10 largest asset managers are self-declared responsible investors**, having committed to the PRI. As signatories to the PRI, these 9 (as well as many others - there are 73 Australian asset manager signatories to the PRI in total) have all committed to incorporate ESG issues into investment analysis and decision-making processes.

The 73 PRI signatories collectively manage \$821 billion AUM (or 65% of TAUM in Australia).

In addition, 33 Australian asset owners are also signatories to the PRI, with approximately 50% of the largest 50 Australian super funds having committed to ESG integration.

However, RIAA has always taken a conservative approach to estimating the value of AUM integrating ESG factors, as we know there is a great range of depths to which these investment practices are applied. For the first time this year, RIAA undertook a desktop assessment of all those asset managers who are self-declared responsible investors (primarily from PRI signatory lists, but including others) and assessed them against a framework developed from researching global definitions



of leading practice in ESG integration. See the break out box below for a detailed overview of the process and assessment framework.

From this assessment, the broad responsible investment industry in Australia was determined to be comprised of 11 asset managers who together manage \$597.9 billion AUM. Although there is a skew in this assessment towards large asset managers, there were also some small asset managers that were successful in meeting the threshold level of ESG integration, and a good mix of managers across different asset classes (including strong scores for real estate managers).

Those 11 asset managers scoring above 80% on the ESG integration assessment were:

- AMP Capital
- ATI Asset Management
- Colonial First State Global Asset Management
- BT Financial Group
- IFM Investors
- Investa Property Group
- Lend Lease Investment Management
- Perennial Investment Partners
- Perpetual Investments
- QIC
- Solaris Investment Management

Where asset managers also reported funds under management classified as core responsible investment in this report, the core responsible fund value was excluded from the broad responsible investment total in order to prevent overlap between the two responsible investment categories. Those fund managers who are domiciled outside of Australia were not assessed.

Responsible Investment Approach	2014 Responsible Investment AUM (\$m)
Integration of ESG factors	597,852
Broad Responsible Total	597,852



Leading Practice in ESG integration – how have we defined it?

The last decade has seen Responsible Investment emerge from being a niche industry to a point today where a significant proportion of the investment industry has committed to implementing a responsible investment approach. For large institutional investors, this has focused primarily on applying ESG integration practices to traditional financial analysis.

Each year, defining and measuring ESG integration practices is challenging due to limited disclosure and a broad variation in depth of integration - from systematic implementation embedded into investment valuation practices and company engagement, to more ad hoc approaches.

RIAA's objective is to deepen the way responsible investment is practiced, and so has taken a conservative approach to estimating the ESG integration component of the industry. In previous years we have only included asset managers receiving the top two ESG ratings from Mercer's Global Investment Manager Database (last year \$153 billion AUM). In determining an alternative approach for this year's report, the least conservative approach would be to include all asset managers who are signatories to the

Principles for Responsible Investment – at time of writing, 73 managers with approximately \$821 billion AUM.

As part of the research for this year's Responsible Investment Benchmark Report, RIAA undertook a review of many global definitions and existing assessment frameworks for ESG integration practices in order to develop an assessment framework that could achieve two objectives:

- 1 To provide practical guidance around leading practices in ESG integration, what it means and how it is implemented.
- 2 To assess the size of the responsible investment AUM that is managed under leading practice ESG integration strategies in Australia.

This review of the global definitions of ESG integration involved looking at numerous definitions including those from the Global Sustainable Investment Alliance (of which RIAA is a member), the regional Sustainable Investment Forums, the Principles for Responsible Investment, as well as a number of large international asset managers and asset consultants.

This review found that although it is difficult to prescribe a single best practice process for integrating ESG factors into investment decision making (which will necessarily differ across asset classes) there are a number of leading practices which can be identified. Through this global review, RIAA established a framework drawing on the core pillars of leading ESG integration practices to define a framework that assesses the following:

- Publicly stated commitment to Responsible Investment
- Responsible Investment policy
- Commitment to transparency of processes and approach
- Systematic Process for ESG integration and evidence of how this process is applied within traditional financial analysis
- Evidence of activity in other areas of Active Ownership and Stewardship including voting and engagement
- Member of collaborative investor initiative
- Coverage of total AUM by responsible investment or ESG practices.

These pillars were then weighted ensuring a balance between evidence of systematic investment process versus policies and public commitments. Using this framework, RIAA then assessed 76 asset managers across Australia and 9 in New Zealand (including PRI signatories and non-PRI signatories) based on their publicly available information including websites, PRI RI

Transparency reports and any other available material. For each asset manager, a score was generated against the criteria and those managers scoring above 80% have been included in the final list of asset managers in our Broad Responsible Investment category above.

The methodology was developed specifically to apply fairly to asset managers across all asset classes and sizes.

The data presented for Australia represents 11 asset managers out of 76 scoring 80%+ (or 15% of the managers) managing \$606 billion (or 74% of total AUM managed by those 76 managers).

A portion of the AUM managed by these asset managers was already accounted for under core responsible investment strategies, and so this was excluded to avoid double counting, resulting in our broad responsible investment total of \$597.9 billion. There is a skew towards larger fund managers in this result, however, included in the list of 11 managers are some smaller fund managers as well as managers across different assets classes, (including some solid scores for managers in private equity and property). While this methodology will continue to develop over time, we believe this is the first step in developing an appropriate approach for measuring the depth of integration of ESG among self-declared ESG investors.

Superannuation funds in Australia

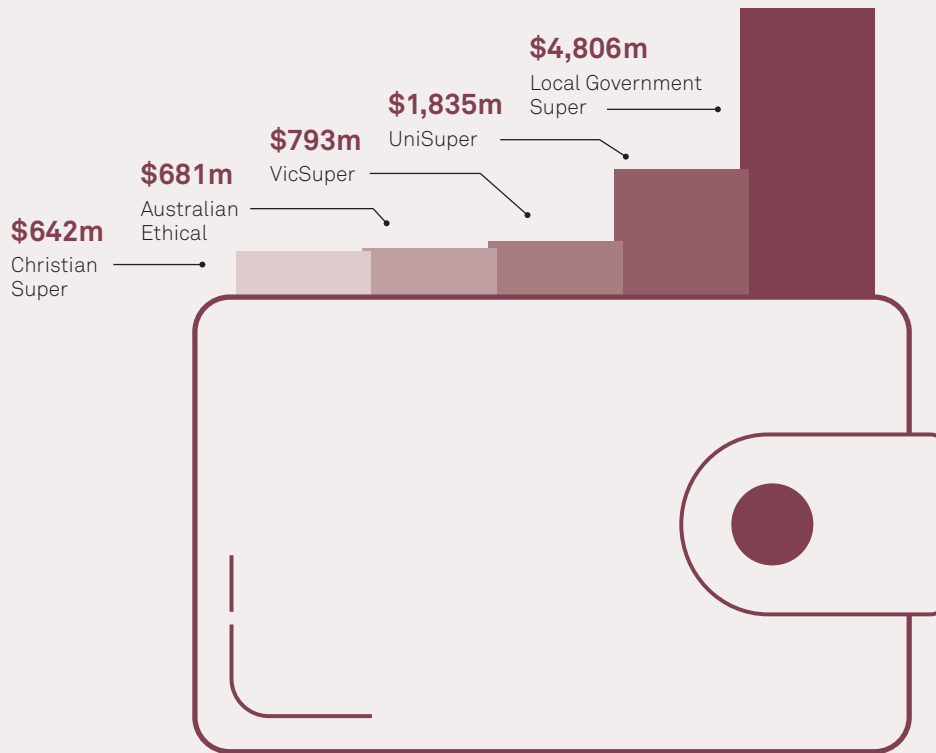
Super funds continue to grow AUM in responsible investment portfolios, through both offering of dedicated SRI options to their members, as well as the strong uptake of ESG integration. **A significant shift is occurring whereby super funds are increasingly applying multiple responsible investment strategies across their portfolios.** It is now not uncommon for a super fund to apply ESG integration across the fund, with one or two exclusions (such as tobacco), as well as having some sustainability themed mandates (green property, clean energy, low carbon funds etc) and undertaking corporate engagement.

At the broadest definition, there are 33 asset owners in Australia who are signatories to the PRI. For the purposes of this report, we are focused primarily on data of the underlying managers as opposed to the super funds. However, each year we do survey a number

From this assessment, the broad responsible investment industry in Australia was determined to be comprised of 11 asset managers who together manage \$597.9 billion AUM.

of super funds who have large responsible investment offerings, either through their SRI options, or by undertaking multiple responsible investment approaches over their portfolio (such as ESG integration plus more than 1 exclusion), to provide a list of the largest super funds with significant core responsible investments.

The total AUM figure cannot be directly added to the asset manager core responsible investment total AUM figure of \$31.6 billion, as there is significant overlap between the asset manager and asset owner's numbers. The five largest super fund portfolios classified as core responsible investment are shown in the chart below.



Largest five superannuation funds by core responsible investment AUM

It's worth noting we received a great deal of data from super funds and other sources this year which highlighted the rise in multiple responsible investment strategies being overlaid across the entire portfolio. Those super funds, outside the largest five graphed, with significant core responsible investment offerings or with funds that apply more than one responsible investment strategy included:

- Australian Catholic Superannuation and Retirement Fund
- Australian Super
- Catholic Superannuation Fund
- CBUS
- EquipSuper
- Future Super
- HESTA
- LUCRF Super
- Q Super
- Statewide Super
- SunSuper

In keeping with last year's report, super funds that exclude a single industry across their entire portfolio were not included in the core responsible investment approach. This however does miss a very important shift by super funds to screen certain industries across their entire funds, with the most recent example of this being the screening of tobacco companies, with thirty super funds having excluded tobacco across all their investments to date.

Financial Adviser Responsible Investment Portfolios

In addition to investing in managed responsible investment funds, advisers directly manage investment portfolios for their clients under responsible investment policies. In the last year, there has been significant attention paid to responsible investment from the Australian adviser community and private wealth advisers, as interest has surged from charities, family offices, high net wealth individuals and other retail investors. As of yet, we do not have a means to effectively measure the full scale of this growing interest in responsible investment.

However, a good indicator of the growing interest in responsible investment advice comes from the Ethical Advisors' Co-operative (EAC), who have a nationwide membership of ethical financial advisers. The Co-operative undertook a survey of their nine adviser and adviser group members in early 2015 to assess the funds under management invested with a core responsible investment screen as at 31 December 2014.

Of these nine advisers and adviser groups, there was \$910 million in ethically screened assets under management, an increase of 18% from the previous year.

Glossary

AUM – Assets under management - measures the total market value of all the financial assets which a financial institution manages on behalf of its clients

ESG – Environment, social and governance

GSIA – Global Sustainable Investment Alliance

PRI – UN Principles for Responsible Investment

RIAA – Responsible Investment Association Australasia

TAUM – Total assets under management as defined by Morningstar refers to the total asset base for the managed fund industry.

Definitions of responsible investment strategies

Broad Responsible Investment – investment that applies an ESG integration overlay, usually on to mainstream investment management strategy

Core Responsible Investment – investment that takes one of the following approaches:

- Screening of investments – negative, positive and norms-based screening
- Sustainability themed investing
- Impact/community investing
- Corporate engagement and shareholder action

ESG Integration – ESG integration involves the systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis and investment decision making based on an acceptance that these factors represent a core driver of both value and risk in companies and assets.

Negative screening – screening that systematically excludes industry sectors, companies, practices or even, at times, countries based on specific ESG or ethical criteria from a fund or portfolio. This approach is also often referred to as values-based or ethical screening. Common criteria used in negative screening include gaming, alcohol, tobacco, weapons, pornography and animal testing

Positive screening – involves screening investment in sectors, companies or projects selected for positive ESG or sustainability performance relative to industry peers in a defined investment universe. It can also refer to best-in-class screening, and involves identifying those companies with superior ESG performance from across all sectors.

Norms-based screening – norms-based screening is screening of investments against minimum standards of business practice based on international norms such as those defined by the United Nations (UN). This can include, for example, excluding companies that would contravene the UN Convention on Cluster Munitions, but also screening primarily based on ESG criteria developed through international bodies such as the UNGC (United Nations Global Compact), ILO (International Labour Organisation), UNICEF (United Nations Children's Fund) and the UNHRC (United Nations Human Rights Council).

Sustainability themed investing – focuses on investment in themes or assets specifically related to sustainability factors. This commonly refers to funds that invest in clean energy, green technology, sustainable agriculture and forestry, green property, or water technology. This category also includes multi-strategy portfolios that may contain a variety of asset classes or a combination of these themes

Impact investing – includes targeted investments aimed at solving social or environmental problems whilst also delivering financial returns. Impact investing includes community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social purpose.

Corporate advocacy and shareholder action – employing shareholder power to influence corporate behaviour including through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals and proxy voting that is guided by comprehensive ESG guidelines.



Appendix A

Core Responsible Investment Fund Offerings in Australia

This is a list of all core responsible investment funds included in the report.

Fund Manager	Responsible Investment Fund Options	Fund Manager	Responsible Investment Fund Options
AgCAP Pty Ltd	Sustainable Agriculture Fund	Hunter Hall Investment Management Limited	Australian Equities Fund Australian Value Trust Global Deep Green Trust Global Equity Trust Global Value Limited High Conviction Equities Value Growth Fund
Alphinity	Socially Responsible Share Fund	Infinitas Asset Management	Income Separately Managed Account (SAM) Socially Responsible SMA
Altius	Sustainable Bond Fund	Investa Property Group	Investa Commercial Property Fund (ICPF)
AMP Capital	Australian Sustainable Share Fund Responsible Investment Leaders (RIL) Australian Share Fund RIL Balanced Fund RIL Diversified Fixed Income Fund RIL International Share Fund	Kilter Rural	Sustainability Themed Investments-Agriculture
One Answer (ANZ)	ING Sustainable Australian Shares Fund	Maple Brown Abott	Ethical Australian Share Fund
Ausbil Investment Management	Candriam Sustainable Global Equity Fund	New Forests	Australia New Zealand Forest Fund Australia New Zealand Forest Fund 2 (including Tasmanian Forest Trust) Forest Carbon Partners Forestry Investment Trust Green Triangle Forest Trust Tropical Asia Forest Fund
Australian Ethical	Australian Ethical Advocacy Trust Australian Ethical Cash Trust Australian Ethical Fixed Interest Trust Australian Ethical International Australian Ethical Property Trust Australian Ethical Larger Companies Trust Australian Ethical Balanced Trust Australian Ethical Smaller Companies Trust	Northern Trust	Australian Account – Responsible Investment Mandate
BT Investment Management	Enhanced Sustainability Australian Share Fund Institutional International Sustainability Share Fund Sustainable Balanced Fund Sustainable Conservative Fund Wholesale Australian Sustainable Share Fund Wholesale Ethical Share Fund	OnePath (ANZ)	Sustainable Investments - Australian Shares Trust
Colonial First State Global Asset Management	Worldwide Sustainability Fund	Perennial	Socially Responsible Share Trust
Crescent Wealth	Australian Equity Fund Diversified Property Fund International Equity Fund Islamic Cash Management Fund	Perpetual Investments	Wholesale Ethical SRI Fund
Cromwell Funds Management	Box Hill Trust Ipswich City Heart trust	Russel Investments	Socially Responsible Australian Shares Portfolio
Dalton Nicol Reid	Australian Equities Socially Responsible Portfolio	Smallco	Smallco Investment Fund
Generation Investment Management	Global Equity Fund Asia Equity Fund Climate Solutions Fund Global Credit Fund	UCA Funds Management	Enhanced Cash Portfolio Australian Equities Portfolio Growth Portfolio
		Uniting Financial Services	The Uniting Church (NSW) Trust Association Equity Fund The Uniting Church Fixed Interest Fund
		Vanguard	Carbon Awareness International Share Fund
		Warakirri Asset Management Pty Ltd	Charitable Australian Equities Trust Charitable Diversified Equities Trust Charitable Select Equities Trust

Appendix B

Other entities included in this report

Asset owners and Super Funds

Australian Catholic Superannuation
and Retirement Fund

Australian Ethical

Catholic Superannuation Fund

Cbus

Christian Super

EquipSuper

Future Super

Local Government Super

LUCRF Super

Statewide Superannuation Pty Ltd

Sunsuper Pty Ltd

Uni Super

VicSuper

Impact investors and community finance organisations

Community Sector Banking

Foresters Community Finance

Impact Investment Group

Indigenous Business Australia

MECU

NAB

Social Enterprise Finance Aust.

Social Ventures Australia

Westpac





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