



Responsible
Investment
Association
Australasia

Responsible Investment Benchmark Report 2019 New Zealand



SUPPORTING ORGANISATIONS



RESEARCH PARTNER





Contact us

RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

Level 4, 478 George Street
Sydney, NSW 2000
Australia

+61 2 8228 8100
info@responsibleinvestment.org
responsibleinvestment.org

© Responsible Investment Association Australasia, 2019

Creative Commons Attribution 4.0 Australia Licence:
Where otherwise noted all material presented in this
document is provided under a Creative Commons Attribution 4.0
Australia licence: <https://creativecommons.org/licenses/by/4.0>

Licence conditions are on the Creative Commons
website as is the legal code for the CC BY 4.0 AU licence:
<https://creativecommons.org/licenses/by/4.0/legalcode>

The suggested citation for this report is Thompson, R & Bayes, S
2019, *Responsible Investment Benchmark Report New Zealand*
2019, Responsible Investment Association Australasia, Sydney.

CONTENTS

THANK YOU	1	FIGURE 1: Responsible investment AUM as a proportion of TAUM	3
ABOUT THIS REPORT	2	FIGURE 2: AUM employed in primary strategies	3
About the Responsible Investment Association Australasia	2	FIGURE 3: Composition of New Zealand responsible investment market by primary and secondary strategies	4
EXECUTIVE SUMMARY	3	FIGURE 4: ESG integration scores of the 25 investment managers assessed	4
Background	3	FIGURE 5: Negative screening - Australasian consumer searches using the Responsible Returns online tool vs New Zealand investment manager exclusions	4
Key findings	3	FIGURE 6: RIAA's responsible investment spectrum	6
ABOUT RESPONSIBLE INVESTMENT	5	FIGURE 7: Size and composition of New Zealand's professionally managed investment market (2018)	7
International responsible investing context	5	FIGURE 8: AUM employed in primary strategies	7
New Zealand's responsible investing context	5	FIGURE 9: Composition of New Zealand's RI market by primary and secondary strategies (2018)	7
Responsible investment strategies	6	FIGURE 10: Proportion of Australasian investment fund AUM employed in responsible investment strategies	8
RESPONSIBLE INVESTMENT STRATEGIES – THE NEW ZEALAND EXPERIENCE	7	FIGURE 11: ESG integration scores of the 25 investment managers assessed	9
ESG integration	8	FIGURE 12: Leading investment managers and their ESG integration scores	9
Corporate engagement & shareholder action	10	FIGURE 13: Frequency of issues being screened	11
Negative/exclusionary screening	11	FIGURE 14: Negative screening - Australasian consumer searches using the Responsible Returns online tool vs New Zealand investment manager exclusions	12
Norms-based screening	12	FIGURE 15: Positive screening – Australasian consumer searches using the Responsible Returns online tool (2018)	13
Positive/best-in-class screening	13	FIGURE 16: Sustainability-themed investments by theme	13
Sustainability-themed investing	13	FIGURE 17: Impact investments by type	14
Impact investing & community investing	14	FIGURE 18: Performance of responsible investments against mainstream funds – Australian experience	15
MEASUREMENT AND PERFORMANCE	15	FIGURE 19: Key drivers of market growth by survey respondents	16
MARKET DRIVERS AND FUTURE TRENDS	16	FIGURE 20: Retail products certified by RIAA in 2018	16
Key growth factors	16	FIGURE 21: Key deterrents to RI market growth by survey respondents	17
Retail fund flows	16	FIGURE 22: Key sources of information used to make ESG-related investment decisions	17
Growth deterrents	17	FIGURE 23: Core & Broad responsible investment in 2018 vs 2017	18
Data availability & reliability	17		
APPENDICES	18		
Appendix 1a: Abbreviations	18		
Appendix 1b: Definitions	18		
Appendix 1c: Presentation of data as Core & Broad for consistency	18		
Appendix 2: Methodology	18		
Appendix 3: ESG scorecard	19		
Appendix 4: Survey respondents	21		
Appendix 5: Other organisations used in data (desktop research)	21		
DISCLAIMER	22		

THANK YOU

SPONSORS

AUSTRALIAN ETHICAL



Australian Ethical Investment is Australia's leading ethical wealth manager. Since 1986, Australian Ethical has been helping people invest in a better future through a range of wealth management products that align with their values and deliver strong returns. Investments are guided by the Australian Ethical Charter which both shapes the Company's ethical approach and underpins its culture and vision. It was the first publicly listed company in Australia to achieve B Corp status and proves that the power of money can be harnessed to deliver both competitive returns and positive change for society and the environment.

Australian Ethical is publicly listed with \$3.13 billion in funds under management across superannuation and managed funds.

NZ SUPER FUND



The NZ\$42 billion New Zealand Superannuation Fund invests globally to help pre-fund the future cost of universal superannuation in New Zealand. The Fund is managed by an Auckland-based Crown entity, the Guardians of New Zealand Superannuation. The Guardians believes that environmental, social and governance (ESG) factors are material to long-term investment returns, and is committed to integrating ESG considerations into all aspects of the Fund's investment activities. A founding signatory of the United Nations Principles for Responsible Investment, the Guardians also provides responsible investment services to the Accident Compensation Corporation and the Government Superannuation Fund Authority and is a member of the New Zealand Corporate Governance Forum.

RESEARCH PARTNER

KPMG



KPMG has a one of the largest and most respected dedicated sustainability teams in Australia which works with clients to identify, understand, manage and report sustainability risks and opportunities for businesses and investors.

A clear focus on ESG, or pre-financial issues, identifies risks and opportunities that have significant implications for corporate value creation and the investment decision. Companies are under increasing pressure to manage these aspects to protect and create corporate value, and to communicate their impact. We work with organisations to help them manage all emerging risks and opportunities (both financial and pre-financial) in an integrated way to enhance all aspects of risk management, reporting and communication.

SURVEY RESPONDENTS

We are extremely grateful to the 21 institutions that responded to the survey. They are listed in Appendix 4.

RESEARCH SUPPORT



ABOUT THIS REPORT

Each year since 2002, the Responsible Investment Association Australasia (RIAA) has commissioned research into the size and growth of responsible investment across Australasia. This 2019 report is the fifth stand-alone New Zealand report, a companion report to *Responsible Investment Benchmark Report Australia 2019*. The report details industry data on the size, growth, depth and performance of the New Zealand responsible investment (RI) market over the 12 months to 31 December 2018 and compares these results with New Zealand's broader financial market.

Through this report, RIAA aims to support the ongoing growth of the responsible investment market consistent with its objective of broadening the uptake of RI while 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.

RIAA commissioned KPMG to help undertake the data collection and analysis for this 2019 report. KPMG developed a survey for investment managers across New Zealand, 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 assisted in the analysis of the data to deliver the size, performance and growth of the responsible investment market.

MarketMeter provided data analysis and database services. MarketMeter is contracted to RIAA to provide in-house research insights and management of its research programme.

The project was led by Rebecca Thompson with support from Nicholas Coles, James Erickson, Samantha Bayes, Mark Spicer and Simon O'Connor. The report was edited by Melanie Scaife and designed by Loupe Studio.

ABOUT THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA (RIAA)

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 240 members managing nearly \$9.5 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.

EXECUTIVE SUMMARY

BACKGROUND

In order to gauge the size, breadth, depth and performance of Responsible Investment in New Zealand, RIAA has reviewed the practices of 46 financial institutions with 21 assessed directly via survey and supplementary desktop analysis undertaken across the research universe. The commitment to and interest in this area of finance is evident from the number of investment managers that engaged with this research project. This year marked a record level of survey participation and allowed for greater insights to be drawn from the data than ever before.

To date, RIAA has classified responsible investment assets under management (AUM) as either 'Core' or 'Broad' to distinguish between those funds that are undertaking a screening, sustainability-themed or impact investment approach (traditionally more aligned with ethical investment) and those that are committed to investing under a strategy that integrates environmental, social and corporate governance (ESG) factors. As responsible investing is becoming more mainstream, RIAA expects to move away from these classifications and instead focus on best practice across the spectrum of RI strategies. For continuity purposes, the

data is presented as Core and Broad in Appendix 1C.

This report details industry data on the size, growth, composition and performance of the New Zealand RI market over the twelve months to 31 December 2018 and compares these results with the broader New Zealand financial market.

KEY FINDINGS

1 The responsible investment market continues to grow with associated AUM up 3% over the course of 2018 to \$188 billion. This represents 72% of total professionally managed assets under management (TAUM), estimated at \$261 billion.

2 Progression along the responsible investment spectrum is evident. While there was modest growth in the AUM associated with ESG integration and negative screening, there was progression along the RI strategy spectrum with green shoots in positive screening and sustainability-themed investments as well as in impact and community investing.

FIGURE 1: Responsible investment AUM as a proportion of TAUM

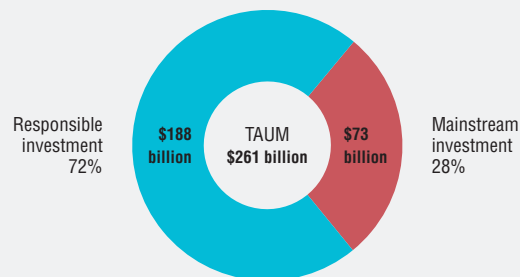
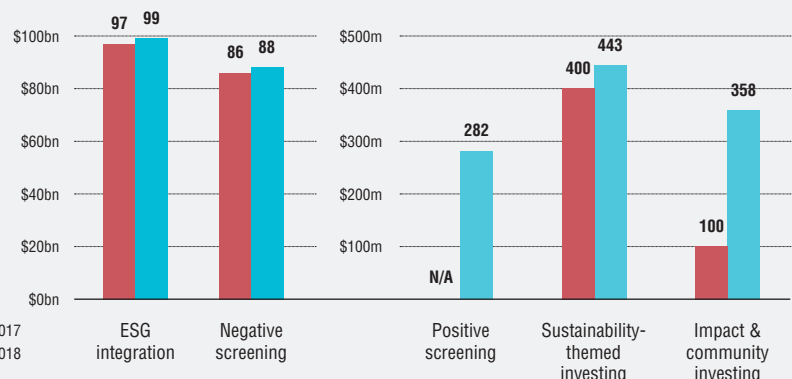
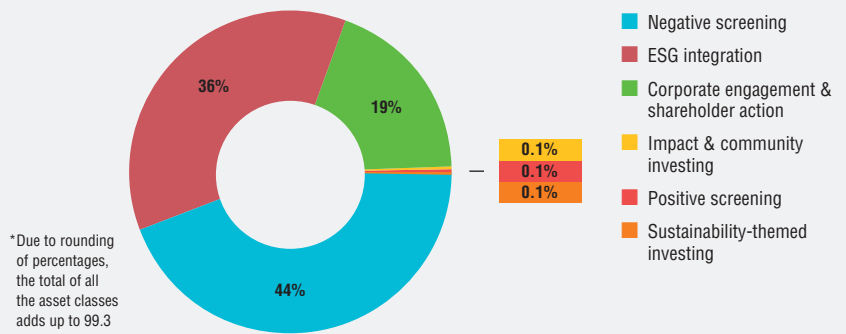


FIGURE 2: AUM employed in primary strategies



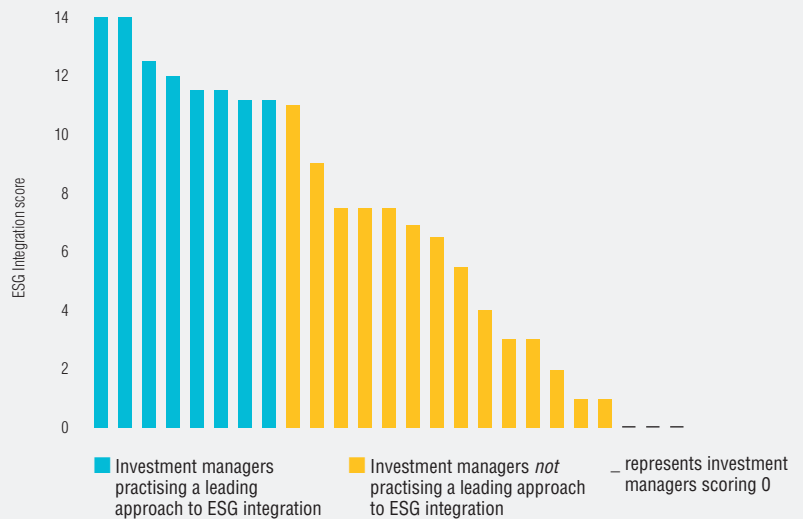
3 When primary and secondary RI strategies are taken into account, the dominant responsible investment strategy is **negative screening**, which represents 44% of AUM. Where ESG integration was nominated as the primary strategy, it was usually paired with either corporate engagement and shareholder action, or negative screening, as secondary strategies.

FIGURE 3: Composition of New Zealand responsible investment market by primary and secondary strategies



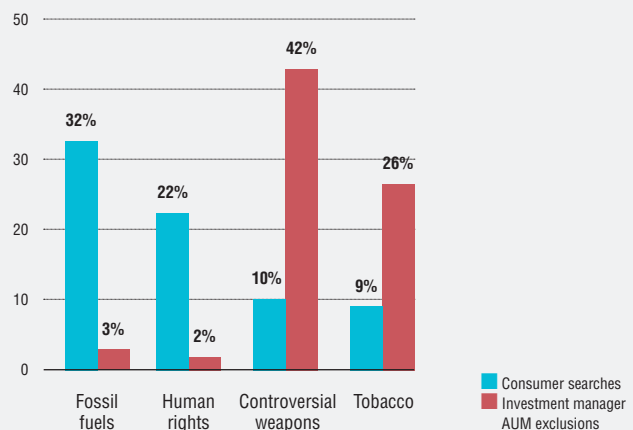
4 There's a growing number of investment managers applying leading practice ESG integration, but the overall number remains small. Of the 25 investment managers assessed, just eight (32%) are applying a leading approach to ESG integration (score >80%). That said, the number of leading ESG integration practitioners has risen from four last year, with some employing other responsible investment strategies as their primary strategy.

FIGURE 4: ESG integration scores of the 25 investment managers assessed



5 Negative screening continues to grow as a strategy, but the exclusions applied by investment managers are yet to fully align with what's important to consumers. Controversial weapons and tobacco are the most prevalent exclusionary screens among New Zealand institutional investors, however, consumers in Australasia using RIAA's Responsible Returns online tool search mainly for funds that screen out fossil fuels and human rights violations.

FIGURE 5: Negative screening - Australasian consumer searches using the Responsible Returns online tool vs New Zealand investment manager exclusions



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 environmental, social and corporate governance (ESG) and ethical issues are considered alongside financial performance when making an investment.

Responsible investing considers a broad range of risks and value drivers as part of the investment decision-making process, beyond and in addition to reported financial risk. It is a systematic approach that takes ESG and ethical issues into account throughout the process of researching, analysing, selecting and monitoring investments. It acknowledges that these factors can be critical in understanding the full value of an investment.

INTERNATIONAL RESPONSIBLE INVESTING CONTEXT

It has been scientifically established that human activities involving the production of carbon dioxide have caused Earth to warm by about 1 degree Celsius above pre-industrial revolution levels. At this rate, and with cumulative effects, it is anticipated that Earth will have heated up by 1.5 degrees Celsius as early as 2030. This situation is widely regarded as a tipping point where climate and weather extremes become irreversible, sea levels rise, and some ecosystems are permanently lost.

The Intergovernmental Panel on Climate Change published a special report on the 1.5 degrees scenario, which makes clear that unless we rapidly increase our transition towards a more sustainable and

low-carbon society, we are within decades of catastrophic climate change.¹ Large-scale investment is needed in order to direct funding towards sustainable actions.

Globally, momentum is building to better align finance with the world's sustainable development needs, most notably the UN Sustainable Development Goals (SDGs). Countries and regions around the world are setting out Sustainable Finance Roadmaps that provide pathways and policy signals and set frameworks to enable the finance sector to contribute more systematically to the transition to a more resilient and sustainable economy, consistent with these global goals.

In March 2018, the European Commission presented its ten-point action plan to enable sustainable growth. Soon after, it put forward three legislative proposals to facilitate and incentivise green and climate-friendly investments.

The Global Sustainable Investment Alliance (GSIA) recently released its biennial *Global Sustainable Investment Review 2018*, showing that global responsible investment assets reached US\$30.7 trillion at the start of 2018, a 34% increase from 2016.²

NEW ZEALAND'S RESPONSIBLE INVESTING CONTEXT

In New Zealand, there is increased scrutiny of the role of investment managers in not only delivering attractive long-term financial outcomes for their clients but also their influence and impact on societal and environmental outcomes.

New Zealand's Reserve Bank has highlighted the fact that climate change will have a significant effect on New Zealand's economy and financial system. The Reserve Bank has a strong interest in climate change, as it believes that understanding, quantifying and managing risk is critical to a well-functioning financial system.³ NZ Super Fund also has made clear its beliefs that climate change presents material long-term

risks, with potential negative impact on asset valuations due to markets underpricing these risks at present.⁴

Finance in New Zealand is making headway in the transition to a low emissions economy so as to adapt to the effects of climate change. To complement its commitment to being carbon neutral by 2050, a Green Investment Fund is being established, funding is better matching ambitions for widespread afforestation, climate change financial disclosures are becoming a boardroom issue and green bonds are being created.

The shift in views of the fiduciary duty of funds, shareholder activism, and members demanding more alignment of their investments with their values has stirred increased media attention and fuelled the impetus for funds to seriously consider how they invest in terms of environmental and social factors. Directors have an increasing obligation as part of their fiduciary duty to consider ESG issues in their management of beneficiaries' funds due to changing investor demand and awareness, with global policy settings moving ahead in some jurisdictions to require fiduciaries to consider ESG and climate risks.⁵

In May 2019, a ground-breaking new initiative was launched: New Zealand's Sustainable Finance Forum, whose goal is to redefine the financial system to better support economic, social and environmental

¹ Intergovernmental Panel on Climate Change, *Global Warming of 1.5° Celsius*, 2018. https://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf

² Global Sustainable Investment Alliance, *Global Sustainable Investment Review, 2018*, 2018. http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

³ Reserve Bank of New Zealand, *Financial Stability Report, November 2018*, 2018. <https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Financial%20Stability%20reports/2018/fsr-nov-2018.pdf?la=en&revision=d55c1f94-59ac-4903-a411-5642bf81c096>

⁴ NZ Super Fund, 'Climate Change Strategy', n.d. <https://nzsuperfund.nz/how-we-invest-balancing-risk-and-return-climate-change/climate-change-strategy>

⁵ UNEP FI & PRI, *Fiduciary duty in the 21st Century*, 2015. <https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century/244.article>

outcomes. It will develop a Sustainable Finance Roadmap to enable the sector to contribute more systematically to the transition to a more resilient and sustainable economy, consistent with the SDGs and the Paris Agreement on Climate Change.⁶

RESPONSIBLE INVESTMENT STRATEGIES

There are many different ways to engage in responsible investment, as outlined in RIAA's responsible investment spectrum (Figure 6), 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 and services, from large investment managers that integrate ESG factors into their decision-making to '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 the banks taking an ethical and socially minded approach to lending.

Given the volume and variety of responsible investment and banking products available in New Zealand, individual investors are best positioned to determine the products and services most closely aligned to their values and beliefs. In other words, the determination of what constitutes adequate or appropriate ESG screening for a particular product is to some extent 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 New Zealand'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 GSIA and applied in the *Global Sustainable Investment Review 2018*,⁷ which maps the growth and size of the global responsible investment market. These strategies are:

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

⁶ Sustainable Finance Forum, The Aotearoa Circle, n.d. <https://www.theaotearoacircle.nz/sustainablefinance>

⁷ Global Sustainable Investment Alliance, *Global Sustainable Investment Review 2018*, 2018. http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

FIGURE 6: RIAA's responsible investment spectrum

CORPORATE ENGAGEMENT & SHAREHOLDER ACTION	TRADITIONAL INVESTMENT	RESPONSIBLE & ETHICAL INVESTMENT							PHILANTHROPY
		ESG INTEGRATION	CORPORATE ENGAGEMENT/ SHAREHOLDER ACTION	NEGATIVE SCREENING	SCREENING NORMS-BASED SCREENING	POSITIVE/ BEST IN CLASS SCREENING	SUSTAINABILITY- THEMED INVESTMENT	IMPACT INVESTING (& COMMUNITY INVESTING)	
FOCUS	Limited or no regard for ESG factors	Consideration of ESG factors as part of investment decision	Using shareholder power to influence corporate behaviour	Industry sectors or companies excluded/ divested to avoid risk and better align with values	Screening out investments that do not meet minimum standards & including investments that meet defined ESG criteria	Investments that target companies or industries with better ESG performance	Investments that specifically target sustainability themes eg: clean energy; green property	Investments that target positive social & environmental impact and provide either a market or below market rate.	Grants that target positive social & 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			

RESPONSIBLE INVESTMENT STRATEGIES – THE NEW ZEALAND EXPERIENCE

In New Zealand, the size of the professionally managed investment market as at 31 December 2018 was estimated at \$261.4 billion (when AUM figures sourced from the Reserve Bank of New Zealand⁸, NZ Super Fund⁹ and the Accident Compensation Corporation¹⁰ are aggregated). Figure 7 shows responsible investment strategies were applied across \$188 billion of this universe, representing 72%.

This \$188 billion of responsibly managed AUM represents 3% growth on the \$183.4 billion recorded at 31 December 2017. While there was modest growth in the AUM associated with the primary strategies of ESG integration and negative screening, there was progression along the RI strategy spectrum, with green shoots in positive screening and sustainability-themed investments as well as in impact and community investing, shown in Figure 8.

When secondary strategies are also taken into account, the dominant responsible investment strategy in New Zealand is negative screening, which represents 44%. Where ESG integration was nominated as the primary strategy, it was usually paired with either corporate engagement and shareholder action or negative screening as secondary strategies. Corporate engagement and shareholder action did not feature as a primary strategy, but was well represented as a secondary strategy. Figure 9 shows the composition of the New Zealand responsible investment market when both primary and secondary strategies are taken into account.

The application of RI strategy has deepened and broadened across Australasia, with institutions active across the investment spectrum on both sides of the Tasman in Australia and New Zealand. Figure 10 shows

FIGURE 7: Size and composition of New Zealand's professionally managed investment market (2018)

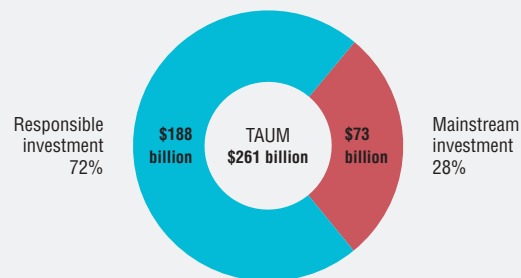


FIGURE 8: AUM employed in primary strategies

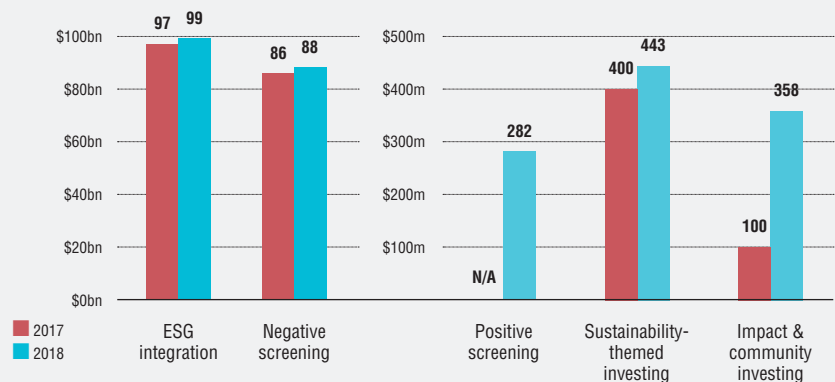
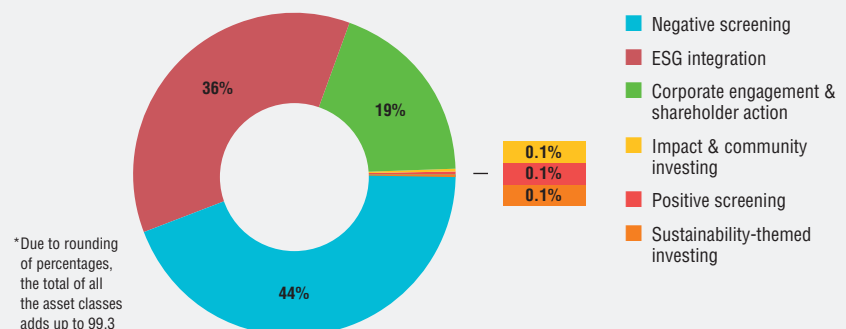


FIGURE 9: Composition of New Zealand's RI market by primary and secondary strategies (2018)



⁸ Reserve Bank of New Zealand, 'Funds Under Management', December 2018 <https://www.rbnz.govt.nz/statistics/t40>

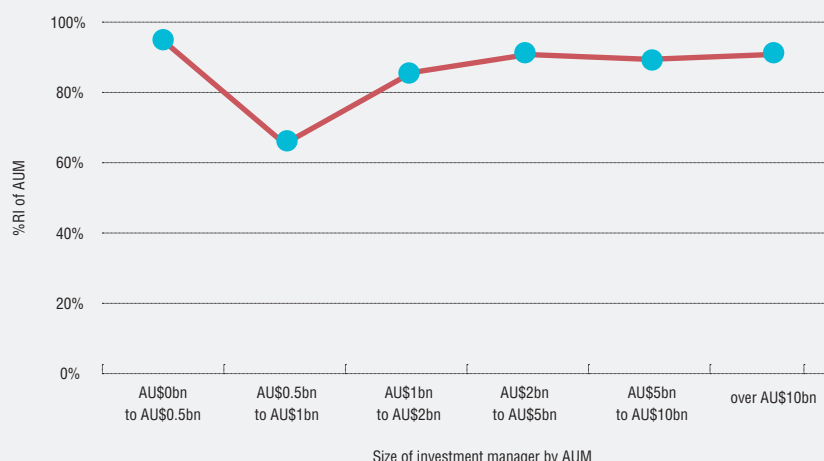
⁹ NZ Super Fund, 'At a Glance', April 2019 <https://www.nzsuperfund.nz>

¹⁰ Accident Compensation Corporation, *Annual Report 2018*, 2018, <https://www.acc.co.nz/assets/corporate-documents/a85ddef227/ACC-Annual-Report-2018-ACC7919.pdf>

the majority of investment managers haven't just dipped their foot in the RI water, but have immersed themselves by applying the strategies to at least 80% of their AUM. The data suggests that scale is a factor in whether an organisation applies responsible investment strategies to its entire AUM, with smaller, boutique investment managers (<\$0.5 billion) likely to have a single, focused RI fund as their core business and larger investment managers with more dedicated resources able to implement RI strategies across all portfolios.

The application of the seven RI strategies in New Zealand is examined in the following section.

FIGURE 10: Proportion of Australasian investment fund AUM employed in responsible investment strategies



1 ESG INTEGRATION

ESG integration involves the systematic and explicit inclusion of environmental, social and governance factors into the investment decision-making process.

AT A GLANCE

- ESG integration accounts for the largest RI strategy by assets under management, with \$98.6 billion AUM.
- Globally, according to the GSIA, the strategy runs a close second to negative screening and accounts for US\$17.5 trillion AUM.
- In New Zealand, this strategy represents 36% of AUM when taking both primary and secondary strategies into account.

- Of the 25 New Zealand investment managers assessed against a leading practice framework, eight (32%) are applying a leading approach to ESG integration. This is up from four last year, showing a deepening of practices in ESG integration in New Zealand.

ESG integration continues to dominate in the United States, Canada, Australia and New Zealand in asset-weighted terms. ESG integration is the second largest RI strategy globally (US\$17.5 trillion AUM) after negative/exclusionary screening (US\$19.8 trillion AUM) and has experienced the greatest growth in dollar terms over the past two years.¹¹ It is interesting to note that ESG integration is the fastest growing RI strategy in Europe, however, the strategy is only applied to 19% of the total RI AUM.¹² In contrast, ESG integration in New Zealand is the most common RI strategy employed, with 52% of AUM being managed with this as a primary strategy in 2018.

In the past two years, integrating ESG considerations in the investment strategy has been the subject of much discussion, not only among investors but also at a policy level. Sometimes this strategy is considered as a general proxy for the RI industry as a whole, a factor which can potentially increase information asymmetry for investors as it oversimplifies an industry that has grown in maturity and sophistication over the past decade.

ESG integration can range from a simple, tick-box approach to a well-defined integration strategy systematically embedded in the investment process and valuation practices. Defining and measuring ESG integration practices is challenging due to limited disclosure and a broad variation in depth of integration.

For the purposes of this report – to define the size of the responsible investment market in New Zealand – RIAA includes two main categories under ESG integration:

- significant asset owners applying multiple approaches to responsible investment such as ESG integration in addition to negative screens (such as crown financial institutions and community trusts); and
- those assets managed by investment managers that are **practising a leading approach to ESG integration**, rather than all assets managed by organisations that have self-declared they are implementing responsible investment.

To assess investment managers' integration of ESG, for the fifth year in a row, RIAA undertook a desktop review of the following:

- all New Zealand investment managers that are signatories to the UN-backed Principles for Responsible Investment (PRI) (19 in total, up from 13 investment managers the previous year);
- other investment managers on RIAA's database known to practise ESG integration.

These 25 self-declared responsible investors were rated against a framework of leading practice in ESG integration. Only those that scored more than 80% have been included in this report. RIAA took this approach so that only those demonstrating leading practice would be included in determining the size of the New Zealand responsible investment market.

¹¹ Global Sustainable Investment Alliance, *Global Sustainable Investment Review 2018*, 2018. http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

¹² Eurosif, *European SRI Study 2018*, 2018. <http://www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study.pdf>

Refer to Appendix 3 for more information on the ESG scorecard that was developed to analyse whether ESG integration is systematically approached by investment managers.

The results of RIAA's desktop research are summarised in Figure 11, which shows that of the 25 investment managers assessed, eight (32%) are applying a leading approach to ESG integration in their responsible investment approach. This is a strong step up from the four managers included in this list in the previous year's report, indicating a maturity and deepening of ESG practices in the New Zealand market over the past year.

The still-small numbers however, suggest that many New Zealand investment managers are yet to provide evidence of a detailed and systematic approach to their commitment to RI. It also highlights the need for the work being conducted internationally (through the European Commission, for example) and by the New Zealand Sustainable Finance Forum, which both look to ensure better informed financial decision-making by enhancing disclosures and transparency in financial markets.

Indeed, the bar is lifting elsewhere for investment managers to demonstrate the effectiveness of their RI commitments and be able to evidence their ESG integration practices. In February 2019, for example, the PRI announced to its signatories that it would require them to report on climate change risks from 2020. The PRI's increased disclosure requirements suggest it will focus more intently on the quality of RI practices to manage investment risks. The PRI is also implementing the minimum requirements for existing and future asset owner and investment manager signatories. Failure to meet these requirements by 2020 could result in delisting from the PRI.

As mentioned, there are eight investment managers that clearly demonstrate leading practices of ESG integration in their investment process via their policies, their clearly defined approaches to stewardship, their active ownership (including corporate engagement and voting) and their meaningful disclosures. Figure 12 lists these leading investment managers and outlines the ESG scores achieved together with the AUM represented.

FIGURE 11: ESG integration scores of the 25 investment managers assessed

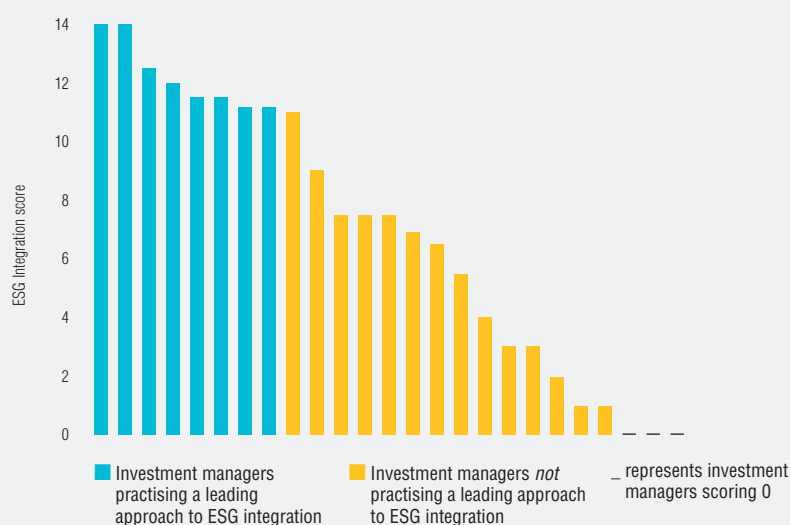
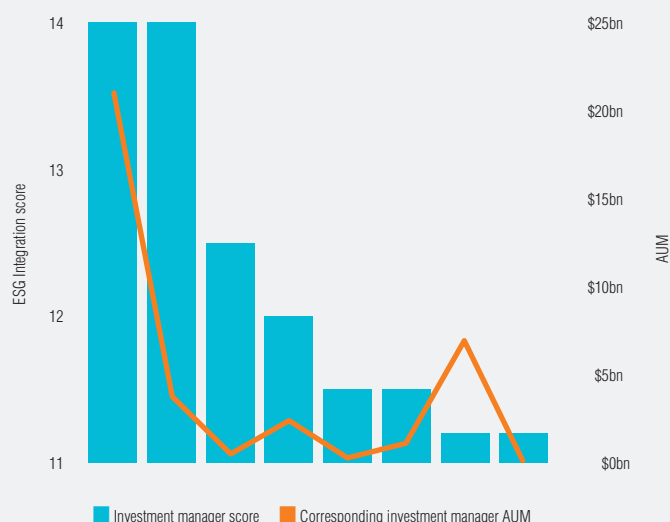


FIGURE 12: Leading investment managers and their ESG integration scores



New Zealand investment managers

AMP Capital Investors	HRL Morrison	Pathfinder Asset Management
Devon Funds Management	Mercer New Zealand	Southern Pastures
Harbour Asset Management	Mint Asset Management	

2

CORPORATE
ENGAGEMENT &
SHAREHOLDER ACTION

Corporate engagement 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.

AT A GLANCE

- Corporate engagement and shareholder action represents the third most popular RI strategy (20% of AUM).
- It is mostly employed as a secondary strategy, with either ESG integration or negative screening as the primary strategy (in no instances is corporate engagement and shareholder action a primary strategy).
- 39% of AUM is being managed with corporate engagement and shareholder action as a secondary strategy.
- Only 9% (2 out of 25 scored) of New Zealand investment managers had public evidence of activity in areas of active ownership and stewardship.

Corporate engagement and shareholder action is the third most popular responsible investment strategy in New Zealand and is generally employed as a secondary strategy in conjunction with either ESG integration or negative screenings as the primary strategy. This RI strategy is also the third largest globally (US\$9.8 trillion AUM) after negative/exclusionary screening (US\$19.8 trillion AUM) and ESG Integration (US\$17.5 trillion AUM).¹³

Active ownership refers to the manner in which investors use their formal rights (proxy voting and filing shareholder resolutions) and their position as an investor to influence the activity or behaviour of companies or other entities. The use of this strategy gives a clear indication of the investors' willingness to engage with the companies they invest in and positively contribute to the sustainability of their business model.

Voting and corporate engagement are critical components of good stewardship and are fundamental to most investment managers' processes. At a high level, these activities can be regarded as 'business as usual' given active investment managers of sufficient size would generally meet with company management teams post-profit results to better understand the details and would also meet with board members pre-AGM to examine upcoming resolutions. Likewise, voting at AGMs is standard procedure for the majority of professional investors. Consequently, it would appear relatively easy for an investment manager to tick this particular box, however, to deliver well on this strategy requires a systematic process that guides the ESG component of corporate engagement and voting.

Institutional investors should have a clear policy on voting and report periodically on their stewardship and voting activities. The desktop research conducted found that just 9% (2 out of the 25 scored) of the

New Zealand investment managers had public evidence of activity in areas of active ownership and stewardship such as proxy voting and corporate engagements beyond basic statements within policy documents.

Many countries have now introduced regulations and codes requiring institutional investors to take account of ESG issues in their investment decision-making. These changes – in investment practice and in public policy – demonstrate there are positive duties on investors to integrate ESG issues. The work of the European Commission following the recommendations of the High-Level Expert Group has clarified investors' duties, which is putting further momentum behind the ongoing growth of this RI strategy across many countries. The New Zealand Sustainable Finance Forum will also be looking to embed sustainability considerations into financial markets including the consideration of fiduciary duties.

The link between this RI strategy and fiduciary duty is substantial as it revolves around the relationship between stewards of assets – shareholders – and their accountability to beneficiaries. Recent evidence suggests that investors have proven they have the power to bring about changes in company behaviour when they engage with them on ESG issues. A recent Australian example involves a number of Australia's biggest superannuation funds engaging through Climate Action 100+. After engagement by this collaborative investor initiative, Glencore committed to not grow coal production capacity beyond current levels and prioritise future capital expenditure and investments in commodities essential to the energy and mobility transition. The company started to align its business and investments with the goals of the Paris Agreement.

If investment managers only measure the carbon dioxide level of their portfolio, and restructure the portfolio, effects on the real economy will be minor. To reduce the carbon dioxide level across the economy, managers also need to adopt an active ownership stance, influencing companies to reduce emissions. Corporate engagement is key to this.

There are limits to investor pressure; policymakers have a key role to play as well and need to work together with investors. The New Zealand Sustainable Finance Forum will also be focusing on policy levers to mobilise capital towards more sustainable challenges and opportunities.

While it has been established that the strategy of corporate engagement and shareholder action is the foundation of good stewardship, there are some additional reasons that institutional investors readily embrace this activity. In the case of passive index funds, they need to advocate because there is no capacity for them to sell their shares if they are unhappy with management performance. When it comes to active investment managers, they have been losing market share to the passive funds and are under increasing pressure to demonstrate engagement to justify relatively higher fees. And then there are activist hedge funds that make a business out of taking positions and taking on company management. With these dynamics, corporate engagement and shareholder action as a strategy is likely to continue to gain ground globally.

¹³ Global Sustainable Investment Alliance, *Global Sustainable Investment Review 2018*, 2018. http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

3 NEGATIVE/EXCLUSIONARY SCREENING

Negative/exclusionary screening is the systematic exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria, such as what goods and services a company

produces, or how inadequate a company or country response is to emergent risks such as climate change impacts. This approach is also referred to as values-based or ethical screening.

AT A GLANCE

- Negative/exclusionary screening represents 44% of AUM when taking both primary and secondary strategies into account.

- It ranks as the second most popular RI strategy by assets under management.
- The most popular exclusions weighted by AUM are for controversial weapons (42%), tobacco (26%) and animal cruelty (16%).
- The screens employed by investment managers are not always aligned with the issues prioritised by consumers, such as human rights.

Controversial weapons and tobacco are the most prevalent exclusionary screens among New Zealand investment managers, both by the number of funds applying the screens (see figure 13) and by the AUM of the funds employing the screen (see figure 14). Figure 13 also shows more investment managers are screening out gambling, nuclear power and adult content.

For domestic equities funds, controversial weapons and tobacco exclusions are relatively easy to apply as listed weapons manufacturers and tobacco producers are not a feature of the NZX. From an international equity fund perspective, however, these exclusions are highly relevant.

In the case of tobacco exclusions, while there are no NZX-listed companies that produce tobacco, further down the supply

chain there are some large cap listed companies involved in the distribution of tobacco. It's here that definitions and materiality thresholds come into play. Tobacco and its negative health impact is a black-and-white case, however, when it comes to investment screening, there are shades of grey.

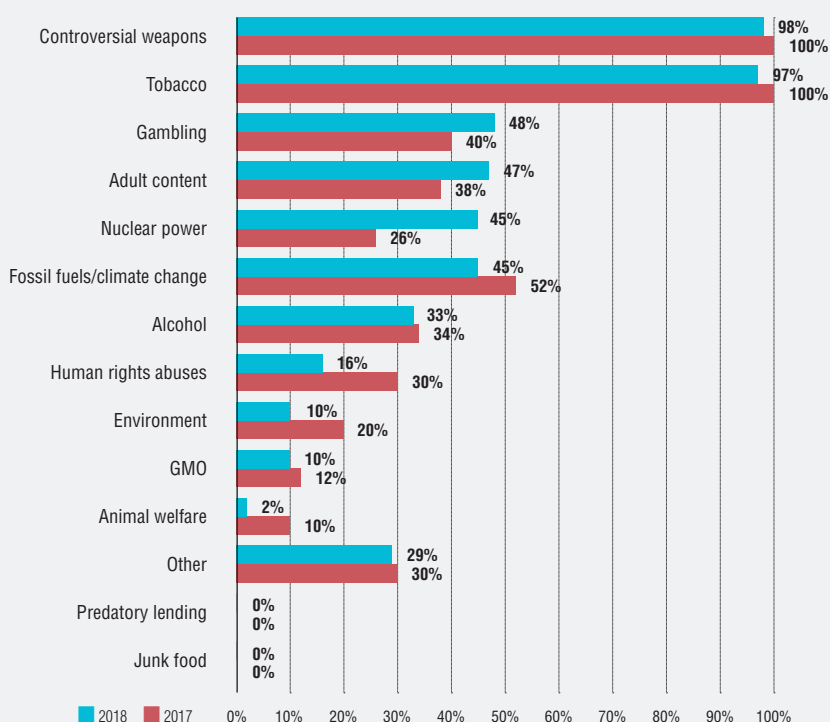
The relevance of investment in weapons manufacturing and distribution came into sharp focus in New Zealand following the mass shootings in Christchurch. NZ Super Fund acted swiftly in the wake of this tragedy to exclude companies involved in the manufacture of civilian automatic and semi-automatic firearms, magazines or parts prohibited under New Zealand law. The move reflected the passing of the Arms (Prohibited Firearms, Magazines and Parts) Amendment Bill in Parliament on 10 April

2019. As a consequence, the Fund has divested approximately NZ\$19 million of international equity investments in a number of weapons companies.

In New Zealand, the Arms Amendment Bill does not prohibit investment in weapons, however, some funds may interpret their mandates in relation to New Zealand laws as reason to divest. The situation is more clear-cut when it comes to investment in companies that produce cluster munitions, an activity that is criminalised in New Zealand since it enacted laws after becoming a party to the international treaty, Convention on Cluster Munitions.

While it is without doubt that controversial weapons and tobacco are harmful to society, and that it stands to reason that many institutional investors screen associated companies out of their portfolios, these industries are not always top of mind for consumers who want to align their investments with their values.

FIGURE 13: Frequency of issues being screened



RIAA and Mindful Money's 2018 New Zealand consumer research¹⁴ showed that nine in 10 New Zealanders with KiwiSaver and other financial investments believe the most important industries to avoid are those that involve animal cruelty, human rights abuses and labour rights abuses. Four in 10 New Zealanders indicated they believe it's important to avoid tobacco, personal firearms, adult entertainment and nuclear power.

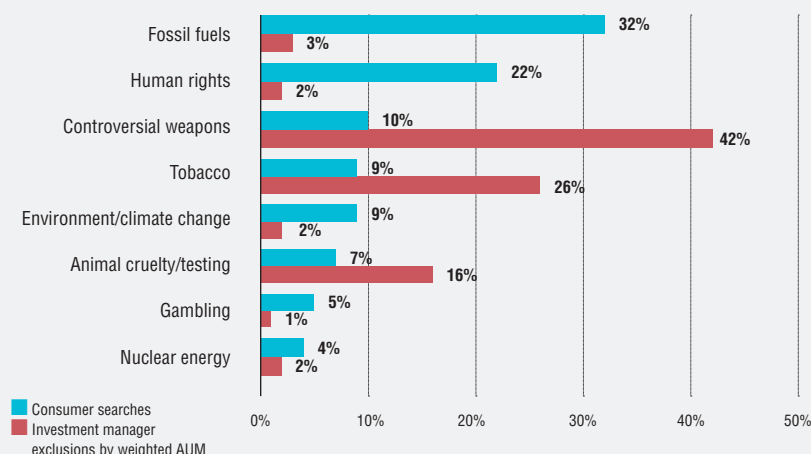
RIAA's Responsible Returns online tool (www.responsibleinvestments.com.au) helps consumers in Australia and New Zealand find, compare and choose responsible and ethical superannuation, banking and investment products that best match their interests. The online tool attracts more than 800 unique visitors across Australasia per month. In 2018, more users searched for funds that screened out fossil fuels, with the next most popular search being for funds

¹⁴ RIAA & Mindful Money, *Responsible Investment NZ Survey 2018*, 2018 <https://responsibleinvestment.org/wp-content/uploads/2018/09/RIAA-NZ-Consumer-survey-2018-final-report.pdf>

that screened out human rights violations. In contrast to the consumer research cited above, animal rights/cruelty, nuclear energy and tobacco did not feature as prominently.

The differences between what consumers want and what institutions offer could possibly be explained by consumers assuming that investment funds already screen out controversial weapons and tobacco under a 'business as usual' situation. Whatever the case, Figure 14, based on a total of 2,218 searches completed across Australia and New Zealand over 2018, highlights variation between the exclusions investment managers apply and the issues users of Responsible Returns would like to avoid.

FIGURE 14: Negative screening - Australasian consumer searches using the Responsible Returns online tool vs New Zealand investment manager exclusions



4

NORMS-BASED SCREENING

Norms-based screening involves the screening of investments that do not meet minimum standards of business practice. Standards applied are based on international norms and conventions such as those defined by the UN. In practice, norms-based screening may involve the exclusion of assets that contravene the UN Convention on Cluster Munitions and the Paris Agreement, as well as those that uphold the UN Global Compact and the UN Convention Against Corruption.

AT A GLANCE

- Norms-based screening was not nominated by any survey respondent as a primary strategy.
- The lack of penetration of norms-based screening in New Zealand contrasts with its popularity in Europe.

Norms-based screening was not cited as a primary or secondary strategy by any survey respondents. However there is evidence in the market that international norms and conventions are frequently referred to in order to ground decisions around exclusions. For example, exclusions on cluster munitions have been driven by the domestic laws put in place in response to New Zealand's ratification of the Convention on Cluster Munitions. Additionally, NZ Super strongly grounds its exclusionary policies on the basis of New Zealand law and international conventions, effectively using a norms-based approach to guide decisions.¹⁵

Norms-based screening is a popular strategy in Europe according to the GSIA,¹⁶ with 77% of global usage occurring in the region. That said, the strategy has lost ground in Europe over the last two years with ESG integration becoming increasingly popular. Globally, despite modest growth in Canada, and more rapid growth in Japan in norms-based screening AUM, the global total of these assets fell between 2016 and 2018.

¹⁵ NZ Super Fund, 'Exclusions' (website summary), 2019. <https://nzsuperfund.nz/how-we-invest-responsible-investment/exclusions>

¹⁶ Global Sustainable Investment Alliance, *Global Sustainable Investment Review 2018*, 2018. http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

5

POSITIVE/BEST-IN-CLASS SCREENING

Positive screening is the inclusion in a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria such as the goods and services a company produces, or how well a company or country is responding to opportunities such as the rollout of low- and zero-carbon energy assets.

It may also be referred to as **best-in-class screening**, which involves investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.

AT A GLANCE

- Positive screening was nominated as a primary strategy for the first time this year, but only accounted for \$282 million of AUM.

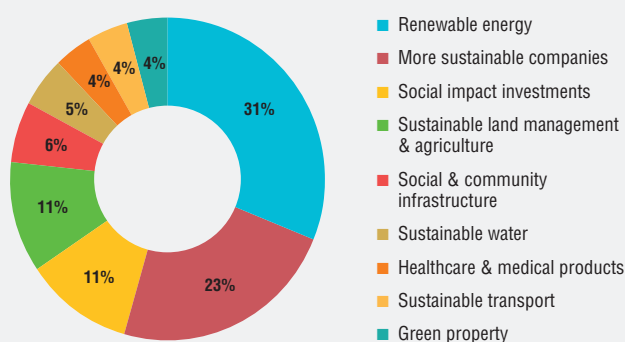
- Renewable energy is the favourite inclusion selected by Australasian consumers using RIAA's Responsible Returns online tool, accounting for 31% of searches.
- 'More sustainable companies' is the second most popular inclusion (23% of searches).

Positive screening was nominated as a primary strategy for the first time this year, but only accounted for \$282 million of AUM. As discussed previously, negative screening is far more prevalent in New Zealand.

Positive screening is closely associated with sustainability-themed investing, so the true take-up of this strategy could be masked by classification ambiguity.

While not a large part of the New Zealand responsible investment market, the positive screens that Australasian consumers using RIAA's Responsible Returns online tool prioritise are renewable energy and more sustainable companies, as seen in Figure 15.

FIGURE 15: Positive screening – Australasian consumer searches using the Responsible Returns online tool (2018)



6

SUSTAINABILITY-THEMED INVESTING

Sustainability-themed investing relates to investment in themes or assets specifically related to improving social or environmental sustainability. 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.

AT A GLANCE

- Sustainability-themed investing is not a significant feature of the New Zealand RI market, with just \$443 million of AUM using this primary strategy.

- Use of the strategy has grown 11% over the previous year, but off a low base.
- Most popular themed investments by AUM in New Zealand are water management (32%), climate change and agriculture (each 31%).

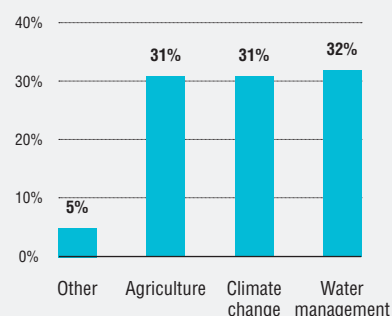
The investment managers employing this strategy are often associated with green property, agricultural assets or sustainability-themed equity funds. Examples of these investment managers in New Zealand are Southern Pastures (agricultural fund) and Pathfinder (Global Water Fund).

Water management, climate change and agriculture are the dominant sustainability themes in New Zealand by AUM as seen in Figure 16.

It is noteworthy that in the case of equities funds, some call themselves 'sustainability

themed', whereas others use the term 'positively screened'. There are similarities in approach, and where possible RIAA has categorised these consistently in this research. Equally, RIAA notes 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, RIAA is also observing a growth in sustainability-themed and positively screened investment products that are targeting positive impacts beyond solely financial returns.

FIGURE 16: Sustainability-themed investments by theme



7 IMPACT INVESTING & COMMUNITY INVESTING

Impact investing pertains to targeted investments aimed at addressing social or environmental issues while also creating positive financial returns for investors. This is closely associated with **community investing** where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose.

AT A GLANCE

- Impact investing and community investing is a growing segment of the New Zealand RI market, with AUM of \$358 million, up more than threefold from 2017.
- Green bond issuance is a primary growth driver, with Auckland Council issuing a \$200 million green bond during 2018, but equally an emerging, albeit smaller, part of the market is impact investments supporting social enterprises and mission-driven businesses.

Impact investing and community investing has increased more than three-fold to \$358 million, showing that investors have a growing appetite for products that deliver measurable social and/or environment impacts alongside financial returns.

This responsible investment strategy shows large diversity, from social impact bonds to green bonds to venture capital funds. Figure 17 shows the basic composition of impact investing and community investing in New Zealand.

Growth by dollar value was driven largely by a domestic green bond issuance of \$200 million, building on the \$125 million green Kauri bond issued by the International Financial Corp in 2017.

There has also been increasing momentum in private markets, with the launch of the Impact Enterprise Fund (a joint venture between Ākina Foundation, New Ground Capital and Impact Ventures), which is investing in mission-driven businesses.

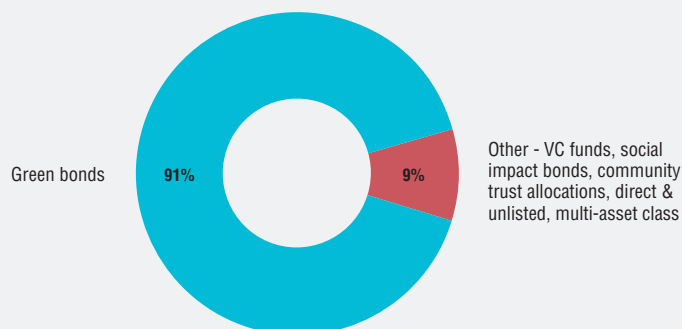
In the past year, there has been a lot of activity in scoping and developing impact investment opportunities, with some of these deals coming to market, and others still being developed. The \$100 million New Zealand Green Investment Fund was announced in December 2018, with the goal of accelerating low emissions investment in New Zealand, and is aiming to be operational in 2019.

Private foundations and angel investors, as well as major banks and investment managers, are now actively seeking and making impact investments and lending with a diversity of approaches across New Zealand, pioneering the early stages of this market development.

The philanthropic sector is emerging as a pivotal driver of activity, with a number of community trusts making commitments of capital to impact investing (although much of that capital is yet to be deployed, and therefore not captured in this survey). An impact investor survey currently being undertaken by RIAA will provide more data around the level of these commitments and where they originate from.

While there are a broad range of investment approaches within impact investment, it should be noted that the impact created by these investments varies markedly. For example, social impact bonds typically create deep impact for a small number of individuals. In other cases, such as with green bonds, the impact may be direct but not necessarily 'additional'. This is because, particularly in the case of refinancing, the green building or renewable energy assets have already received a different form of finance that would still yield the same environmental benefits. In these instances, 'additionality' is not present, as the investment is not delivering additional impacts to what would have taken place in the absence of the investment.

FIGURE 17: Impact investments by type



MEASUREMENT AND PERFORMANCE

For many years, RIAA has tracked the performance of responsible investment funds across Australia to build the evidence base that responsible investment underpins stronger risk-adjusted returns. RIAA has found this to be the case in the Australian market and has attempted similar analysis in the New Zealand market.

This year's research again attempted this analysis for New Zealand, however, RIAA found that its source data sample was too small, with inadequate time series data, and hence was statistically unreliable to produce an effective sample.

The Australian market has a larger pool of relevant funds and longer time series of data and so remains a useful indicator of performance results for our region. Figure 18 shows a comparison of the performance of

the principal categories of Australian-based 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, investment research company Morningstar calculated the mainstream performance indices and fund comparison data.

Key findings are:

- The responsible investment Australian share funds surveyed outperformed mainstream Australian share fund benchmarks for all periods except the three-year term.

- Responsibly invested international share funds outperformed the Morningstar average mainstream international share fund over each time horizon, however, when compared with the MSCI World ex Australia index, the RI funds only outperformed over three years.
- Multi-sector funds that were responsibly managed outperformed mainstream multi-sector growth fund average over the one-, three-, five- and ten-year periods.

RIAA will again attempt to produce this performance analysis for the New Zealand market in next year's research report as the data and sample size grows with more funds and longer history of performance.

FIGURE 18: Performance of responsible investments against mainstream funds – Australian experience

Australian share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 17 and 34 funds sampled depending on time period)	-1.24%	5.70%	6.43%	12.39%
Morningstar: Australia Fund Equity Large Blend	-5.49%	4.87%	4.42%	7.95%
S&P/ASX 300 Total Return	-3.06%	6.65%	5.60%	8.91%

International share funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 7 and 38 funds sampled depending on time period)	-0.03%	11.18%	9.48%	9.50%
Morningstar: Equity World Large Blend	-0.68%	6.37%	8.42%	8.97%
MSCI World Ex Australia NR AUD	1.52%	7.49%	9.81%	9.57%

Multi-sector growth funds	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (7 funds)	-1.13%	4.75%	5.65%	7.66%
Australia Fund Multisector Growth	-2.26%	4.39%	4.92%	7.02%

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

MARKET DRIVERS AND FUTURE TRENDS

In order to gain insight into the factors behind the increased use of responsible investment strategies, RIAA asked investment managers to identify and rank the key drivers of adopting responsible investment strategies and the key factors that have restricted growth.

KEY GROWTH FACTORS

Almost 60% of survey respondents attributed growth in responsible investment to the belief that factoring ESG considerations into investment decisions will have a positive impact on portfolio performance. This alone explains the continued growth in AUM and increasing uptake of RI investment strategies by 'mainstream' investors. ESG performance is also aligned with increasing institutional demand as asset owners continue to recognise that their members expect RI strategies to be applied to their funds and this approach will not harm performance.¹⁷

Figure 19 shows that good stewardship is at the forefront, with alignment to mission and fiduciary duty ranking highly with survey respondents, while retail investor demand also featured prominently. It is 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 survey respondents see demand as a net driver of growth.

With demand being an increasingly important driver of growth in responsible investment, the role of the financial adviser becomes increasingly important, in order to guide consumers to investment options that match their values. RIAA has a growing number of financial adviser members, including those expert in Responsible Investment advice as evidenced by being Certified by RIAA. RIAA continues to build tools to enable advisers to better meet the needs of their clients, including the Responsible Returns online tool, and a Financial Adviser Guide To Responsible Investment.

RETAIL FUND FLOWS

Retail interest continues to grow in New Zealand and is becoming an important driver of growth as indicated by the survey results. This is highlighted by the ten new retail funds that RIAA certified during the course of 2018, bringing the total number of certified New Zealand retail funds to 50. Together, these ten new funds represent \$1.9 billion in AUM and provide further evidence of retail funds flow into responsible investment products. Figure 20 lists these funds.

¹⁷ RIAA & Mindful Money, *Responsible Investment NZ Survey 2018*, 2018 <https://responsibleinvestment.org/wp-content/uploads/2018/09/RIAA-NZ-Consumer-survey-2018-final-report.pdf>

FIGURE 19: Key drivers of market growth by survey respondents

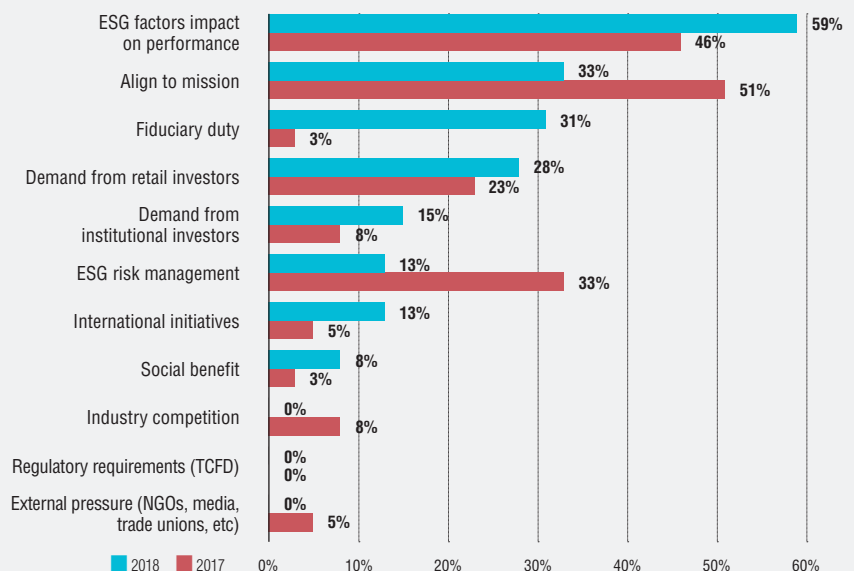


FIGURE 20: Retail products certified by RIAA in 2018

Booster

Booster Fidelity Super-Super Plan, Number 3 – Socially Responsible Balanced Portfolio

Mercer New Zealand

Mercer Kiwisaver Balanced Fund
Mercer Kiwisaver Cash Fund
Mercer Kiwisaver Conservative Fund

Mercer Kiwisaver Growth Fund
Mercer Kiwisaver High Growth Fund
Mercer Kiwisaver Moderate Fund
Mercer Kiwisaver Shares Fund

Pathfinder Asset Management

Global Water Fund
Global Responsibility Fund

GROWTH DETERRENTS

The largest factors deterring additional growth in responsible investment according to survey respondents related to a lack of viable products, a lack of awareness by the public and performance concerns (see Figure 21).

DATA AVAILABILITY & RELIABILITY

Related to investment managers' take-up of responsible investment strategies is the availability and reliability of ESG data. Figure 22 shows the key sources of information on which investment managers rely to make investment decisions. In New Zealand, there is a far greater reliance on third-party sustainability data providers and specialist reports than there is in Australia, with New Zealand-based investment managers looking for external verification more so than relying on investee-company-produced reports and meetings.

With the launch of the New Zealand Sustainable Finance Forum and the PRI now requiring mandatory Task Force on Climate-related Financial Disclosures reporting of its signatories, RIAA expects the availability and reliability of ESG data to improve and some of the barriers to the further take-up of responsible investing to recede.

FIGURE 21: Key deterrents to RI market growth by survey respondents

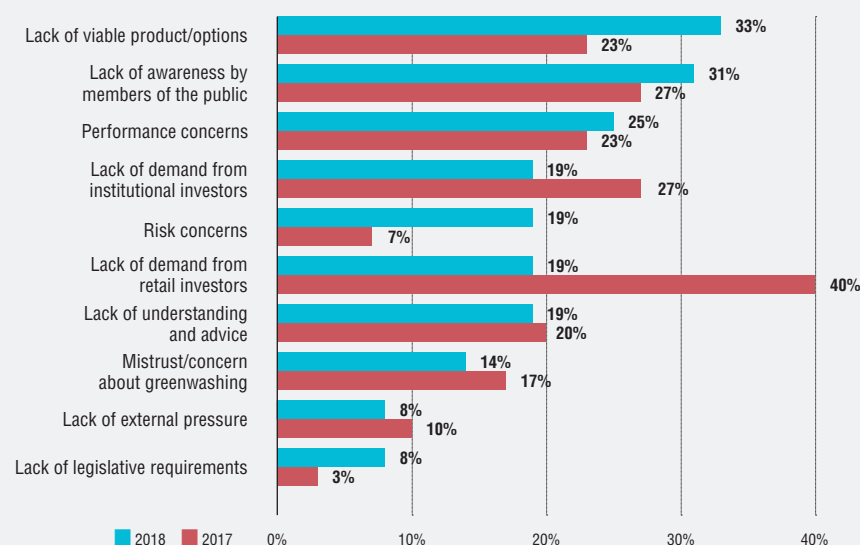
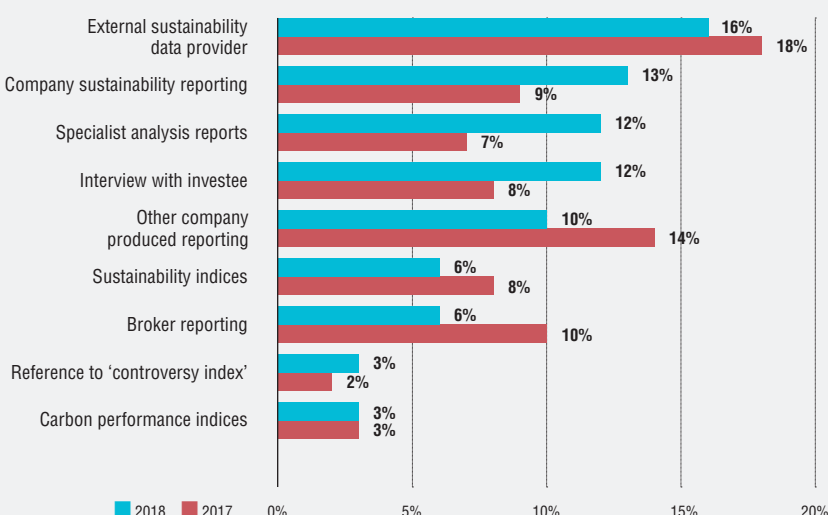


FIGURE 22: Key sources of information used to make ESG-related investment decisions



APPENDICES

APPENDIX 1A: ABBREVIATIONS

AUM	Assets under management
ESG	Environmental, social and governance
GSIA	Global Sustainable Investment Alliance
PRI	UN-backed Principles for Responsible Investment
RI	Responsible investment
RIAA	Responsible Investment Association Australasia
SRI	Socially responsible investing
TAUM	Total assets under management
UN	United Nations

APPENDIX 1B: DEFINITIONS

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of ESG factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable and well governed social, environmental and

economic systems. Responsible investment can be differentiated from conventional approaches to investment in two ways. The first is that timeframes are important; the goal is the creation of sustainable, long-term investment returns not just short-term returns. The second is that responsible investment requires that investors pay attention to the wider contextual factors, including the stability and health of economic and environmental systems and the evolving values and expectations of the societies of which they are part.¹⁸

Broad responsible investment applies ESG integration and corporate engagement and shareholder action as the key responsible investment strategies.

Core responsible investment 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.

APPENDIX 1C: PRESENTATION OF DATA AS CORE & BROAD FOR CONSISTENCY

Historically, RIAA has classified responsible investment AUM as either 'Core' or 'Broad' to distinguish between those funds that are undertaking a screening, sustainability-themed or impact investment approach (Core) and those that are committed to investing under a strategy that integrates ESG factors (Broad). As responsible investing is becoming more mainstream, RIAA is moving away from these classifications and instead focusing on best practice across the spectrum of RI strategies. For continuity purposes, Figure 23 shows the split between Core and Broad responsible investment in 2018 and 2017.

APPENDIX 2: METHODOLOGY

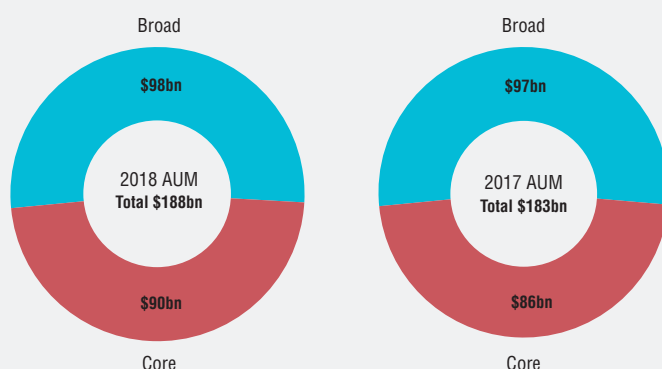
REPORTING BOUNDARY

This report covers the 2018 calendar year and, where possible, data disclosed has been recorded as of 31 December 2018. Data from some investment 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 New Zealand Dollars.

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 New Zealand market. This impacts on the accuracy/usefulness of reporting survey results proportional to the market size.

This year, the Reserve Bank of New Zealand's funds under management data has been used to approximate the size of the professionally managed investment

FIGURE 23: Core & Broad responsible investment in 2018 vs 2017



¹⁸ UNEP FI & PRI, *Fiduciary duty in the 21st Century*, 2015. <https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century/244.article>

market in New Zealand. This data specifically excluded funds from the New Zealand Superannuation Fund (NZSF) and the Accident Compensation Corporation (ACC). Consequently, in order to estimate TAUM, the AUM of both NZ Super and ACC (less mandates to New Zealand investment managers already included in the analysis) were added to the Reserve Bank AUM figures.

This report is intended to inform readers of the range of responsible investment products that are available in New Zealand. As such, it includes assets managed within the New Zealand region, as well as assets managed outside the region where these are on behalf of New Zealand clients.

This research is primarily targeted at investment managers, rather than asset owners, with a focus on capturing the underlying managers of the capital being deployed responsibly in this market. Asset owners assisted RIAA in the data-collection process by pushing the survey to their investment managers. Data was captured from asset owners to the extent that they directly managed investments in-house.

DATA COLLECTION

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

- directly supplied by investment managers and asset owners;
- Morningstar provided a secondary source of AUM data for some of the funds listed;
- RIAA and MarketMeter's databases; 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.

RIAA targeted a total of 67 investment managers as respondents to the surveys; 21 provided information directly, with RIAA undertaking supplementary desktop analysis - including assessing 25 self-declared responsible investors for their integration of ESG - to provide a comprehensive picture of the responsible market in New Zealand. 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 & REPORTING

The RIAA online surveys aimed to capture data from funds where the investment decision is made internally/directly at the asset level and where the funds are managed on behalf of New Zealand beneficial owners.

As many investment managers apply several investment strategies, the data collection survey required respondents to identify a single primary responsible investment strategy. The survey also requested that respondents 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. RIAA used this approach to create an accurate depiction of the responsible investment environment in New Zealand.

Where investment managers applied multiple responsible investment approaches (for example, a fund may apply ESG integration as well as strategies such as negative or positive screening), RIAA categorised the fund according to the primary responsible investment strategy being pursued. The primary strategy is identified by the organisation in their survey response. However, 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.

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 New Zealand 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 New Zealand 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 New Zealand.

APPENDIX 3: ESG SCORECARD

For the fifth year in a row, RIAA undertook a desktop review of investment managers that 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 is based on global definitions and existing assessment frameworks for ESG integration practices and was used in last year's report. It acknowledges that although it is difficult to prescribe a single best-practice process for the integration of ESG factors into investment decision-making, several leading practices and constituent parts of leading practice can be identified.

RIAA's framework assesses and scores:

- 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 are weighted to ensure balance between evidence of systematic investment processes versus policies and public commitments.

Using this framework, RIAA assessed New Zealand investment managers on their publicly available information including websites, PRI responsible investment transparency reports and all other available material. All investment managers were scored using these criteria. This year, investment managers were given the opportunity to score themselves via completion of an online survey. These results were then cross-referenced against the ESG score awarded and harmonised if required.

See below table for detailed scoring methodology.

Only those investment managers that scored more than 80% are included in this report. RIAA took this approach so that only those demonstrating leading practice would be included in determining the size of the New Zealand responsible investment market. This methodology was fairly applied to investment managers across all asset classes and sizes.

Core pillars and weighting	Question description	Scoring methodology
1. Commitment to RI Available score: 1 Weight: 7%	Does the organisation have a publicly stated commitment to RI (such as a description as to what it means to the organisation) on their website? Website or other	1 = yes, statement on website 0 = no, not evident (Just stating you are a member to PRI is not sufficient)
2. RI policy Available score: 2 Weight: 14%	Does the organisation have an RI policy? Is the RI policy disclosed publicly? Website, PRI Transparency Report, or other	2 = yes & publicly disclosed 1 = yes, not public 0 = no, not evident
3. Commitment to transparency Available score: 2 Weight: 14%	Does the organisation report its approach to RI and ESG integration process clearly on its website? (e.g. disclose PRI Transparency Report on website or other) Website, PRI Transparency Report	1 = Discloses process and approach on website 2 = Discloses in greater detail, such as including link to PRI Report
4. Systematic process for ESG Available score: 3 Weight: 21%	Is evidence of systematic process of integrating ESG into traditional financial analysis described? (NB: use of case studies can inform this question.) PRI Transparency Report	3 = rated on self-declared level of systematic integration based on multiple measures in PRI report, where 3 = thorough process, and 1 = process evident but little description of integration
5. Evidence of activity in other areas of active ownership & stewardship Available score: 3 Weight: 21%	How does the organisation demonstrate stewardship & active ownership, such as proxy voting, corporate engagements, or other? Website, PRI Report, scan of website membership lists (e.g. RIAA, IGCC, ACSI, ESG RA)	1 = for voting (should be easily accessible on website) 1 = for engagement 1 = if systematic processes and reporting on voting and engagement
6. Member of collaborative initiative Available score: 2 Weight: 14%	Is the organisation a member of a collaborative initiative, e.g. PRI, local SIF, Investor Groups, other groups? Website, PRI Report, scan of website membership lists (e.g. RIAA, IGCC, ACSI, ESG RA)	1 = member of one group 2 = member of more than one group
7. Coverage of total AUM by RI or ESG processes Available score: 1 Weight: 7%	What proportion of all AUM is being managed with some form of ESG integration or other RI strategy? (NB: aim for this is to be clear what is and isn't managed under RI.)	1 = 100% 0.5 = 50% 0.1 = 10%

APPENDIX 4: SURVEY RESPONDENTS

Accident Compensation Corporation	MAS	The New Zealand Anglican Church Pension Board
AMP Capital Investors	Mint Asset Management	Trust Investments Management
ANZ New Zealand Investments	New Zealand Superannuation Fund	Trust Waikato
BayTrust	Pathfinder Asset Management	Tindall Foundation
Booster Financial Services	Pie Funds Management	WEL Energy Trust
Devon Funds Management	QuayStreet Asset Management	
Harbour Asset Management	Simplicity NZ Limited	
Kiwi Wealth	Soul Capital	

APPENDIX 5: OTHER ORGANISATIONS USED IN DATA (DESKTOP RESEARCH)

Aon	Generate Investment Management	Pencarrow Private Equity Management
ASB Group Investments	Government Superannuation Fund Authority	Pioneer Capital Partners
Auckland Council	HRL Morrison	Rata Foundation
Bank of New Zealand	Impact Enterprise Fund	Salt Funds Management
BT Funds management (NZ) Limited	International Finance Corporation	Southern Pastures
Dairy Farms NZ Limited	Mercer New Zealand	Stride Property
Direct Capital	Milford Asset Management	Westpac New Zealand
Farm Venture	New Zealand Green Investment Finance	
Fisher Funds Management	Otago Community Trust	

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 20 December 2018. 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. The sources of the information provided are indicated in this report. KPMG has not sought to independently verify those sources.

Neither KPMG nor the 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 report is intended to provide an overview of the current state of the responsible investment industry, as defined by the 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. 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.

KPMG's liability is limited by a scheme approved under Professional Standards Legislation.

