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## OUR SPONSORS



### AXA INVESTMENT MANAGERS

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 A\$1.3 trillion on behalf of our clients, with 2,360 employees operating out of 28 offices and 20 countries as at end of June 2020.



### BT

BT is a leading provider of wealth services in Australia with a proud track record in sustainability. We have been a signatory to the Principles for Responsible Investment since 2007.

BT provides wealth management services to Australians including investment, superannuation and retirement income products and investment platforms. We focus on how we can help our customers and, in doing so, make a sustainable difference through our industry to achieve better environmental, social and economic outcomes.

BT believes that sustainable investment is intrinsic to the provision of long-term value for our customers and are pleased to continue our sponsorship of RIAA's annual benchmark report.

## PIMCO

### PIMCO

As one of the world's premier fixed income managers, PIMCO's mission is to deliver superior investment returns, solutions and service to our clients. For nearly 50 years, we have worked relentlessly to help millions of investors pursue their objectives – regardless of shifting market conditions.

Leadership in ESG investing is essential to deliver on our clients' financial objectives and to support long-term, sustainable economic growth globally.

As at June 30, 2020 we managed US\$1.92 trillion on behalf of our clients. Our professionals work in 17 offices across the globe, united by a single purpose: creating opportunities for investors in every environment.

### TEACHERS MUTUAL BANK LIMITED

#### TEACHERS MUTUAL BANK LIMITED

Teachers Mutual Bank Limited is a values-based bank where profit has a purpose. We are one of the largest customer-owned banks in Australia, with over 210,000 members and \$8 billion in assets. Our Bank has four divisions – Firefighters Mutual Bank, Health Professionals Bank, Teachers Mutual Bank and UniBank – that serve workers and their families in key community sectors: education, emergency services and healthcare.

All our retail deposits, mortgages and wholesale products are certified as responsible or ethical by RIAA; these are 97% of all products the Bank sells.

## SURVEY RESPONDENTS

We are extremely grateful to the 54 Australian and international investment managers that responded to the survey. They are listed in Appendix 4.

## DATA SUPPORT



### MORNINGSTAR

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

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

In July 2020, Morningstar Inc. acquired Sustainalytics, a globally recognised leader in environmental, social and governance (ESG) ratings and research. In December 2019, Morningstar Australasia Pty Limited acquired AdviserLogic, a cloud-based, financial planning software platform for financial advisers in Australia.

# About this report

This is the 19th annual *Responsible Investment Benchmark Report* prepared by the Responsible Investment Association Australasia (RIAA). The report details industry data on the size, growth, depth and performance of the Australian responsible investment market over 12 months to 31 December 2019 and compares these results with the broader Australian financial market.

It comes at a time when there appears to be an inverse relationship between responsible investment commitments made by the investment industry on one hand (higher than ever before and growing), and the continuing decline in the real-world global condition on the other. This raises the question: is the activity we promote and celebrate as ‘responsible investment’ relevant in today’s environmental and social context?

To respond to this observation, in 2020, RIAA has broadened its definition of leading practice standards across responsible investment approaches.

RIAA commissioned KPMG to undertake the data collection and analysis for this 2020 report. KPMG provided a platform for a survey to be distributed to 165 investment managers known to be applying responsible investing approaches (the Responsible Investment Research Universe), compiled the data derived from this primary research (survey data) and undertook secondary research on publicly available data.

Of the 165 investment managers in the Responsible Investment Research Universe, 54 provided survey responses (survey respondents). Survey respondents were split between asset owners

(15%) and investment managers (85%). Asset owners were only included to the extent that they directly manage investments. For the balance of investment managers in the Responsible Investment Research Universe (111), KPMG conducted desktop research over their publicly available information.

Throughout this report, a distinction is made between the full investment management market (all investment managers with operations in Australia, total assets under management (TAUM) as defined by ABS), the Responsible Investment Research Universe (the 165 investment managers that have self-declared as practising responsible investment) and the Responsible Investment Managers (the 44 assessed by RIAA as applying a leading approach to their responsible investment processes and disclosures). Responsible investment AUM reported herein is for the assets managed by leading Responsible Investment Managers to at least one responsible investment approach.

Of the investment managers that responded to the survey, 66% appeared in both the 2018 and 2019 surveys, meaning that 34% are new to the 2019 Responsible Investment Research Universe. This represents significant growth in the Responsible Investment Research Universe from 2018 to 2019. Seventy-four percent of investment managers in the research universe did not meet the score of  $\geq 75\%$  and are therefore excluded from the Responsible Investment Managers listing.

The project was led by Nicolette Boele, Mark Spicer, Samantha Bayes, Stephan Gabadou and Elyse Vaughan. The report production was managed by Katie Braid, with editing by Melanie Scaife and design by Loupe Studio.

**FIGURE 1** Research universe and Australia’s responsible investment market



\* Data for 21 of the 165 (mainly boutique and smaller) investment managers was not publicly available to use in the research universe.

\* Data for three investment managers (Aberdeen Standard Investments, Aviva and Russell Investments) was not received in the survey period and hence ‘responsible investment AUM’ does not include their AUM.

## About the Responsible Investment Association Australasia

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 300 members managing more than \$9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Our membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

RIAA achieves its mission through:

- providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets;
- delivering tools for investors and consumers to better understand and navigate towards responsible investment products and advice, including running the world's first and longest-running fund Certification Program, and the online consumer tool Responsible Returns;
- supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation;
- acting as a hub for our members, the broader industry and stakeholders to build capacity, knowledge and collective impact; and
- being a trusted source of information about responsible investment.

## ABOUT KPMG

KPMG has one of the largest dedicated sustainability teams in Australia that works with investment managers, asset owners and private equity to develop environmental, social and governance (ESG) strategy, performance and reporting.

KPMG understands that a clear focus on ESG issues is required to support organisations in identifying risks and opportunities that may have significant implications to value creation and portfolio performance. There is a growing opportunity for financial organisations to manage these risks and opportunities and transparently communicate their impacts and performance to members, investors, customers and regulators. KPMG works with organisations to help them manage these emerging risks and opportunities in an integrated way to enhance all aspects of their risk management, reporting and communication.

# Executive summary

## BACKGROUND

RIAA's 19th annual Responsible Investment Benchmark Report details the size, growth, depth and performance of the Australian responsible investment market over 12 months to 31 December 2019 and compares these results with the broader Australian financial market.

To do this, RIAA reviewed the practices of 165 investment managers known to be applying responsible investment to some or all of their investment practices. These managers control approximately \$1,900 billion in assets under management (AUM), which is 60% of total professionally managed AUM (TAUM). Fifty-four of those responses were assessed directly via survey, and supplementary desktop analysis was undertaken for the remaining 111 investment managers.

For a second year, RIAA canvassed superannuation funds to the extent that they directly manage investments, acknowledging the growing trend for superannuation funds to bring investment management in-house.

## RESPONSIBLE INVESTMENT IN 2019

In 2019 and for a 19th consecutive year, funds managed under responsible investment approaches grew as a proportion of total professionally managed investments in Australia.

Ever more investment managers are applying a range of responsible investing approaches – from ESG integration and negative screening to sustainability-themed and impact investing.

New data points in 2019 indicate that there is still a gap between those that claim to be practising responsible investing and those that have embedded these practices through formal policies and accountability commitments including disclosing full portfolio holdings.

Investment manager practices are also maturing with a quarter of managers earning the accolade of practising a leading approach to responsible investing against this year's expanded Responsible Investment Scorecard.

Australian responsible investment managers still favour ESG integration and corporate engagement and voting above

negative and norms-based screening as their primary responsible investment approaches for constructing portfolios, but managers are increasingly driving capital towards sustainability-themed and impact investing allocations with allocations to Green, Social and Sustainability Bonds more than doubling since last year. Whilst industry practitioners seek to understand and map climate change risk throughout their portfolios, socially themed sustainability funds dominate this responsible investment approach.

This year's findings suggest that investment managers are catching up with consumer interest, with a large leap in AUM being screened for exposures to fossil fuel producers.

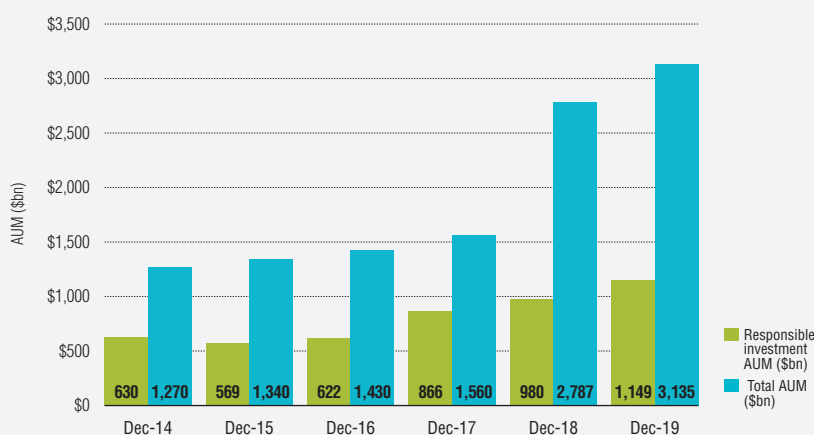
As we enter this new decade, industry analysts and commentators are broadening their view on responsible investing, as it moves into the mainstream for professionally managed investing in Australia. The focus for the decade becomes the extent to which these efforts result not just in better risk-adjusted returns for clients, but also for a more stable and sustainable economy based on assets and enterprises that benefit stakeholders and contribute to societal and environmental solutions.

## KEY FINDINGS

**1 The responsible investment market continues to grow**, with associated assets under management (AUM) up 17% over the course of 2019 to \$1,149 billion. This represents 37% of total professionally managed assets under management (TAUM), which now sits at \$3,135 billion according to the Australian Bureau of Statistics (ABS).<sup>1\*</sup>

\* The 2019 Benchmark Report has re-stated the 2018 TAUM. The 2018 TAUM was reported as \$2,242 billion and has been re-stated to \$2,787 billion (as reported by the ABS). Cross-invested assets between managed funds institutions were subtracted from the consolidated assets total, however, this subtraction calculation was already embedded in the total and hence the TAUM was under-stated for 2018. Figure 2 has been adjusted to reflect the correct figure for 2018.

**FIGURE 2** Yearly market value growth of responsible investment AUM and TAUM in Australia (\$billion)

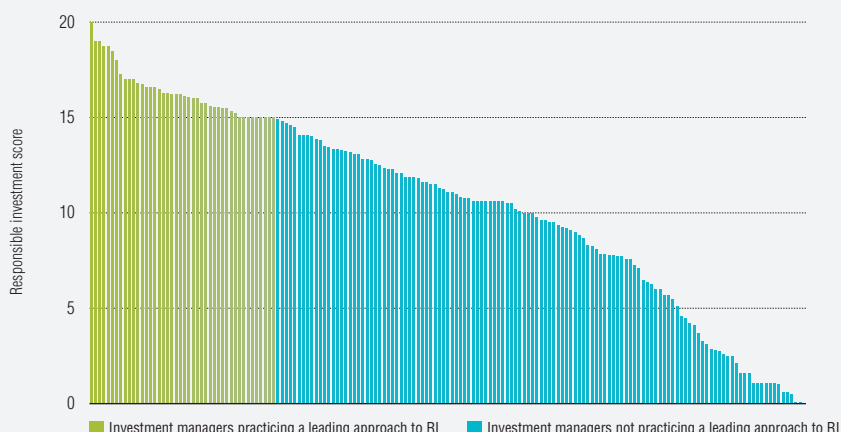


<sup>1</sup> Australian Bureau of Statistics, ABS Managed Funds In Australia, December 2019, <<https://www.abs.gov.au/AUSSTATS/abs@nsf/DetailsPage/5655.0Dec%202019?OpenDocument>>.

**2 Ever more investment managers apply responsible investing approaches, of which a quarter can demonstrate practising leading responsible investing.** Of the 165 investment managers in the Responsible Investment Research Universe, 44 (27%) are applying a leading approach to responsible investment (score  $\geq 75\%$  on the expanded Responsible Investment Scorecard, which now also rewards commitment to accountability, transparency and allocation of capital towards real economy outcomes).

Further, only those that scored 15/20 (75%) or higher have been included in this report as responsible investment AUM as stated in key finding 1. Therefore, the responsible investment AUM is the sum of all 44 leading Responsible Investment Managers' AUM.

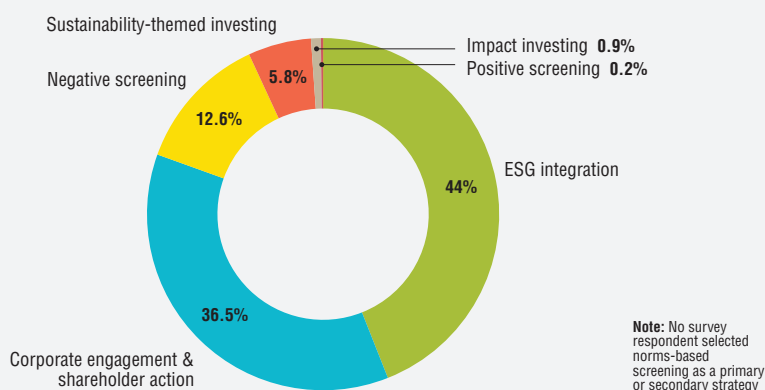
**FIGURE 3** Responsible investment scores of the 165 investment managers in the Responsible Investment Research Universe



**3 The responsible investment approaches that most influence the final construction of responsible investor portfolios is environmental, social and governance (ESG) integration, and corporate engagement and shareholder action,** representing 44% and 37% of responsible investment AUM under a primary and secondary investment strategy, respectively. The findings show a small shift in focus by investors on last year's preferences towards corporate engagement and shareholder action.

No survey respondent selected norms-based screening as a primary or secondary strategy.

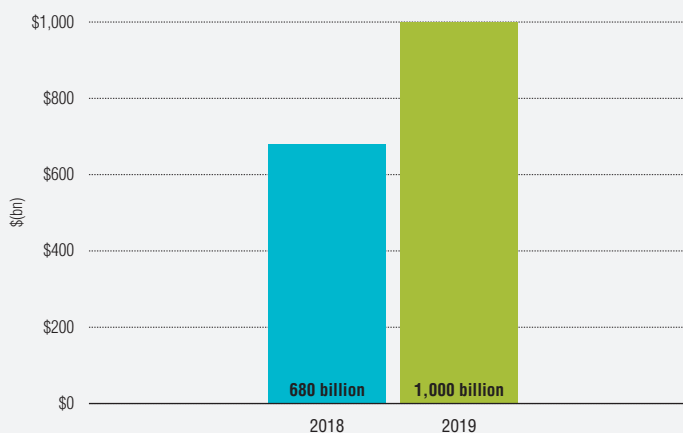
**FIGURE 4** Proportion of survey respondent AUM managed using primary and secondary responsible investment approaches



**4 ESG integration is now considered business as usual by survey respondents, with 87% of responsible investment AUM (\$1 trillion) managed using ESG integration as a primary approach.**

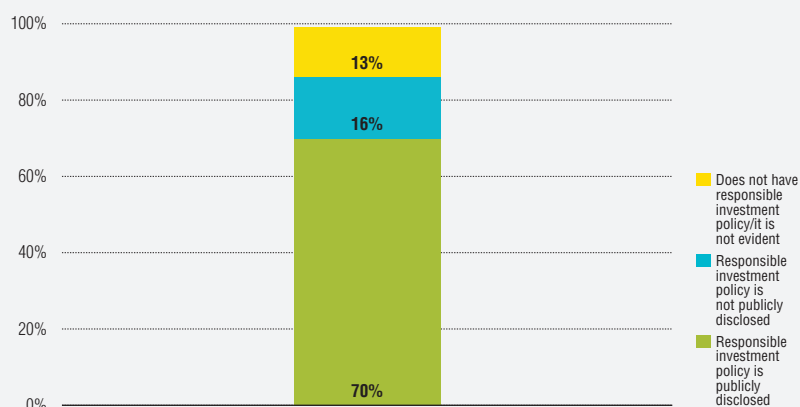
The marked jump for ESG integration (47%) from \$680 billion in 2018 to \$1 trillion indicates that survey respondents are increasingly recognising that ESG factors provide better and more informed investment decisions, such as valuation and asset allocation.

**FIGURE 5** Responsible investment AUM employed in ESG integration as a primary approach (\$billion)



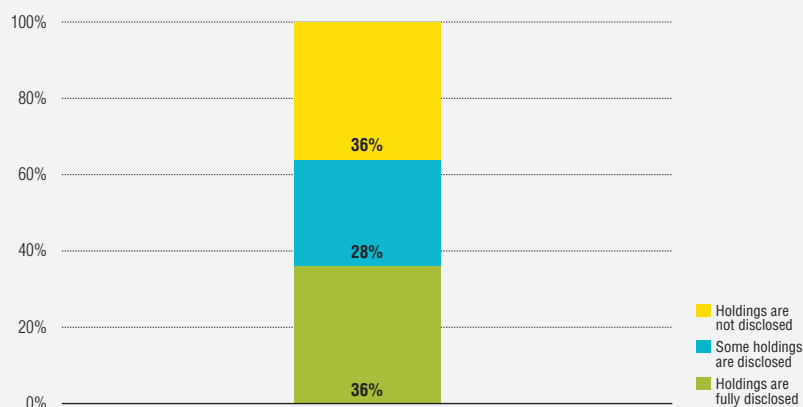
**5** Investment managers are demonstrating a commitment to systematically implementing responsible investing through the development and disclosure of responsible investment policies. Of the 165 managers in the Responsible Investment Research Universe, 86% have a responsible investment policy and 70% make them publicly available.

**FIGURE 6** Existence and disclosure of responsible investment policy



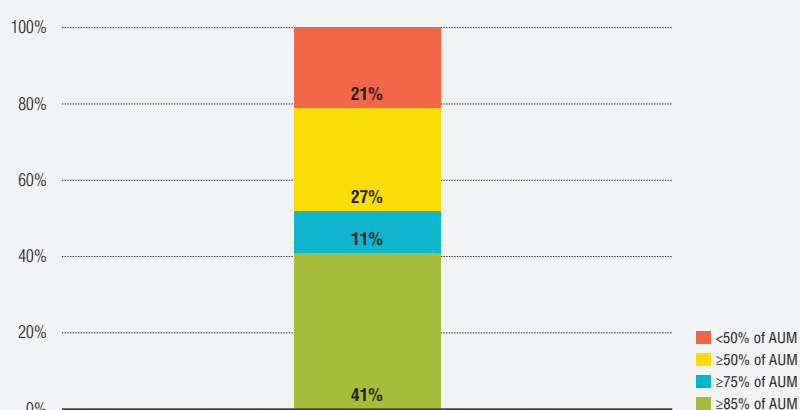
**6** Investment managers in the Responsible Investment Research Universe are demonstrating a commitment to transparency through their disclosure of fund holdings. Of the 165 investment managers in the Responsible Investment Research Universe, 36% disclose their full fund holdings and 28% disclose some holdings.

**FIGURE 7** Level of disclosure of investment managers' holdings



**7** Seventy-nine percent of investment managers in the Responsible Investment Research Universe have at least one asset class (or 50% AUM) covered by an explicit and systematic approach to ESG integration, while only 41% have more than three asset classes (or 85% of their AUM) covered.

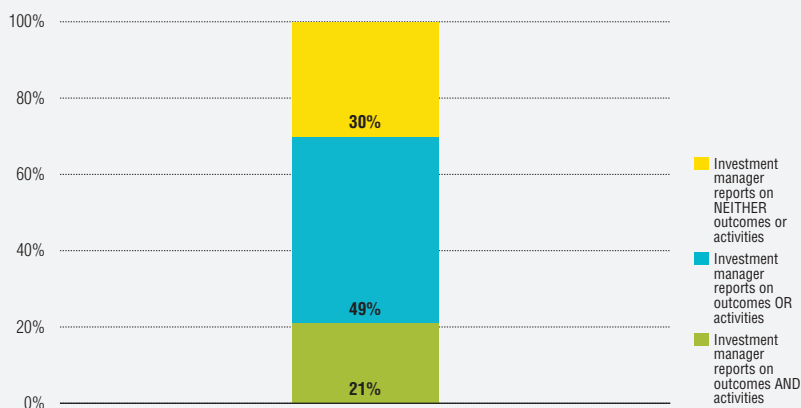
**FIGURE 8** Extent of asset class coverage by an explicit or systematic ESG approach



**8 Investment managers in the Responsible Investment Research Universe are demonstrating transparency through their stewardship activities, with 49% reporting on activities or outcomes and 21% demonstrating leading practice by reporting on both activities and outcomes.**

This shows that during 2019, active ownership practices continued to mature, with more active, considered and targeted use of voting and corporate engagement.

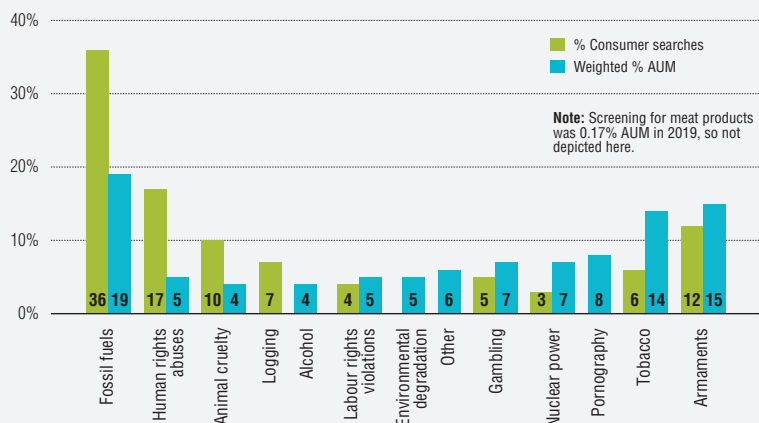
**FIGURE 9 Reporting on corporate engagement activities and outcomes**



**9 Negative screening of fossil fuels is beginning to catch up to consumer interest.** Fossil fuels are clearly front of mind for consumers and survey respondents. In 2018, only 5% of responsible investment AUM for survey respondents who conduct negative screening was screened for fossil fuels. In 2019, 19% of responsible investment AUM has been screened for fossil fuels, growing 14 percentage points from the year before.

For consumers using RIAA's Responsible Returns online tool,<sup>2</sup> the most important exclusionary screens are fossil fuels (36%), human rights abuses (17%) and armaments (12%).

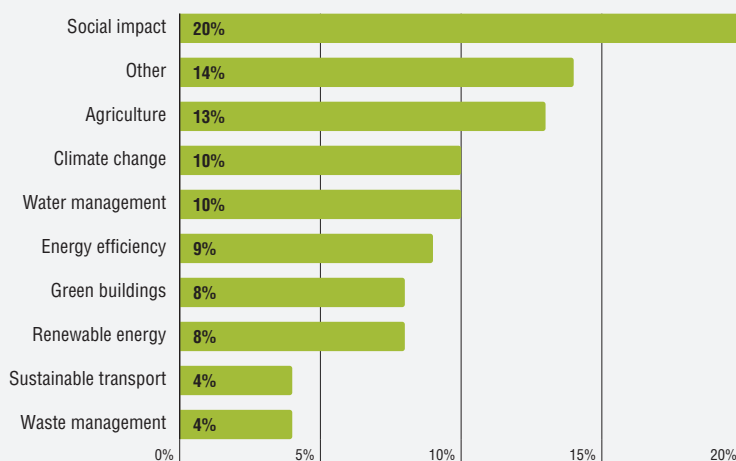
**FIGURE 10 Consumer interest (% of consumer searches) vs issues negatively screened by survey respondents (weighted by % AUM)**



**10 Sustainability-themed investing has grown as a responsible investment approach.** Responsible investment AUM using sustainability-themed investing grew from 4% in 2018 to 6% in 2019. The most popular themed investments by AUM are social impact (20%), agriculture (13%) and climate change (10%).

'Other' includes arts, culture and sport; healthcare and medical products; and sustainable fashion and textiles/fashion technology.

**FIGURE 11 Sustainability-themed investments by theme (% AUM)**

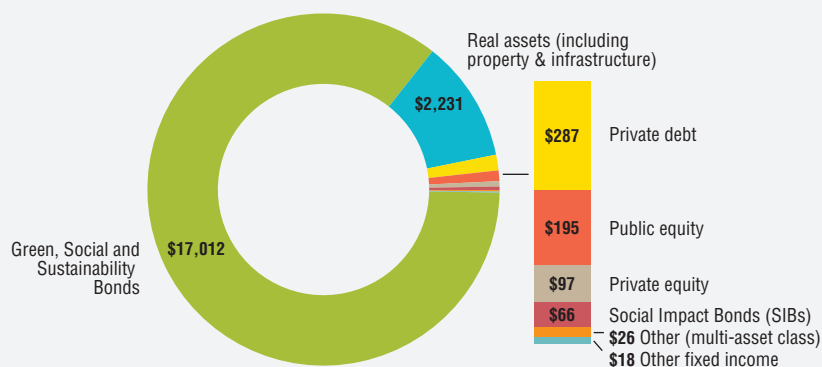


<sup>2</sup> RIAA, Responsible Returns, RIAA, n.d., <<https://www.responsiblereturns.com.au/>>.



**11 Impact investment growth has accelerated** over the course of 2019, driven by the significant increase in market use of Green, Social and Sustainability (GSS) Bonds (248%).

**FIGURE 12 Value of impact investment products by asset class (\$million)**



**12 Australian and multi-sector responsible investment funds outperformed mainstream funds over every time horizon.**

International responsible investment share funds outperformed the Morningstar average mainstream international share fund over every time horizon except one year (based on a weighted average performance over 10 years, net of fees).

These findings are consistent with last year, whereby overall it was found that responsible investment funds outperform mainstream funds over most time frames and asset classes.

**FIGURE 13 Performance of responsible investment against mainstream funds (weighted average performance net of fees over 10 years)**

Australian share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 17 and 48 funds sampled depending on time period)	24.7%	11.3%	10.1%	9.0%
Morningstar: Australia Fund Equity Large Blend*	22.3%	9.0%	7.8%	6.8%
S&P/ASX 300 Total Return	23.8%	10.3%	9.1%	7.8%

International share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 13 and 50 funds sampled depending on time period)	22.5%	13.7%	11.0%	11.9%
Morningstar: Equity World Large Blend*	25.2%	12.6%	10.8%	10.9%

Multi-sector growth funds	1 Year	3 Years	5 Years	10 Years
Responsible investment fund average (between 13 and 39 funds sampled depending on time period)	19.48%	11.26%	8.73%	8.24%
Morningstar category: Australia Fund Multisector Growth*	16.22%	7.56%	6.52%	6.88%

\*Source: Morningstar Direct™

■ Outperformed by the average RI fund ■ Underperformed by the average RI fund

## Disclaimer

KPMG's input into this report has been prepared at the request of the Responsible Investment Association Australasia (RIAA) in accordance with the terms of KPMG's engagement letter dated 04 March 2020. The services provided in connection with KPMG's engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by The Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

The information contained in this report has been prepared based on material gathered through a detailed industry survey and other sources (see methodology). The findings in this report are based on a qualitative study and the reported results reflect a perception of the respondents.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, asset managers and owners consulted as part of the process.

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