



Responsible
Investment
Association
Australasia

Responsible Investment Benchmark Report Australia 2021 Executive summary



INDUSTRY PARTNERS



RESEARCH PARTNER



Thank you

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AXA INVESTMENT MANAGERS

AXA Investment Managers (AXA IM) is a responsible asset manager, actively investing for the long-term to help its clients, its people and the world to prosper. Our high conviction approach enables us to uncover what we believe to be the best global investment opportunities across alternative and traditional asset classes, managing approximately AU\$1.3 trillion in assets as at the end of December 2020.

AXA IM is a leading investor in green, social and sustainable markets, managing AU\$882 billion of ESG-integrated, sustainable and impact assets. We are committed to reaching net zero greenhouse gas emissions by 2050 across all our assets, and integrating ESG principles into our business, from stock selection to our corporate actions and culture. Our goal is to provide clients with a true value responsible investment solution, while driving meaningful change for society and the environment.

AXA IM employs over 2,440 employees around the world, operates out of 27 offices across 20 countries and is part of the AXA Group, a worldwide leader in insurance and asset management.



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 and RIAA member since 2000.

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.



AUSTRALIAN ETHICAL

Australian Ethical is Australia's leading ethical investment manager. Since 1986, Australian Ethical has provided investors with wealth management products that align with their values and deliver strong returns. Investments are guided by the Australian Ethical Charter which shapes our ethical approach and underpins our culture and vision.

Australian Ethical has over \$6 billion in funds under management across managed funds and superannuation – as at 30 June 2021.

Go to www.australianethical.com.au for more information.

SURVEY RESPONDENTS

RIAA is extremely grateful to the 59 Australian and international investment managers that responded to the survey. They are listed in Appendix 5.

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 20th annual *Responsible Investment Benchmark Report* prepared by the Responsible Investment Association Australasia (RIAA). The report details the size, growth, depth and performance of the Australian responsible investment market from 1 January 2020 to 31 December 2020 and compares these results with the broader Australian financial market. To allow Australia's responsible investment market to be compared to other regions, the classification of responsible investment practices used in this report is based on the seven approaches for responsible investment used by the Global Sustainable Investment Alliance (GSIA).

Of the 198 investment managers in the Research Universe, 59 provided survey responses. Most survey respondents (48) were investment managers and 11 were asset owners. Asset owners were only included if they directly manage investments. KPMG conducted desktop research for the 139 entities that did not complete the survey, using publicly available information.

Throughout this report, a distinction is made between:

- the full investment management market comprised of all investment managers with operations in Australia;
- **Total Managed Funds** (as defined by the Australian Bureau of Statistics); and
- **Responsible Investment AUM** (representing the assets under management covered by at least one responsible investment approach of Responsible Investment Leaders).

A distinction is also made between different entities in this report, namely:

- the **Research Universe**, comprised of the 198 investment managers that have self-declared as practising responsible investment; and
- the **Responsible Investment Leaders**, representing 54 entities assessed by RIAA as applying a leading approach to responsible investment.

This project was led by Nicolette Boele, Zsuzsa Banhalmi-Zakar, Mark Spicer, Samantha Bayes, Elyse Vaughan and Louise Jacobsson. RIAA commissioned KPMG to undertake the data collection and analysis for this report. KPMG also provided the platform for the online survey. Data is compiled from primary research (survey data) and secondary research on publicly available data. The report production was managed by Katie Braid, with editing by Melanie Scaife and design by Loupe Studio.

FIGURE 1 Overview of the 2020 Research Universe and the Australian responsible investment market



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 400 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

RESPONSIBLE INVESTMENT IN 2020

This year's *Responsible Investment Benchmark Report* shows that the Australian responsible investment market continues to grow. Responsible Investment AUM increased by \$298 billion to \$1,281 billion in 2020, while the AUM managed by the remainder of the market decreased by \$234 billion to \$1,918 billion. While the majority of the investment market claims to be responsible (89%), funds with leading responsible investment practices (Responsible Investment Leaders) have increased substantially in volume of AUM, growing 30% in 2020. This inflow of capital has come while the remainder of the market has seen AUM value shrink by 11%. Capital has therefore shifted towards funds demonstrating leading responsible investment practices. The proportion of Responsible Investment AUM to Total Managed Funds in Australia was 40% at December 2020, compared to 31% in 2019.

The growth in the Australian responsible investment market, including the growth of Responsible Investment AUM as a proportion of Total Managed Funds, mirrors global trends (see the *Global Sustainable Investment Review 2020* that shows that sustainable investments have reached US\$35.3 trillion in assets under management, now equating to 36% of all professionally managed assets.¹)

The coverage of ESG integration has also extended significantly, signalling that more assets and more asset classes are covered by this approach than ever before (\$628 billion). The other two main responsible investment approaches (by AUM) used are negative screening (\$557 billion), and corporate engagement and shareholder action (\$471 billion).

Also growing is the number of investment managers engaged in responsible investment, which grew from 165 in 2019 to 198 in 2020.

The number of Responsible Investment Leaders increased from 44 in 2019 to 54 in 2020 and they now make up one-quarter of Australian investment managers; with six of Australia's top ten scoring Responsible Investment Leaders being headquartered offshore.

Some of the characteristics of Responsible Investment Leaders in 2020 include disclosing full portfolio holdings and targeting sustainability outcomes, as well as supporting social and environmental shareholder resolutions.

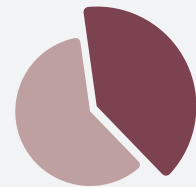
2020 saw some pleasing results in responsible investing across the board, with investment manager stewardship transparency increasing and delivering more value: The proportion of investment managers that report on both activities and outcomes from corporate engagement and shareholder action increased from 21% in 2019 to 31% in 2020. This, along with the increasing number of products being certified through RIAA's Certification Program (up 21% from 173 in December 2019 to 209 in December 2020), should begin to help address concerns about greenwashing in the industry.

Australian investment managers' exclusionary screening is catching up with consumer interest. Managers now screen a larger proportion of AUM (managed using negative screening) for exposures to fossil fuel producers (22%). This is followed by tobacco (19%), and weapons and firearms (14%).

As an ever-increasing proportion of Total Managed Funds adopt responsible investing approaches, RIAA anticipates that the performance of responsible investment funds and mainstream funds (measured as weighted average performance net of fees over 10 years) will ultimately converge. In 2020 responsible investment funds performed on par with, or better than, the market, even though overall fund performance was down largely due to the impact of COVID-19 on economies worldwide.

Just like the global industry, Australia's responsible investment industry is in transition. Expectations of sustainable investment are rapidly being reset, with an increasing emphasis on moving the industry towards leading standards of practice that contribute measurably to a more sustainable world.

The reality remains that, despite such significant sums of capital committed to responsible investment in Australia and internationally, we remain far from being on target to achieve Paris Agreement commitments. Much more capital needs to be deployed, at pace, if we are going to transition economies and communities to live within the safe limits of a warming world and deliver on the Sustainable Development Goals – each of which highlight the significant role that finance must play in creating a more sustainable world.



Responsible Investment AUM
\$1,281 billion
40% of total market



27%
of Australian investment
managers are Responsible
Investment Leaders

¹ Global Sustainable Investment Alliance, *Global Sustainable Investment Review 2020*, GSIA, 2021, <<http://www.gsi-alliance.org/wp-content/uploads/2021/07/GSIR-2020.pdf>>.

KEY FINDINGS

1 Responsible Investment AUM increased by \$298 billion to \$1,281 billion in 2020, while the AUM managed by the remainder of the market decreased by \$234 billion to \$1,918 billion. The proportion of Responsible Investment AUM to Total Managed Funds was 40% in 2020, up from 31% in 2019. AUM using leading responsible investment approaches grew at 15 times the rate of the entire investment market, which grew by 2%.

Responsible Investment AUM constitutes the value of the assets managed under at least one responsible investment approach by 2020 Responsible Investment Leaders.

2 The proportion of Responsible Investment Leaders in the market remained at one-quarter of investment managers in 2020. Their number increased to 54 in 2020, from 44 in 2019. Responsible Investment Leaders are investment managers that scored at least 15 out of 20 on RIAA's Responsible Investment Scorecard.

Responsible Investment Leaders demonstrate strong collaborative stewardship and consider ESG factors explicitly and systematically in the valuation of assets, construction of portfolios and allocation of capital. They are decidedly transparent, reporting publicly not just on their activities to improve environmental and social sustainability, but also the outcomes they achieve. Six of the top scoring ten Responsible Investment Leaders are headquartered outside of Australia.

3 Responsible Investment Leaders are more apt at managing ESG risks in financial decisions and at being prudent stewards targeting impactful engagements and voting over all relevant ESG resolutions. Responsible Investment Leaders and non-leaders demonstrate strong commitment to responsible investment; however, both groups falter when it comes to allocating capital to target sustainability outcomes. This signals that measurement and monitoring of outcomes will be the next challenge for all investment managers that are genuinely committed to responsible investment.

FIGURE 2 Responsible Investment AUM compared to remainder of market in Australia 2018–2020 (\$ billions)

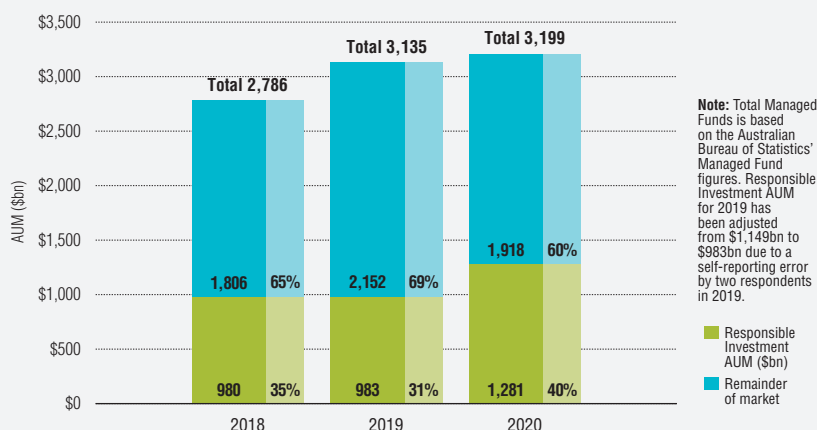


FIGURE 3 Responsible Investment Scorecard results of investment managers in the Research Universe

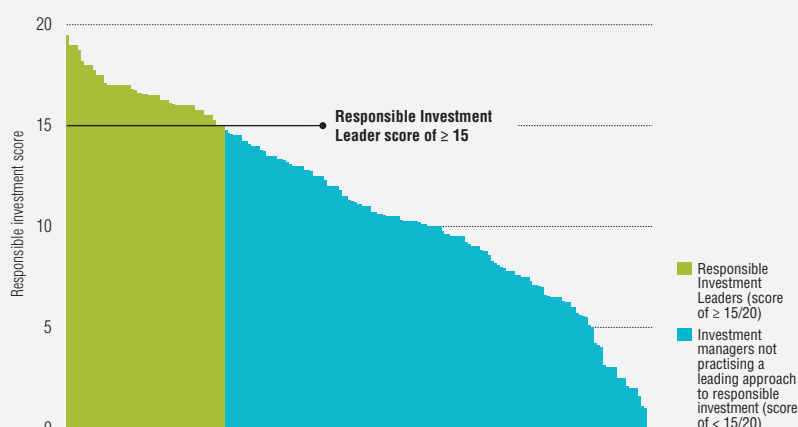
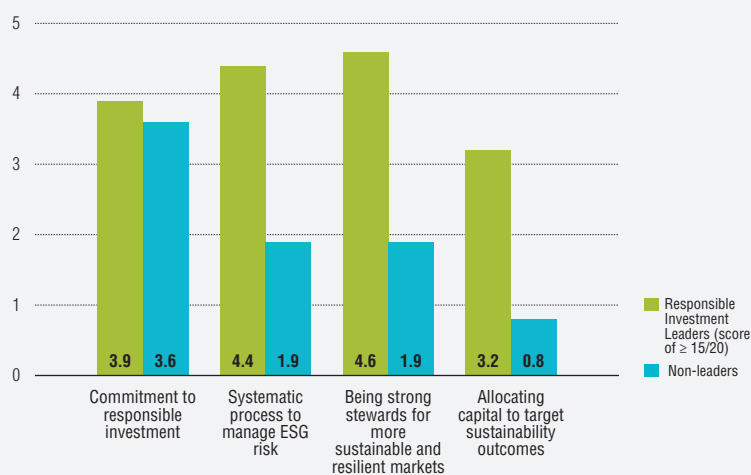


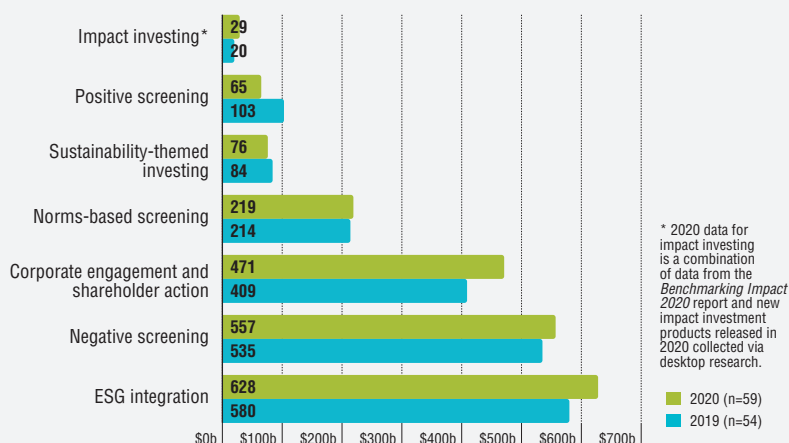
FIGURE 4 Average scores of Responsible Investment Leaders and non-leaders on RIAA's Responsible Investment Scorecard



4 The top three responsible investment approaches (by AUM) are ESG integration; negative screening; and corporate engagement and shareholder action. Impact investing saw the largest increase since 2019, increasing by 46%, followed by corporate engagement and shareholder action, which increased by 15%.

The drop in positive screening is likely due to improved classification of this approach as ESG integration by investment managers.

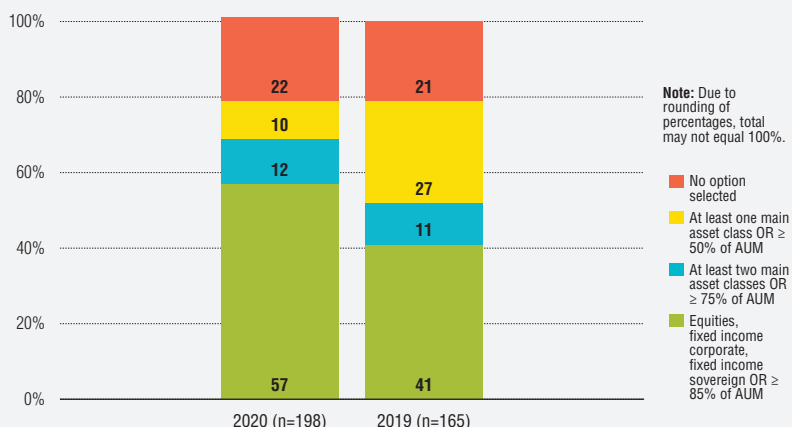
FIGURE 5 Total AUM covered by responsible investment approaches of survey respondents



5 In 2020, 57% of investment managers have at least 85% of their AUM covered by an explicit and systematic approach to ESG integration, compared to just 41% in 2019.

This shows that investment managers already committed to responsible investing have significantly extended the coverage of ESG integration, meaning that more assets and more asset classes are covered by this responsible investment approach than ever before.

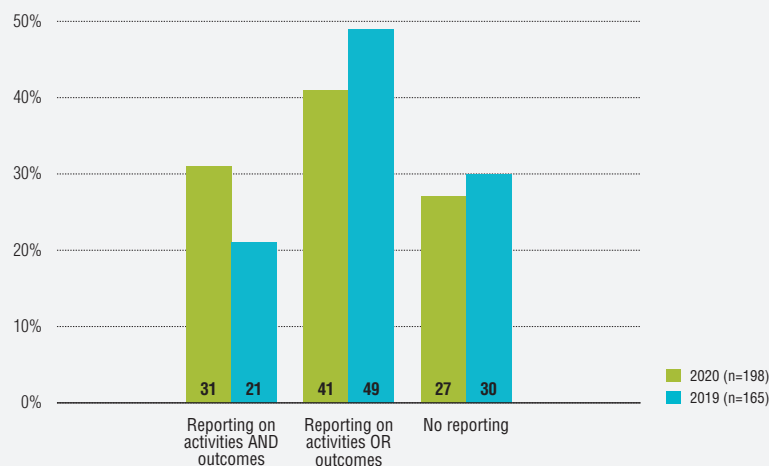
FIGURE 6 Change in the proportion of AUM covered by an explicit and systematic approach to ESG integration among investment managers in the Research Universe



6 Investment managers are improving accountabilities by better evidencing their claims, with 31% reporting on both activities and outcomes from corporate engagement and shareholder action (an increase from just 21% in 2019), and 41% reporting on activities or outcomes.

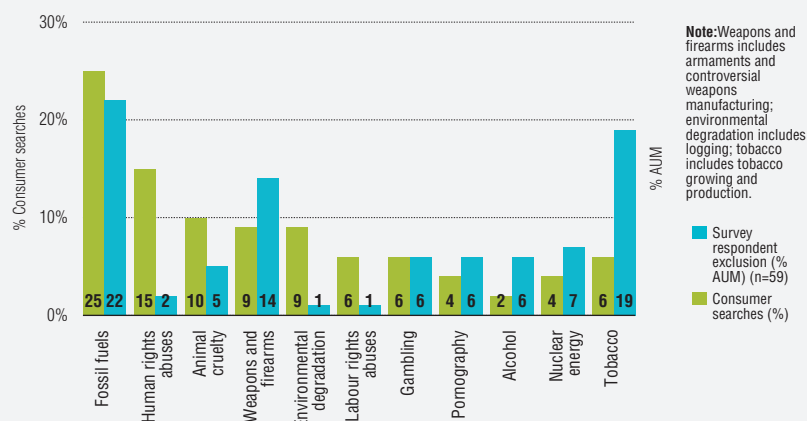
The improving accountability of investment managers through this kind of reporting should go some way to addressing increasing concerns about greenwashing in the industry.

FIGURE 7 Reporting on activities and outcomes from corporate engagement and shareholder action in the Research Universe



7 Exclusion of the fossil fuel sector is front of mind for both the public and responsible investment managers. But **negative screening approaches and the expectations of investors do not always align**. For example, after fossil fuels, consumers seek products that screen for human rights and animal cruelty, while responsible investment managers exclude tobacco, and weapons and firearms.

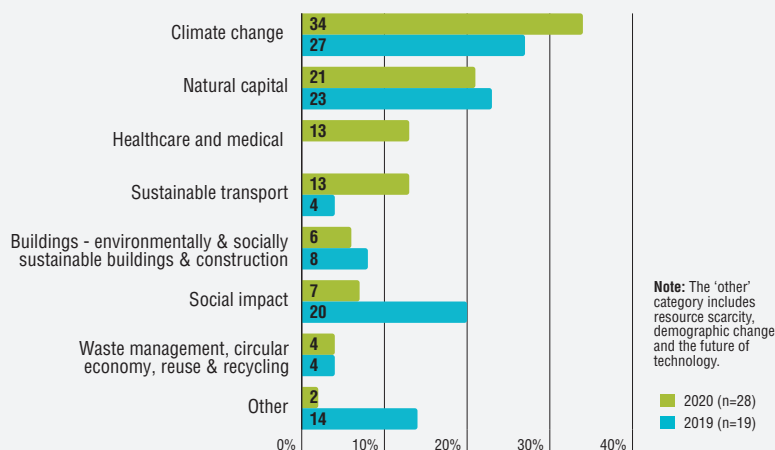
FIGURE 8 Exclusion categories of survey respondents (% AUM) compared to consumer searches for exclusions on RIAA's Responsible Returns online tool



8 For the 28 survey respondents that offer sustainability-themed investments, climate change was the most prominent sustainability theme, followed by natural capital, similar to 2019. Investment in health and medical was third in 2020, likely elevated by the COVID-19 pandemic.

The climate change theme includes investments in renewable energy, energy efficiency, low carbon and climate change mitigation. Natural capital includes biodiversity conservation, healthy waterways and sustainable land and water management topics. Sustainability-themed investment in social impact dropped significantly compared to last year, while focus on the sustainable transport sector grew markedly.

FIGURE 9 Sustainability-themed investments by theme (% AUM) in 2020 and 2019



9 Responsible investments continue to make financial sense, despite the widespread impact of COVID-19 on economies worldwide.

In 2020, the performance of all funds tumbled over the one-year timeframe compared to 2019 and to a lesser extent over the three- and five-year time horizons. Despite economic setbacks, responsible investment funds outperformed both the international share and multi-sector growth funds in 2020, performed on par with the Australia Fund Equity Large Blend, but underperformed compared to the S&P/ASX 300 over three and five years.

As an ever-increasing proportion of Total Managed Funds become managed to responsible investing approaches, RIAA expects the differential in fund performance to also become smaller.

FIGURE 10 Performance of responsible investment funds and mainstream funds (average, net of fees over 10 years)

Multi-sector growth funds	1 Year	3 Years	5 Years	10 Years
Responsible investment fund average - multi-sector growth funds*	7.2%	7.4%	7.9%	8.2%
Morningstar category: Australia fund multi-sector growth**	2.9%	5.3%	6.4%	6.9%
International share funds	1 Year	3 Years	5 Years	10 Years
Responsible investment fund average - international share funds*	8.3%	11.0%	11.4%	10.1%
Morningstar category: Equity World Large Blend**	5.7%	9.5%	9.8%	11.7%
Australian share funds	1 Year	3 Years	5 Years	10 Years
Responsible investment fund average - Aus/NZ share funds*	1.7%	5.3%	7.4%	8.1%
Morningstar category: Australia Fund Equity Australia Large Blend**	1.7%	5.5%	7.5%	7.0%
Responsible investment fund average - Aus/NZ share funds*	1.7%	5.3%	7.4%	8.1%
S&P/ASX 300 total return	1.7%	6.9%	8.8%	7.8%

■ Average responsible investment fund outperformed (+1%)
■ Average responsible investment fund on-par with market (+/- 1%)
■ Average responsible investment fund underperformed (-1%)

Note: Average performance of responsible investment funds was determined using the asset-weighted returns (net of fees) reported by survey respondents over one-, three-, five- and ten-year time horizons and compared to the mainstream fund performance from Morningstar Direct™.

* Data provided by survey respondents
 ** Data provided by Morningstar direct™

Inherent Limitations

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 18 February 2021 and as described in the *About this report* section. 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 sources of the information provided are indicated in this report. KPMG has not sought to independently verify those sources. The information contained in this report has been prepared based on material gathered through a detailed industry survey and other sources (see Appendix 3: 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.

The report is intended to provide an overview of the current state of the responsible investment industry, as defined by RIAA. The information in this report is general in nature and does not constitute financial advice, and is not intended to address the objectives, financial situation or needs of any particular individual or entity. Past performance does not guarantee future results, and no responsibility can be accepted for those who act on the contents of this report without obtaining specific advice from a financial or other professional adviser. As the report is provided for information purposes only, it does not constitute, nor should be regarded in any manner whatsoever, as advice intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Neither RIAA nor KPMG endorse or recommend any particular firm or fund manager to the public.

Neither KPMG nor RIAA are under any obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

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KPMG's input into this report is solely for the purpose set out in the *About this report* section and has been prepared for RIAA's information. It is not to be used for any other purpose without KPMG's prior written consent.

KPMG's input into this report has been prepared at the request of the RIAA in accordance with the terms of KPMG's engagement letter dated 18 February 2021. Other than KPMG's responsibility to RIAA, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

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