



Responsible
Investment
Association
Australasia

Responsible Investment Benchmark Report 2018 Australia



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With over \$2.8 billion in funds under management across superannuation and managed funds, Australian Ethical has invested according to its Ethical Charter since its inception in 1986. The Charter not only guides its investment approach but also underpins all elements of the business. Since 2014, the company has maintained its B Corp 'Best for the World' status, ranking it in the top 10% of 1,800 B Corps globally. Ten percent of Australian Ethical's annual profits (before bonus) fund its Community Grants programme. To date, more than \$2.5 million has been granted to charitable organisations and social impact initiatives through this programme. Since 2016, Australian Ethical Super has been one of the fastest growing super funds in Australia.

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AXA Investment Managers is an active, long-term investor. From equities, fixed income and real assets to alternatives and multi-asset, we marry innovation and risk management in a bid to deliver long-term value for clients. We are responsible investors; we believe that responsible investment not only delivers sustainable, long-term value for clients, it also makes a positive impact on society. This is why we incorporate environmental, social and governance considerations into our investment decisions. We are committed to making investing easier – we want to help investors cut through the noise and empower them to make the right investment choices. We are bringing to bear the power of big data and technology not only to improve our investment offering but to enhance the ways in which we engage with our clients. We manage \$1,145 billion* on behalf of our clients, with 771 investment professionals in 21 investment centres around the world.

* as at 31 December 2017

BT Financial Group **BT** Financial Group

BT Financial Group is one of Australia's leading wealth management organisations and has been a signatory to the Principles for Responsible Investment since 2007.

BT provides wealth management services to Australians across superannuation, insurance, investments and advice. Our mission is to help people prepare for their best financial future, forever. As the custodian of our customer's assets, BT has a responsibility to protect and promote our customers' financial interests and ensure the assets they entrust to BT continue to endure and prosper into the future. We believe that responsible investment is intrinsic to the provision of long-term value for our customers and are pleased to sponsor RIAA's annual benchmark report.

Pengana Capital Group



Pengana Capital Group (ASX: PCG) is a listed diversified funds management group specialising in global and Australian equities, with distinct investment strategies that aim to deliver superior risk adjusted returns to investors. They offer a range of investment solutions that allow investors to align their portfolios with their principles without compromising their investment returns, including sustainable impact investments, negatively screened managed funds and a listed investment company.

Pengana is committed to best practice in ethical and sustainable impact investing. They are a member of RIAA, a signatory to the UN's Principles for Responsible Investment, source ESG company research from a specialist provider, and undertake an annual audit by an independent research house focused on ESG analysis.

Research support from:



ABOUT THIS REPORT

This report is the 17th annual Responsible Investment Benchmark Report prepared by the Responsible Investment Association Australasia (RIAA). The report details industry data on the size, growth and performance of the Australian responsible investment (RI) market over 2 months to 31 December 2017 and compares these results with the broader Australian financial market.

Through this report RIAA aims to support the ongoing growth of the responsible investment industry consistent with our objective of both broadening the uptake of RI whilst increasing the positive impact of investments on society and our environment. By providing clear and transparent data on the development of the market and the implementation of RI strategies, RIAA aims to support more investors undertaking a responsible approach to investment. Furthermore, by identifying the key drivers of increased RI, assets under management (AUM) and the barriers to uptake, RIAA works to increase the adoption and quality of RI strategies.

KPMG was commissioned by RIAA to undertake the data collection and analysis for this 2018 report. KPMG developed and delivered a survey to investment organisations across Australia, compiled the data derived from this primary research, undertook secondary research on publicly available data, undertook the ESG integration assessment based on RIAA's framework and analysed the data to deliver the size, performance and growth of the responsible investment industry.

The report was edited by Bridin Books and designed by Loupe Studio.

ABOUT THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

RIAA is the peak industry body representing responsible, ethical and impact investors across Australia and New Zealand. RIAA is a growing active network of over 220 members managing more than \$9 trillion in assets, including superannuation 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; shifting more capital into sustainable assets and enterprises and shaping responsible financial markets to underpin strong investment returns and deliver a healthier economy, society and environment.

RIAA does this through:

- 1 Acting as the member hub of timely and relevant environmental, social, corporate governance (ESG), ethical and impact investing information to strengthen the capacity of the finance and investment industries through regular events, webinars, conference calls and working groups, industry research and;
- 2 Growing the awareness and demand for responsible investments through communications and marketing work, media activity, as well as by operating the world's first and longest running Certification Program for responsible investors, and providing the online tool for consumers Responsible Returns.

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EXECUTIVE SUMMARY

BACKGROUND

Each year since 2002, the Responsible Investment Association Australasia (RIAA) has commissioned research into the size and growth of responsible investment in Australia. The aim of this research is to gather data on the various forms of responsible investment and to present analysis of growth in the sector in comparison with the total investment market.

The Responsible Investment Benchmark Report charts the ongoing growth of responsible investing strategies, whilst also identifying the key drivers of increased capital flows towards responsible investment (RI) and the barriers to uptake, with the intention of increasing the adoption and quality of RI strategies.

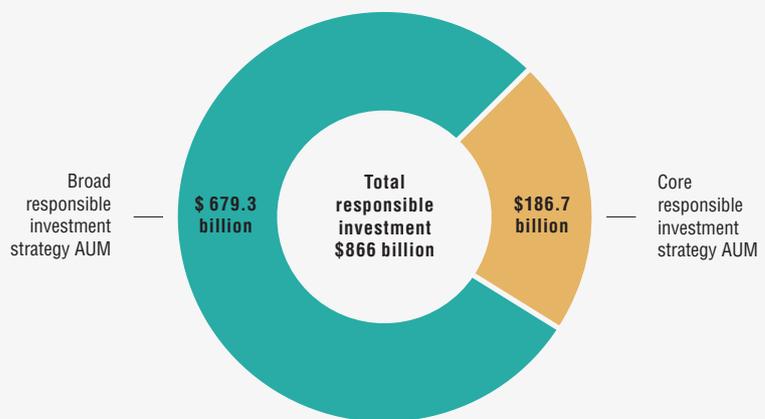
This report details industry data on the size, growth and performance of the Australian RI market over twelve months to 31 December 2017 and compares these results with the broader Australian financial market.

KEY FINDINGS

The Responsible Investment Benchmark Report 2018 reinforces that a responsible approach to investing – one that systematically considers environmental, social and corporate governance (ESG) and/or ethical factors across the entire portfolio – now represents a significant part of the Australian finance sector and is increasingly seen to represent the expected minimum standard of good investment practice in Australia.

Assets under management (AUM) using a responsible investment approach continue to rise and increasingly are delivering strong (above benchmark) results.

FIGURE 1 Responsible investment AUM are split into two distinct categories based on their strategy: Broad responsible investment or Core responsible investment



- As at 31 December 2017, responsible investment constituted \$866 billion AUM, up 39% from \$622 billion in 2016. This represents around 55.5% of total assets professionally managed in Australia (TAUM) valued at \$1.56 trillion. \$679.3 billion AUM are managed through a Broad responsible investment strategy – that is undertaking a leading approach to ESG integration – while \$186.7 billion AUM constitute Core responsible investments – that is screening, sustainability themed or impact investments¹.
- There has been 22% growth in the RI AUM subject to Broad responsible investment strategies over the last year. There has been a 188% increase of AUM subject to Core responsible investment strategies.
- Funds implementing Core responsible investment strategies outperform their equivalent Australian and international share funds and multi-sector growth funds, over most time horizons.
- The positive impact of ESG integration on portfolio performance and the increasing demand from institutional investors, are identified as the key drivers of growth in RI AUM.
- For the second year in a row, there has been a significant increase in the use and number of negative screens applied. The most common screens are weapons, tobacco and gambling, with a significant growth in screens over climate, human rights and adult content in the year.

For the fourth year, RIAA has determined the Broad RI category by assessing the ESG integration practices of 112 asset managers (of which 17 are international asset managers) that state a public commitment to responsible investment. Broad responsible investment AUM is made up of those who met a score of 80% or more on our ESG integration framework, which this year was 24 asset managers of the 112 assessed. At 20% of the total universe of managers, this indicates that more action and/or transparent reporting of action is required by the majority of asset managers.

BROAD RESPONSIBLE INVESTMENT

Broad RI approaches continue to dominate the total responsible investment AUM, with 24 asset managers, with a total of \$679.3 billion in AUM, found to be demonstrating leading practices in ESG integration against a detailed assessment of the approaches of 112 asset managers.

These managers span large multi-managers through to small boutique managers, as well as property and infrastructure managers. This constitutes 43.5% of TAUM. The AUM for the Broad category of ESG funds has grown by 22% over the year from \$557.1 billion in 2016.

CORE RESPONSIBLE INVESTMENT

In 2017, Core responsible investment strategies continue to grow rapidly, growing by 188% in one year, to \$186.7 billion AUM (from \$64.9 billion in 2016). Core responsible investment as a proportion of Australia's TAUM increased to 12.0% in 2017, up from 4.5% in 2016.

Core responsible investment approaches apply at least one of the following primary strategies: negative, positive or norms-based screening; sustainability themed investing; impact investing and community finance; or corporate engagement. Importantly, funds are only included in Core screening approach where at least two screens/exclusions are in place, equating to a conservative estimate of all AUM in Australia, as there are ever greater numbers of investment products that have voluntary exclusions across tobacco only built into mainstream products.

The most substantial portion of Core responsible investment involves screened investments, which grew strongly to \$147.7 billion (from \$33.6 billion in 2016) – an increase of 340%. The increase was due largely to AMP Capital who in the last year implemented an ethical framework across the majority of its funds under management, which includes multiple negative screens, on top of its ESG integration approach. This moved a re-categorisation of a large part of AMP Capital's assets from Broad to Core this year. Excluding the AMP movement, the AUM under Core has remained relatively stable year on year.

As in the previous year, issues attracting negative screening include the 'mature' ESG and ethical issues such as tobacco, controversial weapons and gambling. This survey found significant increases in exclusions focused on climate, human rights and adult content in the year.

Sustainability themed investments grew to \$31.0 billion (from \$27.2 billion in 2016), an increase of 14%. This increase was due largely to organic growth in the investments reported in the prior year as opposed to new investments.

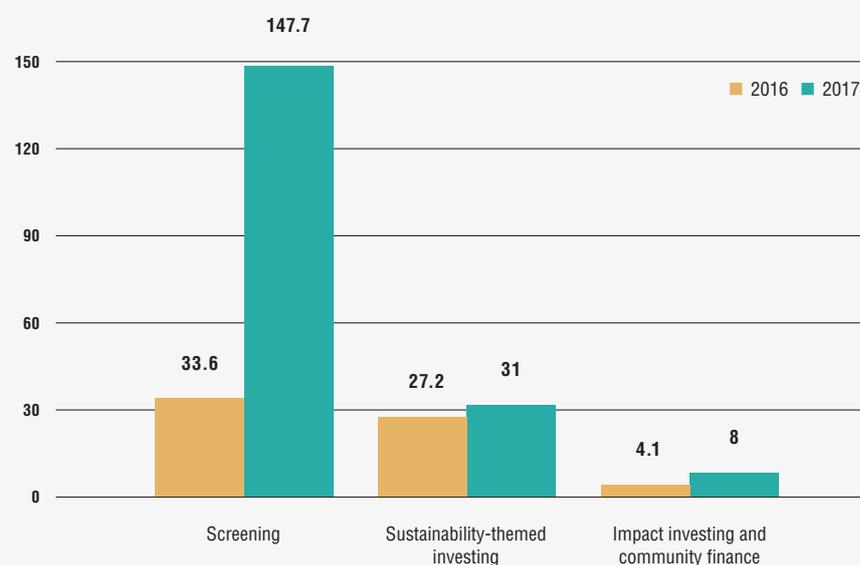
Impact investing and community finance also saw continuing strong growth. In July 2018, RIAA launched a stand alone *Benchmarking Impact 2018²* report, as a companion to this report giving a more detailed look at impact investment. In that report, \$5.8 billion in assets were reported. For this report, consistent with global definitions, impact investment as a category also includes community finance, and as such is broadened to include some banking and finance products that aren't captured within the *Benchmarking Impact* study. As a very diverse category – including dedicated impact investing funds, green and climate bonds, a number of responsible banking products and community finance – this category grew to \$8.0 billion (from \$4.1 billion in 2016), an increase of 94%.

PERFORMANCE

This report highlights the continuing strong performance of Core RI strategies. The comparison of responsible investment funds against mainstream equivalent funds and their benchmark index indicates outperformance across the majority of time periods:

- As in the previous year, Core responsible investment **Australian share funds** outperformed the average large cap Australian share funds over three, five and ten year time horizons.
- Core responsible investment **international share funds** outperformed large cap international share funds over one and three year time horizons and matched the ten year performance.
- As in the previous year, Core responsible investment **multi-sector growth funds** (balanced funds) outperformed their equivalent mainstream multi-sector growth funds over three, five and ten year time horizons.

FIGURE 2 Core responsible investment assets under management by investment strategy (Total: \$186.7 billion)



KEY DRIVERS AND DETRACTORS OF RI GROWTH

For the second year, asset managers were asked to identify the key drivers of RI growth and key factors that have deterred RI growth. The top responses are outlined in Figure 3.

While the acknowledgement of the importance of ESG factors impacting performance is consistent with the growth of Core and Broad ESG funds, the consideration of performance concerns has now tipped in favour of those who see ESG integration as having a positive impact on performance (which is in line with findings of this and other surveys).

OUTLOOK

The growth in the Core RI AUM continues to accelerate and can be expected to continue to do so in future periods, especially as mainstream funds put in place negative screens, sustainability themed investments continues to grow and demand from retail and institutional clients increases.

Based on the results it appears that ESG integration is now recognised as a positive driver of portfolio performance in the market. This perception can be linked to increasing institutional demand for RI. Continued growth in the AUM of RI funds seems to be held back by a lack of good relevant advice and awareness of public/retail customers.

More work is needed to educate and advise retail investors in relation to RI Core funds and performance versus equivalent mainstream funds and to engage other stakeholders and influencers on the basis of misplaced perceptions.

FIGURE 3 Top drivers and detractors of RI growth

Top drivers of RI growth	% of respondents
ESG factors impact on performance	44%
Demand from institutional investors	42%
Demand from retail investors	30%
Alignment to mission	30%

Top detractors of RI growth	% of respondents
Lack of understanding and advice	48%
Lack of awareness by members of the public	39%
Performance concerns	33%

1 Discussion of definitions of Broad and Core responsible investment strategies is included in the *About this report* section.
 2 Responsible Investment Association Australasia, *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2018*, <https://responsibleinvestment.org/resources/benchmarking-impact-report>.

ABOUT RESPONSIBLE INVESTMENT

All businesses, and therefore all investments, have an impact on people and the planet, both positive and negative. Responsible investing seeks to minimise the negative effects generated by business and promote positive impacts, ultimately delivering a healthier economy, society and environment and underpinning a stronger investment outcome.

Responsible investing, also known as ethical investing or sustainable investing, is a holistic approach to investing, where social, environmental, corporate governance (ESG)

and ethical factors are considered alongside financial performance when making an investment.

These factors are taken into account throughout the process of researching, analysing, selecting and monitoring investments, in acknowledgement that they can be critical in understanding the full value of an investment.

RESPONSIBLE INVESTMENT STRATEGIES

There are many different ways to engage in responsible investment, as outlined in RIAA's Responsible and Ethical Investment Spectrum, and investors often use a combination of strategies.

As responsible investment becomes an increasingly sophisticated component of the financial sector, it is guiding the investment approach of a broad range of products

FIGURE 4 RIAA's Responsible and Ethical Investment Spectrum

	TRADITIONAL INVESTMENT	RESPONSIBLE & ETHICAL INVESTMENT					PHILANTHROPY	
		ESG INTEGRATION (including shareholder engagement & voting)	NEGATIVE SCREENING (& norms based)	POSITIVE OR BEST-IN-CLASS SCREENING (& norms based)	THEMATIC/ SUSTAINABILITY THEMED INVESTMENTS	IMPACT INVESTING MARKET RATE	CONCESSIONARY RATE	
FOCUS	Limited or no regard for environmental, social and governance factors	Consideration & analysis of environmental, social and governance (ESG) factors as part of investment decision making	Industry sectors or companies excluded/divested from to avoid risk or better align with values	Investments that target companies or industries with better ESG performance	Investments that specifically target sustainability themes eg clean energy, green property	Investments that target social and environmental impact and deliver market rate financial returns	Investments that target social and environmental impact and deliver below market rate returns	Grants that target positive social and environmental impact with no financial return
IMPACT INTENTION	Agnostic	Avoids harm		Benefits stakeholders				
				Contributes to solutions				
FEATURES		Delivers competitive financial returns						
		Manages ESG risks						
				Pursues ESG opportunities				
				Intentionality: delivery of impact is central to underlying asset/investment				
				Impact of investment is measured & reported				

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

and services, from large investment managers who integrate ESG factors into their decision-making to so-called ‘deep green’ ethical investment funds that apply exclusionary screening criteria over investments, and impact investments that intentionally seek to deliver positive social and environmental outcomes. It includes superannuation funds that apply multiple RI strategies across all asset classes to banks that take an ethical and socially minded approach to lending.

Given the volume and variety of responsible investment and banking products available in Australia, individual investors are best positioned to determine the products and services most closely aligned to their values and beliefs. For example, the determination of what constitutes adequate or appropriate ESG screening for a particular product is subjective and dependent on the individual investor’s expectations. There is a high level of variability in the degree in which these factors are weighted, analysed and incorporated into investment decision-making.

To enable comparison of Australia’s responsible investment market with those of other regions, this report has been prepared in line with the seven strategies for responsible investment as detailed by the Global Sustainable Investment Alliance (GSIA) and applied in the Global Sustainable Investment Review 2016³, which maps the growth and size of the global responsible investment industry. These strategies are:

- 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 and community investing
- 7 Corporate engagement and shareholder action

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

INTERNATIONAL CONTEXT

RIAA is a proud member of the GSIA, together with Eurosif (The European Sustainable Investment Forum), UKSIF (UK Sustainable Investment & Finance Association), US SIF (The Forum for Sustainable & Responsible Investment) and VBDO (Dutch Association of Investors for Sustainable Development).

CORE VERSUS BROAD RESPONSIBLE INVESTMENT

For the purposes of this report we distinguish between Core and Broad responsible investment. This allows us to differentiate the data to allow for an enhanced analysis of the responsible investment industry and the degree to which responsible investment strategies are integrated into products and services.

Core responsible investment approaches apply at least one of the following primary strategies: negative, positive or norms-based screening; sustainability themed investing; impact investing and community finance; or corporate engagement.

Core responsible investment approaches are made up in large part of those funds traditionally referred to as socially responsible investing (SRI) or ethical investments, as well as sustainability themed funds and impact investments.

Broad responsible investment approaches use ESG integration as the principle responsible investment strategy. This involves the systematic inclusion of ESG factors into traditional financial analysis and investment decision-making based on the acceptance that these factors are important drivers of risk and value in companies and assets. This strategy is often accompanied by a structured approach to corporate engagement and other active ownership and stewardship mechanisms.

RIAA and KPMG have undertaken a detailed desktop analysis of: all Australian asset managers that are signatories to the PRI (UN backed Principles for Responsible Investment); other asset managers that RIAA’s database indicates as practicing ESG integration; and a selection of international asset managers with a strong presence in this market and strong ESG credentials that manage assets for local clients. In this case only assets specifically identified as managed for local clients were included

in the assessment. Only those that score above 80% against the RIAA assessment methodology are included in the results. This approach has been used in the survey for the past four years. For more detail on the assessment methodology, please see the breakout box on ‘How RIAA defines leading practice in ESG integration’.

The Broad responsible investment market is largely comprised of institutional funds that apply ESG integration as part of a mainstream investment offering. These products for the most part do not include an ethical, SRI or sustainability themed investment strategy selected by the investor – or where they do, these are not the primary responsible investment strategies – and are usually wholesale or institutional products.

As this report demonstrates, asset managers are increasingly applying multiple responsible investment approaches. For example, a fund may apply Broad ESG integration as well as Core responsible investment strategies such as negative or positive screening. In such a case, we have categorised the fund according to the primary responsible investment strategy being pursued. The primary strategy is identified by the organisation in their survey response. In addition to this, RIAA performs a review of all survey responses to ensure that strategies are categorised consistently across the cohort of responses and that investor responses are categorised consistently year on year.

It is important to note that this report aims to clearly and conservatively estimate the size of the value and volume of the responsible investment industry. Therefore, for the purpose of this report, AUM included under a Broad responsible investment strategy only includes asset managers demonstrating industry leading ESG integration practices as opposed to including all self-declared ESG managers.

³ Global Sustainable Investment Alliance, *Global Sustainable Investment Review 2016*, <http://www.gsi-alliance.org/members-resources/trends-report-2016>

HOW RIAA DEFINES LEADING PRACTICE IN ESG INTEGRATION

Over the past decade, responsible investment has grown to a point where a significant proportion of the investment industry has now committed to implementing a responsible investment approach. For large institutional investors, this has focused primarily on applying ESG integration practices to traditional investment decision-making.

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.

For the purposes of this report – to define the size of the responsible investment industry in Australia – RIAA aims to include only those assets managed by asset managers who are practicing a leading approach to ESG integration, rather than all assets managed by organisations who have self-declared that they are implementing responsible investment.

For the fourth year in a row, RIAA undertook a desktop review of asset managers who are self-declared responsible investors – either via their commitment to the PRI, or other public commitments – and rated each of these against a framework of leading practice to ESG integration.

This framework was developed by RIAA based upon global definitions and existing assessment frameworks for ESG integration practices, and remains the same as the framework used by RIAA in last year's report.

The framework acknowledges that although it is difficult to prescribe a single best practice process for the integration of ESG factors into investment decision-making, there are a number of leading practices and constituent parts of leading practice that can be identified. RIAA's framework draws on the following pillars of leading practice in ESG integration:

- Publicly stated commitments to responsible investment;
- Responsible investment policy;
- Commitments to the transparency of processes and approach;
- Systematic processes for ESG integration as well as evidence demonstrating how this process is applied as part of traditional financial analysis;
- Evidence of activity in other areas of active ownership and stewardship including voting and engagement;
- Membership of a collaborative investor initiative; and
- Coverage of total AUM by responsible investment or ESG practices.

These pillars were weighted to ensure balance between evidence of systematic investment processes versus policies and public commitments. Using this framework, RIAA then assessed Australian and a selection of international asset managers who have an active presence in Australia based on their publicly available information including websites, PRI responsible investment transparency reports and all other available material. All asset managers were scored using these criteria.

Only those asset managers that scored more than 80% have been included in the Broad responsible investment category in this report. This approach was taken so that only those demonstrating leading practice would be included in determining the size of the Australian responsible investment market. This methodology was fairly applied to asset managers across all asset classes and sizes.

METHODOLOGY

REPORTING BOUNDARY

This report covers the 2017 calendar year and where possible, data disclosed has been recorded as at 31 December 2017. Data from some asset managers was not available on a calendar year basis and in these cases data was taken from the closest available reporting date. All financial figures are presented in AUD.

The financial sector is a globalised industry. Responsible investment funds may be held in one country, managed in another and sold in a third, meaning that a level of estimation is applied in order to demarcate the boundary of the Australian market. This impacts on the accuracy/usefulness of reporting survey results as proportional to the market size as reported with Morningstar's statistics for TAUM. Morningstar's TAUM figures are limited in their coverage of the full investment market in Australia by covering only those assets managed by the Australian managed funds industry through retail and wholesale funds, discrete mandates and listed investments. Morningstar's TAUM does not capture overseas fund managers and direct investments. However, in the absence of a more appropriate measure, TAUM continues to be used for comparison purposes. This report is intended to inform readers of the range of responsible investment products that are available in Australia. As such it includes assets managed within the Australian region, as well as assets managed outside the region where these are on behalf of Australian clients.

This research is primarily targeted at asset managers, rather than asset owners, with a focus on capturing the underlying managers of the capital being deployed responsibly in this market. Asset owners were surveyed as part of this survey in order to ensure all responsible investment assets were captured, and to better understand the strategies being deployed across the market. For a full benchmarking of the responsible investment practices of asset owners in Australia, please refer to RIAA's *Super Fund Responsible Investment Benchmark Report 2018*⁴.

DATA COLLECTION

Data used to compile this report was generously provided and collected from the following sources:

- Directly supplied by asset managers as well as some asset owners;
- Morningstar statistics for total assets under management (TAUM) in Australia and the average performance of mainstream managed fund categories. Morningstar also provided a secondary source of AUM data for some of the funds listed;
- RIAA's database and industry contacts; and
- Desktop research of publicly available information regarding assets under management, performance data and investment strategies from sources including company websites, annual reports and PRI Responsible Investment Transparency Reports.

Where survey responses were not received, publicly available information was used where available. In total, this research managed to gather a comprehensive summary of the full responsible market in Australia.

Responses that identify the key drivers of RI and detractors were only taken from survey respondents.

No data has been extrapolated from its original source.

DATA ANALYSIS AND REPORTING

As many asset managers apply several investment strategies, the data collection survey required respondents to identify a single primary responsible investment strategy. The survey also requested to respondents to nominate any secondary strategies applied in order to determine the

depth of responsible investment strategies applied, to identify any overlap of approaches and to assist in categorising funds. This approach was used in order to create an accurate depiction of the responsible investment environment in Australia.

Fund overlaps between survey respondents have been removed, where identified, from the reported figures. RIAA is continuously working to improve its data collection process to enhance the quality of reported figures and to ensure that all products in the Australian market are identified.

It is important to note that all information in this survey is 'self-reported' by respondents and only limited analysis is performed over statements made. There is no assurance of statements.

DATA COMPLETENESS

Many of the products in the Australian responsible investment market are not bound by any public reporting, disclosure requirements or independent review (assurance). This report includes both retail and wholesale investment products, and increasingly, superannuation fund mandates, individually managed accounts, and separately managed accounts. Some investment custodians are reluctant to supply information for reasons of privacy or commercial confidentiality. Data pertaining to funds held outside of managed responsible investment portfolios was not accessible. For this reason, as well as matters identified in the Reporting Boundary section above, this report provides a conservative depiction of the responsible investment environment in Australia.

⁴ Responsible Investment Association Australasia, *Super Fund Responsible Investment Benchmark Report 2018*, <https://responsibleinvestment.org/superfund-benchmark-report>



RESPONSIBLE INVESTMENT IN AUSTRALIA

The responsible investment industry is continuing its upward trajectory and now makes up the majority of the overall investment market in Australia. Our research reveals it consists of \$866 billion of assets, or 55.5% of all assets professionally managed in this country in 2017.

Of this total AUM, asset managers using ESG integration account for a vast majority of those undertaking a Broad responsible investment approach. In 2017, \$679.3 billion in AUM was invested by 22 asset managers who demonstrated a leading approach to ESG integration, a growth of 22% from 2016.

In 2017, Core responsible investment funds increased by 188% to \$186.7 billion AUM. A diverse array of responsible investment strategies are applied to these Core responsible investment funds across screened funds, sustainability themed funds as well as impact investments and community finance.

CORE RESPONSIBLE INVESTMENT

Core responsible investment funds grew significantly during 2017, increasing by 188% to \$186.7 billion at 31 December 2017 compared with \$64.9 billion the previous year.

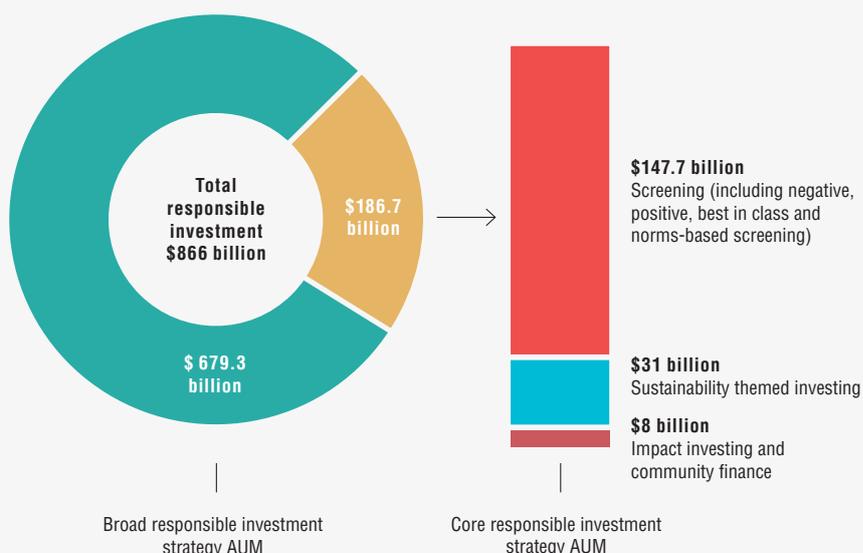
At \$186.7 billion AUM, Core responsible investment funds represent 12% of the TAUM held in Australia, increasing from 4.5% of TAUM in 2016.

The \$186.7 billion of Core responsible investment in Australia is held by 57 asset managers managing 203 products (a decrease from 224 in prior year). A range of Core responsible investment strategies has been applied to these funds and the key trends in these strategies are detailed below:

FIGURE 5 Responsible investment AUM – totals by year

Responsible investment approach	2016 Responsible investment AUM (\$bn)	2017 Responsible investment AUM (\$bn)	Change
Screening (including negative, positive, best in class and norms-based screening)	33.6	147.7	340%
Sustainability themed investing	27.2	31	14%
Impact investing and community finance	4.1	8	94%
Core responsible investment total	64.9	186.7	188%
Broad responsible investment total ESG integration	557.1	679.3	22%
TOTAL RESPONSIBLE INVESTMENT	622	866	39%

FIGURE 6 Responsible investment by approach



Screening, both positive and negative, continues to be the most popular strategy applied to Core responsible investment assets in Australia. The use of screening has seen a significant amount of growth, year on year, with AUM increasing by 340% on 2016.

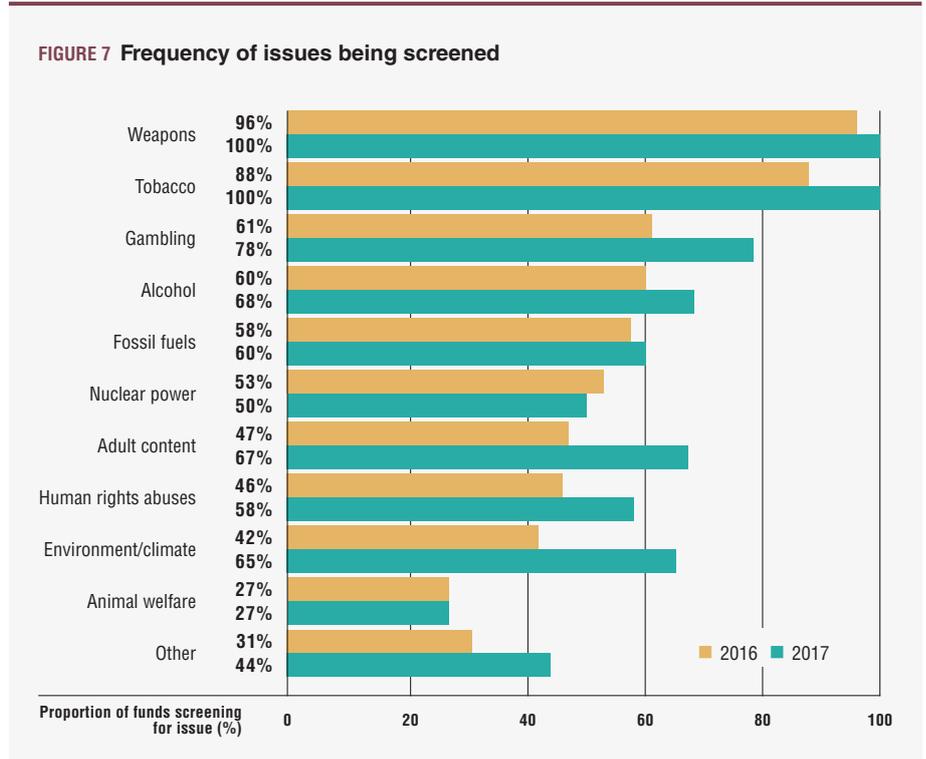
Historically this category related primarily to retail ethical or socially responsible investment funds and trusts. Currently, a significant contribution to this category comes from large asset managers through retail and wholesale funds and institutional mandates. This substantial increase is contributed to by:

- existing mainstream funds and asset owners putting in place screening approaches;
- expansion of screening across more mainstream funds;
- strong inflows and returns to existing funds; and
- new funds on the market.

The 2017 survey indicates that managers are increasingly screening issues from portfolios; both labelled 'ethical' portfolios as well as mainstream portfolios. The significant increase in 2017 was due largely to AMP Capital who in the last year implemented an ethical framework across the majority of its funds under management, which includes multiple negative screens, on top of its ESG integration approach. This moved a re-categorisation of a large part of AMP Capital's assets from Broad last year to Core this year. Excluding the AMP movement, the AUM under Core screening has remained relatively stable year on year.

Overall there was an increase in the number of issues screened. The survey shows that all funds that apply a screen do so against weapons and tobacco. The survey also shows there is a clear increase in screens with a focus on human rights issues and adult content, the greatest increase being in climate and environmental screening. This is potentially driven by an increasing focus on climate risks in portfolios driven by activity of the Task Force Climate Related Financial Disclosures (TCFD) and The Australian Prudential Regulation Authority (APRA) in the last 12 months.

Impact investing and community finance increased by 94% in 2017, showing that investors have a growing appetite for products that deliver measurable social and environment impacts alongside financial returns. Impact investing products are issued by a diverse and growing list of providers including dedicated impact investment intermediaries, community financiers and large banks. They are allocating funds to various initiatives such



as affordable housing, reducing recidivism and microfinance.

The last few years have seen increases in the number of social impact bonds and green bonds being issued, with more themed bonds expected to be issued in the coming year.

2017 also saw some ongoing growth of existing impact investment products. Non-banking institution issuers of impact investments include Foresters, Social Ventures Australia, Social Enterprise Finance Australia, Impact Investment Group, Indigenous Business Australia, The Nature Conservancy, FlexiGroup and the Victorian Government.

A number of banks have continued to participate in this category through community finance or impact products, largely with a focus on microfinance, social impact or affordable housing. These banks include Teachers Mutual Bank, Bank of Australia, Community Sector Banking, Westpac and NAB.

In July 2018, RIAA launched a stand alone *Benchmarking Impact 2018*⁵ report as a companion to this report giving a more detailed look at impact investment. In that report, \$5.8 billion in assets were reported. For this report, consistent with global definitions, impact investment as a category also includes community finance, and as such is broadened to include some banking and finance products that aren't captured within the *Benchmarking Impact* study, hence resulting in a larger figure of \$8 billion AUM.

For a more detailed discussion of impact investments in Australia, refer to RIAA's *Benchmarking Impact 2018* report or the breakout box on page 14.

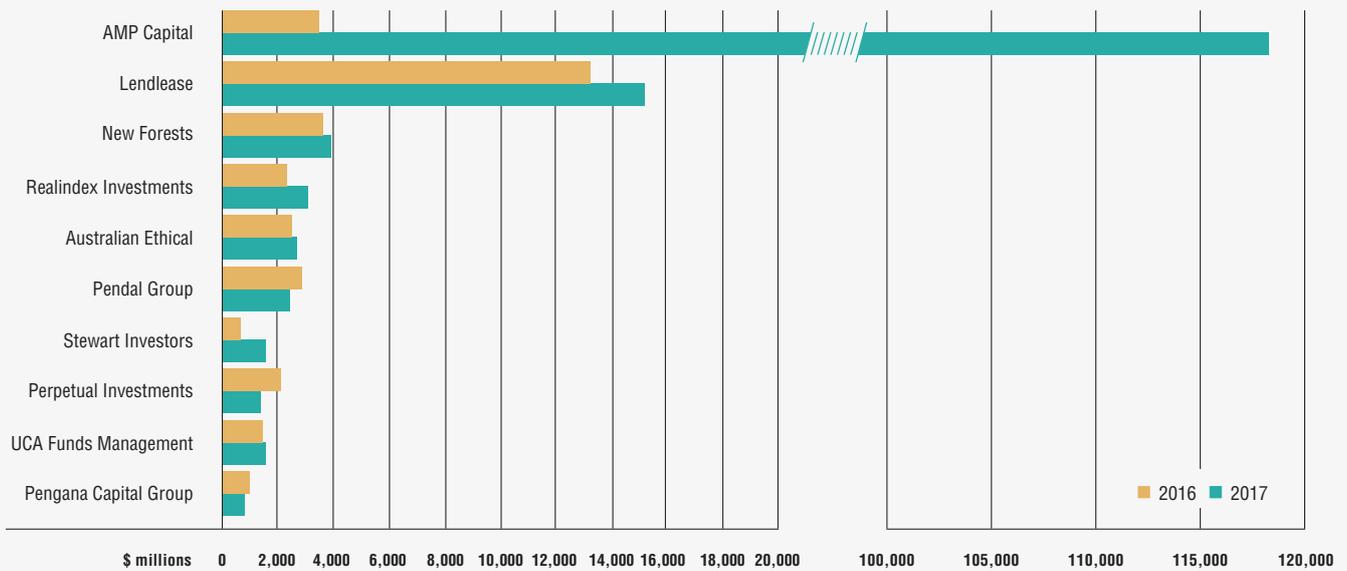
Sustainability themed investing also experienced growth of 14% in 2017. The majority of the growth came from organic growth in funds that were included in the analysis last year.

It is noteworthy that some equities funds call themselves 'sustainability themed', whereas others use the term 'positively screened'. There are similarities in approach, and where possible we have categorised these consistently in this research. Equally, we would note that there is a global emergence of funds that refer to themselves as impact funds that may have traditionally been seen as sustainability themed funds. Consistent with the growth in impact investments, we are also observing a growth in sustainability themed and positively screened investment products that are targeting positive impacts beyond merely financial returns.

Figure 8 depicts the nine largest asset managers of Core responsible investment portfolios in 2017. All asset managers depicted in the diagram held Core fund offerings greater than \$1 billion AUM.

⁵ Responsible Investment Association Australasia, *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2018*, <https://responsibleinvestment.org/resources/benchmarking-impact-report>

FIGURE 8 Largest asset managers of Core responsible investments



THE GROWTH OF IMPACT INVESTING IN AUSTRALIA

In July 2018 RIAA published the *Benchmarking Impact 2018* report, in partnership with Centre of Social Impact at Swinburne University, to specifically measure the investment activity and performance of the Australian impact investment market.

Benchmarking Impact 2018 shows how the impact investment market is growing in Australia and sheds light on the diversity of investable products, investment strategies and types of impacts being measured. It features data for the period 1 July 2015 to 31 December 2017 from 24 organisations overseeing 51 retail and wholesale impact investment products in Australia.

The report shows that the market for impact investments has quadrupled since 30 June 2015 to reach \$5.8 billion at 31 December 2017.

Growth is driven largely by the increase in green bonds, which account for \$4.9 billion in total of the data set. However, the other types of impact investment products – including social impact bonds, private debt and investments in property – represented by the remaining data set, have also grown rapidly from \$300 million in total, to nearly \$1 billion in total over the same period. When examined by the number of investments, most investments are comprised of private debt, much of which is made up of loans to social enterprises.

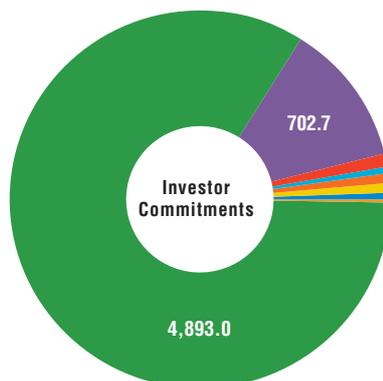
Benchmarking Impact 2018 also reports on the performance – financial and impact – of Australian impact investments.

Financial returns for assets in the data set broadly reflect the returns in the 2016 data set and are generally tracking in line with investor expectations.

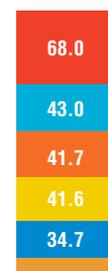
The report also reveals a diverse market delivering diverse social and environmental impacts including: 700 vulnerable families assisted; 2,110,000 tons of CO2-e avoided or abated; 369 employment pathways or jobs created; 22,688 students supported; 1,069 clients receiving health and well-being services and 950 megalitres of water delivered to wetlands, creeks and ecosystems.



Number of Products by asset class (n=51)



Investor commitments by asset class (\$m)



- Multi-Asset Class
- Property/Infrastructure
- Other Real Assets
- Green Bonds
- Other Fixed Income
- Social Impact Bonds (SIBs)
- Private Equity
- Private Debt

FIGURE 9 Performance of Core responsible investments against mainstream funds

Australian share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 8-14 funds sampled depending on time period)	11.3%	9.8%	11.7%	5.4%
Large-cap Australian share fund average	12.2%	8.0%	9.7%	3.5%
S&P/ASX300 accumulation index	11.9%	8.8%	10.2%	4.0%

International share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 8-27 funds sampled depending on time period)	15.2%	10.6%	16.1%	5.4%
Large-cap international share fund average	14.7%	10.3%	16.9%	5.4%
MSCI World ex-Australia Index	13.4%	11.0%	18.4%	6.3%

Multi-sector growth funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 9-13 funds sampled depending on time period)	9.6%	7.0%	9.5%	4.5%
Multi-sector growth fund average	9.6%	6.5%	8.9%	4.1%

■ Over performance
 ■ Equal performance
 ■ Under performance

managed by the Australian managed funds industry through retail and wholesale funds, discrete mandates and listed investments. The TAUM provided by Morningstar at the end of 2017 was \$1.56 Trillion.

There are many statistics provided for the size of the Australian investment industry, some of which are larger than this figure. What this figure does not capture are the assets managed by overseas fund managers and direct investments that result in the difference with other industry size estimates.

However, for consistency in our reporting, this is the relative benchmark that has been used for over a decade providing a useful comparative measure as to the size of responsible investment industry, and closely relates to the assets that are assessed as part of this research.

Figure 10 maps the Core responsible investment as a percentage of TAUM over the past 10 years. While remaining steadfast at below 2% of TAUM for the majority of the last decade, Core responsible investment assets have surged in the last three years, and growth in 2017 is significantly higher than in previous periods. This demonstrates that RI has cemented its foothold in the investment industry after a period of flat relative demand.

As well as strong relative growth, the absolute dollar growth in the sector is significant. In 2006 Core responsible investment AUM was \$11.9 billion, in 2016 that amount had grown to \$64.9 billion and in 2017 that amount had increased to \$186.7 billion.

Performance of Core responsible investment funds

Figure 9 shows a comparison of the performance of the principal categories of Core responsible investment funds against the performance of mainstream funds over one, three, five and ten year time horizons. The average performance in each time horizon has been determined using the asset-weighted returns (net of fees) as reported by each responsible investment fund within its category.

Using a comparable methodology, Morningstar calculated the mainstream performance indices and fund comparison data.

Core responsible investment Australian share funds outperformed large-cap Australian share funds and the benchmark for all periods except the one-year term.

Responsibly invested international share funds outperformed the average mainstream international share fund in the one and three year time horizons, performed comparably over the ten year term, but slightly underperformed over the five year term.

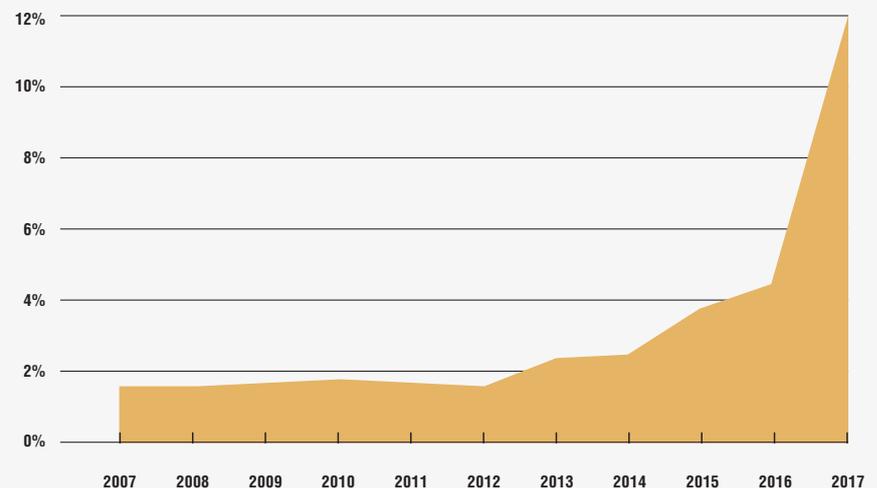
Additionally, responsibly invested balanced portfolios outperformed the multi-sector growth fund average over the three, five and ten year periods.

Core responsible investment as a proportion of TAUM over time

Core responsible investment as a percentage of total assets under management (TAUM) is a key indicator of the sector's growth that RIAA has been tracking for 17 years.

TAUM data is provided to RIAA by Morningstar and reflects those assets

FIGURE 10 Core responsible investments as a percentage of TAUM since 2007



BROAD RESPONSIBLE INVESTMENT

Beyond Core responsible investment, ESG integration constitutes a major force in the mainstream investment industry today. 87 Australian asset managers have declared their commitment to responsible investment by becoming signatories to the PRI. Signatories to the PRI commit to incorporating ESG considerations into investment analysis and decision-making processes and to publically report on their performance. Combined, these investment organisations demonstrate that ESG integration is becoming a key consideration in mainstream investment strategies.

RIAA has always taken a conservative approach to estimating the value of AUM relating to funds that consider ESG factors. This year, for the fourth year running, RIAA undertook a desktop assessment of 112 asset managers based on Australian managers as well as a selection of international managers who are active in the Australian market and are self-declared responsible investors (primarily from PRI signatory lists, but including others who are active and actively publicise their approach to responsible investment).

These were reviewed against a framework of leading practice in ESG integration as determined by RIAA, based on global research, in order to determine those asset managers demonstrating a leading approach to ESG integration. The breakout box 'How RIAA defines leading practice in ESG integration' on page 9 provides an overview of the process and the assessment framework applied.

This assessment shows that of the 112 asset managers assessed, 24 asset managers (17 Australian and seven international), are applying a leading approach to ESG integration in their principal Broad responsible investment approach.

These 24 asset managers clearly demonstrate a systematic process to ESG integration in their investment process in their policies, clearly defined approaches to stewardship, active ownership that includes engagement and voting, and meaningful disclosure.

The 24 asset managers applying a leading approach to ESG integration collectively manage \$679.3 billion.

Managers in this group comprised some of the largest in Australia through to some of the smaller boutique managers, across all asset classes from equities, through to property and infrastructure managers.

The asset managers scoring above 80% on the ESG integration assessment are:

- AB Global (Alliancebernstein)
- Aberdeen Standard Investment
- AMP Capital*
- Amundi Asset Management
- Australian Ethical*
- AXA Investment Managers *
- BlackRock
- BNP Paribas Asset Management*
- Pental Group*
- Colonial First State Global Asset Management
- Dexus Property Group
- IFM Investors
- Investa Property Group*
- JCP Investment Partners
- Lendlease Investment Management*
- Magellan Asset Management
- Maple-Brown Abbot*
- New Forests*
- QIC
- RARE Infrastructure
- Robeco
- Solaris Investment Management
- Stafford Capital Partners
- Stewart Investors*

* Asset managers that reported funds under management classified as both Core and Broad 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.



MARKET DRIVERS AND FUTURE TRENDS

In order to gain insight into the factors behind the increased use of responsible investment strategies we asked respondents to identify and rank the key drivers of increased adoption of responsible investment strategies and AUM and the key factors in the market that have restricted growth.

KEY GROWTH FACTORS

44% of respondents attributed growth to the understanding that the consideration of ESG factors will have a positive impact on portfolio performance. This factor alone explains the continued growth in AUM and in increasing uptake of RI investment strategies by 'mainstream' investors. ESG performance is also aligned with increasing institutional demand as asset owners continue to understand that members

expect RI strategies to be applied to superannuation funds and this approach will also not harm performance⁶.

A number of the higher ranked drivers relate to a growing awareness of the potential impact of ESG risk and ESG performance of underlying assets and the overall construction of the portfolio. This may reflect increased media attention given to shareholder AGM resolutions calling for greater analysis and disclosure on climate risk impacts on business performance, as well as legal and regulatory positions asserting that climate risk is a current and not future risk that will likely have material financial performance consequences for many organisations.

It is also noted that even though demand from institutional and retail investors is identified on both sides of the results (both as a driver and deterrent) it appears as though respondents see demand as a net driver of growth.

Key deterrents

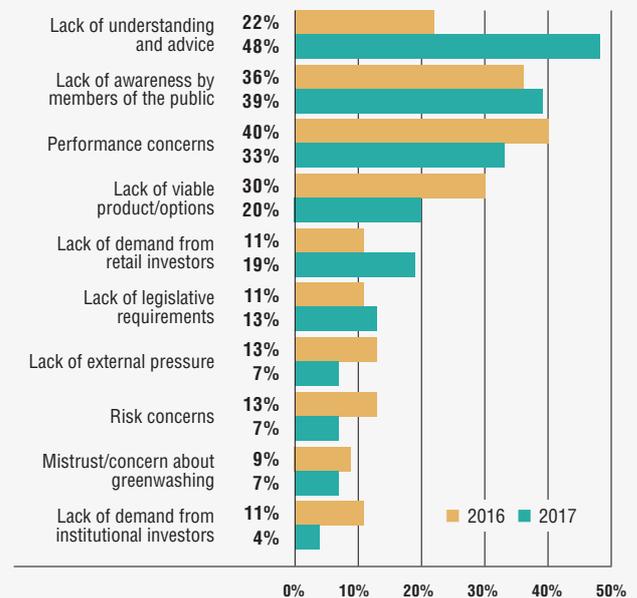
The largest factor deterring additional growth identified is associated with concerns around the lack of understanding and advice (48% of respondents). The second factor is a lack of awareness by retail customers, which is linked to a lack of demand from retail customers. This indicates an overall lack of capacity in the industry and a deficit of information and guidance provided to retail customers.

The perceived lack of performance of ESG portfolios was identified as the most important factor in last year's survey, and whilst still important with over 33% of respondents noting this as a deterrent, it has decreased in importance relative to other deterrents identified.

FIGURE 11 Key drivers of market growth by those surveyed



FIGURE 12 Key deterrents to RI market growth by those surveyed



MEASUREMENT OF PERFORMANCE

For the first time this year the survey asked respondents to report the time horizon over which performance is measured and rewarded. The responses are shown below in Figure 13.

Respondents reported that performance is measured over a number of time periods, the majority reporting a short term (less than one year and quarterly) and long term (five years or more) measurement period. Many respondents identified a number of time periods over which performance is measured.

It is good to see that the majority of asset managers' performances, at least in part, is measured over a period of five years.

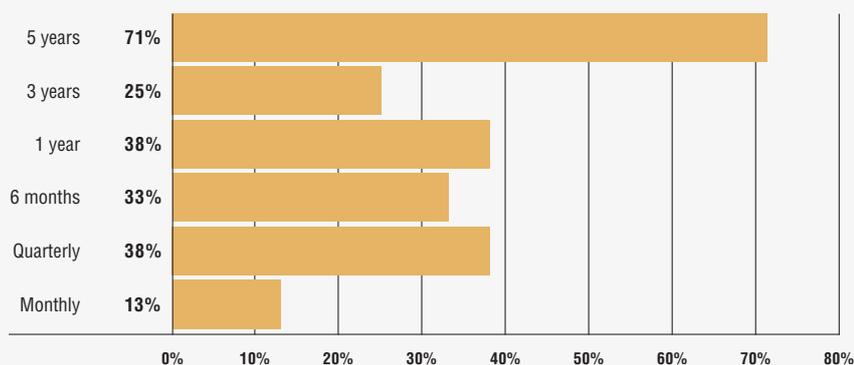
More investigation is needed to understand the prioritisation of monitoring or focus of asset owners and investors.

FINANCIAL ADVISER RESPONSIBLE INVESTMENT PORTFOLIOS

In addition to the assets managed by asset managers, this report has long tracked the assets being managed by or under advice, from responsible or ethical financial advisers. Although data is not readily available, there has been a noted increase in the interest of financial advisers, wealth managers and their dealer groups, in the emerging demand for responsible and ethical investments.

One measure of this growing interest and demand for responsible and financial advice is the annual survey by the Ethical Advisers' Co-operative, measuring the ethically screened funds under management and advice by their 24 adviser members. Their 2017 survey, released in April 2018, highlighted that their combined assets under advice had grown by 14% to \$1.3 billion (from \$1.16 billion in the previous year).

FIGURE 13 The time horizon over which performance is measured and rewarded



6 Responsible Investment Association Australasia, *From Values to Riches, Charting consumer attitudes and demand for responsible investing in Australia 2017*, <https://responsibleinvestment.org/wp-content/uploads/2017/11/From-values-to-riches-Charting-consumer-attitudes-and-demand-for-responsible-investing-in-Australia-2017.pdf>

APPENDIX A

GLOSSARY

APRA

The Australian Prudential Regulation Authority

AUM

Assets under management

ESG

Environment, social and governance

GSIA

Global Sustainable Investment Alliance

EUROSIF

The European Sustainable Investment Forum

PRI

UN-backed Principles for Responsible Investment

RI

Responsible investment

RIAA

Responsible Investment Association Australasia

SRI

Socially responsible investing

TAUM

Total assets under management

TCFD

Task Force on Climate Related Financial Disclosures

UKSIF

UK Sustainable Investment & Finance Association

USSIF

The Forum for Sustainable & Responsible Investment

VBDO

Dutch Association of Investors for Sustainable Development

DEFINITIONS OF RESPONSIBLE INVESTMENT STRATEGIES

Broad responsible investment – investment that applies ESG integration as the key responsible investment strategy.

Core responsible investment – investment that applies at least one of the following responsible investment strategies:

- screening of investments – negative, positive or norms-based screening;
- sustainability themed investing;
- impact or community investing;
- corporate engagement and shareholder action.

ESG integration – ESG integration involves the systematic and explicit inclusion of environmental, social and governance factors into traditional financial analysis and investment decision-making by investment managers. This approach rests on the belief that these factors are a core driver of investment value and risk.

Negative screening – screening that systematically excludes specific industries, sectors, companies, practices, countries or jurisdictions from funds that do not align with the responsible investment goals. This approach is also 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. It may also be referred to as best-in-class screening. It involves identifying companies with superior ESG performance from a variety of industries and markets.

Norms-based screening – involves the screening of investments that do not meet minimum standards of business practice. Standards applied are based on international norms such as those defined by the United Nations (UN). In practice, norms-based screening may involve the exclusion of companies that contravene the UN Convention on Cluster Munitions, as well as positive screening 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 – relates to investment in themes or assets that specifically relate to sustainability themes. This commonly involves 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 – targeted investments aimed at addressing social or environmental issues while also creating positive financial returns for investors. Impact investing includes community investing, which involves projects that have a defined social purpose, as well as environmental investing that typically aims to finance initiatives that address key environmental issues.

Corporate advocacy and shareholder action – refers to the employment of shareholder power to influence corporate behaviour. This may be conducted through direct corporate engagement such as communications with senior management or boards, filing or co-filing shareholder proposals and proxy voting in alignment with comprehensive ESG guidelines.

APPENDIX B

This table lists organisations whose data is included in this report:

Organisation name		
Affirmative Investment Management	Hepburn Wind	SEFA
Alphinity	Impact Investment Group	Smallco
Altius Asset Management	Indigenous Business Australia	Social Outcomes
AMP Capital	Investa Property Group	Social Ventures Australia
ANZ	LeapFrog	State Street Global Advisors
ANZ Wealth Australia	Legg Mason Martin Currie Australia	Stewart Investors
Artesian Venture Partners	Lendlease	Teachers Mutual Bank
Ausbil Investment Management Limited	Lighthouse Infrastructure	Terra Capital
Australian Chamber Orchestra	Local Government Super	The Benevolent Society
Australian Ethical	Melbourne Montessori School	The Nature Conservancy
Australian Impact Investments	Maple-Brown Abbott	Treasury Corporation Victoria
AXAIM/Rosenberg Equities	Mercer Australia	UBS Asset Management
Bank of Australia	Monash University	UCA Funds Management
Bendigo and Adelaide Bank	Morphic Asset Management	UniSuper
BetaShares	Nanuk Asset Management	Uniting Financial Services
BNP Paribas Asset Management Australia	National Australia Bank	Vanguard Investments Australia
Cbus	New Forests	VicSuper
Clean Energy Finance Corporation	Northern Trust Asset Management	Vision Super
Christian Super	Omega Global Investors	Warakirri Asset Management
Churches of Christ in Queensland	OnePath	Westpac
Commonwealth Bank	Patamar Capital	Yarmouth
Crescent Wealth	Pendal Group	
Dimensional	Pengana Capital Group	
DNR Capital	Perennial	
Ethical Property Australia	Perpetual Investments	
First State Super	PIMCO	
Flexigroup	QBE	
Foresters Community Finance	Queensland Treasury Corporation	
Future Super	Realindex Investments	
Generation Investment Management	Russell Investment Management	

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