Responsible Investment Association Australasia

Responsible Investment Benchmark Report
Australia 2021

INDUSTRY PARTNERS

AXA Investment Managers | BT | Australian Ethical

RESEARCH PARTNER

KPMG

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.

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Contents

Thank you

INDUSTRY PARTNERS

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:

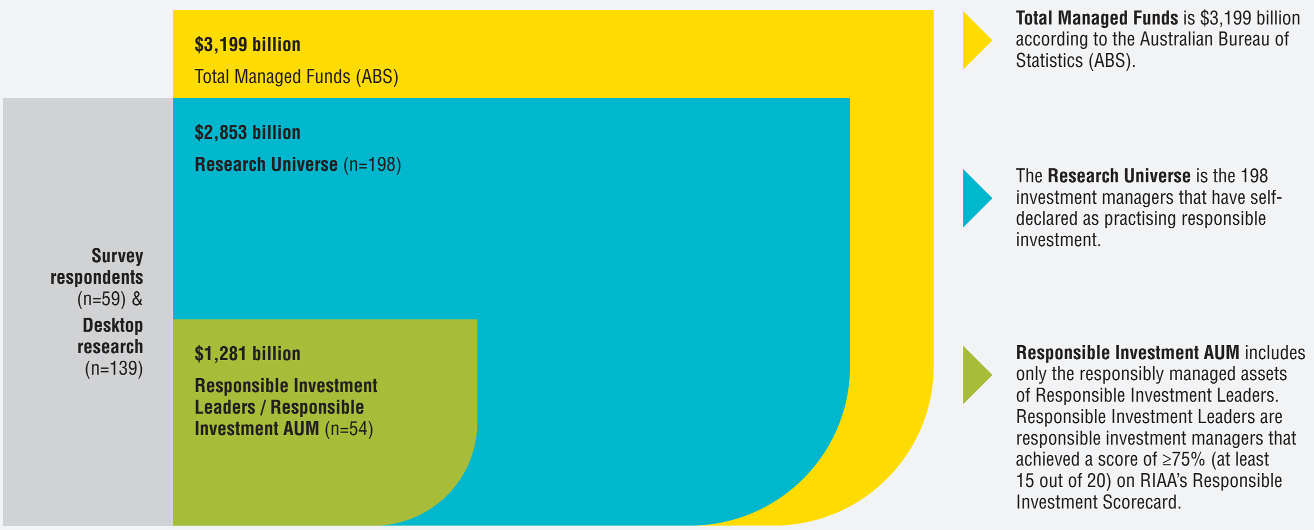
- the full investment management market comprised of all investment managers with operations in Australia;
- **Total Managed Funds** (as defined by the Australian Bureau of Statistics); and
- **Responsible Investment AUM** (representing the assets under management covered by at least one responsible 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 US$29 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.

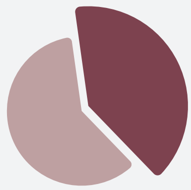
2020 saw some pleasing results in responsible investing across the board, with investment manager stewardship transparency increasing and delivering more value: The proportion of investment managers that report on both activities and outcomes from corporate engagement and shareholder action increased 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

Responsible Investment Leader **2021**

27%

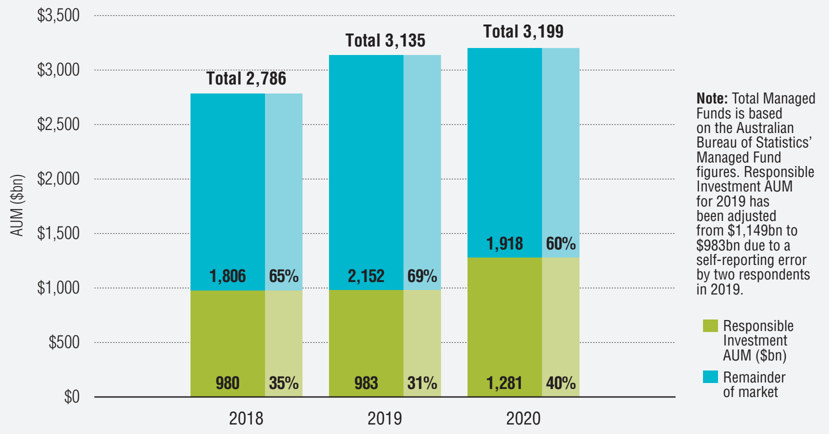
of Australian investment managers are Responsible Investment Leaders

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.

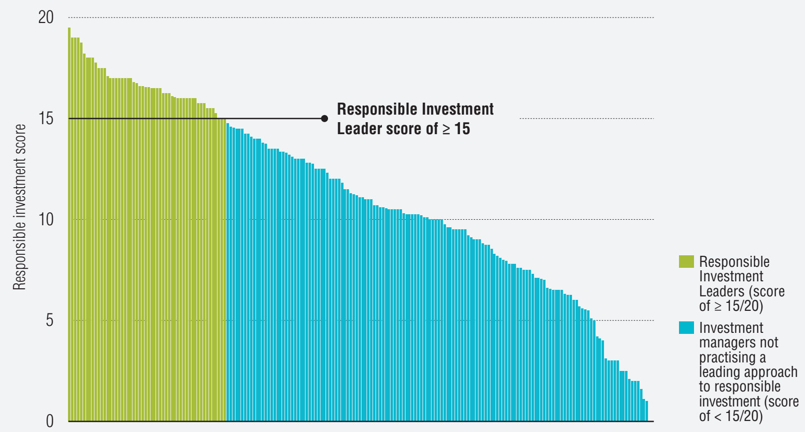
FIGURE 2 Responsible Investment AUM compared to remainder of market in Australia 2018–2020 ($ billions)



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.

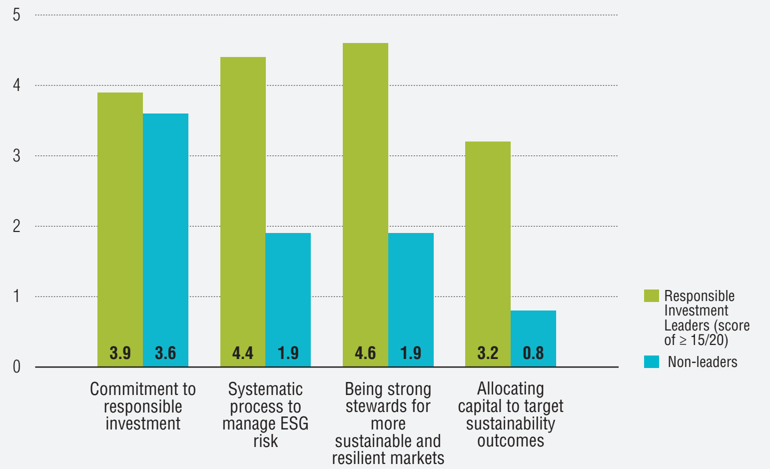
Responsible Investment Leaders demonstrate strong collaborative stewardship and consider ESG factors explicitly and systematically in the valuation of assets, construction of portfolios and allocation of capital. They are decidedly transparent, reporting publicly not just on their activities to improve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

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



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.

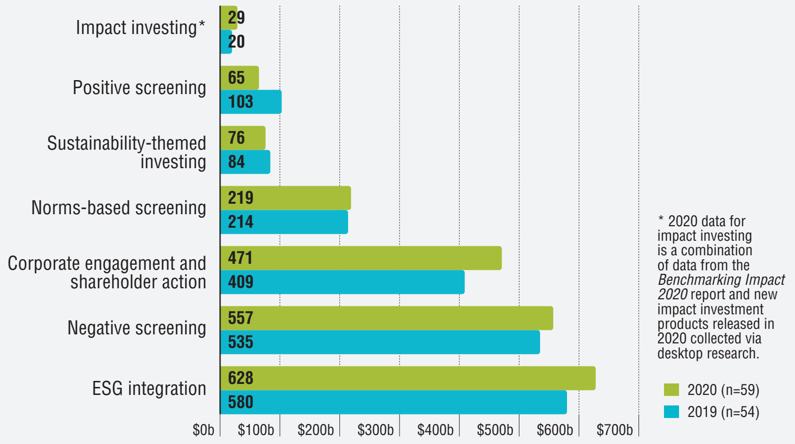
FIGURE 4 Average scores of Responsible Investment Leaders and non-leaders on RIAA's Responsible Investment Scorecard



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.

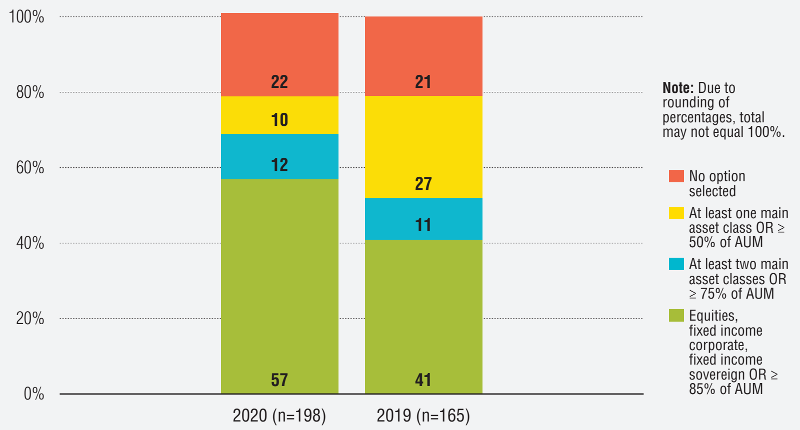
FIGURE 5 Total AUM covered by responsible investment approaches of survey respondents



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.

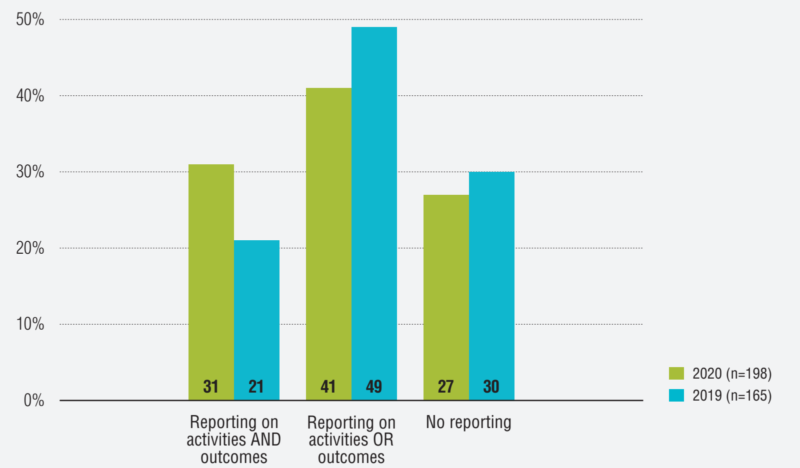
FIGURE 6 Change in the proportion of AUM covered by an explicit and systematic approach to ESG integration among investment managers in the Research Universe



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.

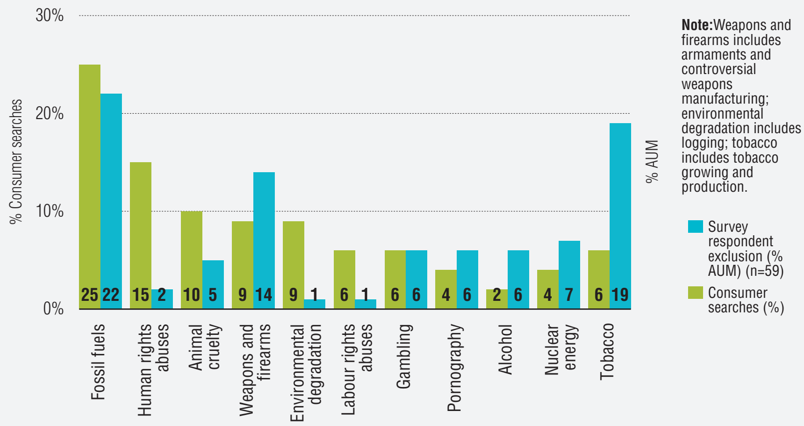
The improving accountability of investment managers through this kind of reporting should go some way to addressing increasing concerns about greenwashing in the industry.

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.

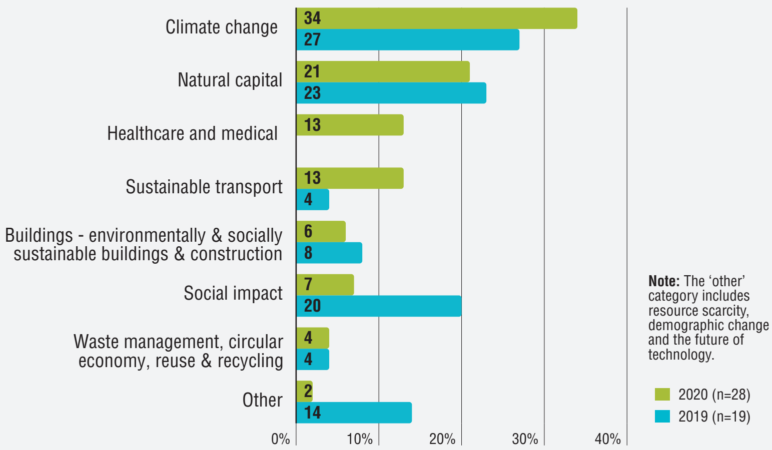
FIGURE 8 Exclusion categories of survey respondents (% AUM) compared to consumer searches for exclusions on RIAA's Responsible Returns online tool



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™

Introduction

ABOUT RESPONSIBLE INVESTMENT

Responsible investing, also known as ethical or sustainable investing, is a holistic approach to investing, where social, environmental, corporate governance (ESG) and ethical issues are considered alongside financial performance when making an investment.

Responsible investment considers a broad range of risks and value drivers as part of the investment decision-making process in addition to reported financial risk. This includes considering ESG factors throughout the process of researching, analysing, selecting and monitoring investments, acknowledging that these factors can be critical in understanding the full value of an investment.

Responsible investing requires funds to execute stewardship duties and to improve the performance of companies thereby contributing to the stability and sustainability of the financial system more broadly.

Increasingly, it is expected that responsible investing avoids activities and behaviours that systematically cause harm to the environment, society and the economy. With the advent of local industry initiatives (see the Australian Sustainable Finance Roadmap[2]), as well as international regulatory developments (for example, the European Union's Sustainable Finance Disclosure Regulation – SFDR), it is also expected that responsible investment, indeed all investments, pivot to promote and target sustainability outcomes aligned with delivering on the Sustainable Development Goals and the Paris Agreement.

INTERNATIONAL RESPONSIBLE INVESTMENT CONTEXT

Globally, financial institutions and their regulators continue to focus on climate as a specific risk to the functioning of global financial, monetary and economic systems. The Task Force on Climate-related Financial Disclosures (TCFD) was formed to embed climate risk in valuations, risk assessments and financial transactions. New Zealand is set to become the first jurisdiction to mandate TCFD reporting (commencing 2022 with first disclosures due 2023) and many Australian businesses including banks and investment managers will be required to report under the regime. From 2020, reporting in line with the TCFD recommendations is mandatory for all Principles for Responsible Investment (PRI) signatories.

The outcome of the United States presidential election in November 2020 created further impetus towards a truly global effort to decarbonise the global economy by 2050.

According to the latest *Global Risks Report*[3] by the World Economic Forum (WEF), the immediate impact of COVID-19 has resulted in job losses, created a widening digital divide, disrupted social interactions and created abrupt shifts in markets. These impacts indicate the need for finance to consider exogenous shocks going forward. The world's largest economies, including the European Union, China and the US, have committed to a focus on green growth in their post-COVID-19 economic recovery plans.

Outside of the pandemic, the WEF lists top global risks by likelihood as environmental (extreme weather, climate action failure and human-led environmental damage and biodiversity loss); societal (infectious disease); and technological (digital power concentration and digital inequality).

During 2020, nature-related risks were also highlighted in financial markets. More than half of the world's output, US$4 trillion in output, is highly or moderately dependent on nature, according to the UN Environment Programme Finance Initiative.[4] The Taskforce on Nature-related Financial Disclosures (TNFD) was established by a coalition of partners, with the aim to deliver a framework for action by corporates and investors to support nature-based solutions by the end of 2022. In July 2021, RIAA launched a dedicated working group to support its members to understand and seize opportunities of nature-related liability and risks in a finance and sustainable investing context.

In June 2020, the EU's Technical Expert Group on Sustainable Finance created a legal basis for a taxonomy of sustainable finance delegated acts and established a list of environmentally sustainable economic activities, which investors can use to make informed investment decisions and avoid 'greenwashing'.[5] Legislation related to the EU Taxonomy will impact all financial institutions issuing products in the EU or accessing funds from the EU.

New Zealand's Sustainable Finance Forum's Roadmap for Action sets out to deliver an internationally consistent and locally relevant taxonomy to assist the investment sector and drive down the cost of delivering sustainable investments. As part of the International Platform on Sustainable Finance,[6] New Zealand contributed to the 'Common Ground Taxonomy', highlighting commonalities between existing taxonomies that are emerging globally.

2020 was also a significant year for investment managers who were forced to more systematically understand and manage human rights in their investment decision-making processes and value chains. Black Lives Matter, cultural heritage protection, gender-based violence and equality agendas as well as the structural questions about workers' rights stemmed from the aftermath of the pandemic that highlighted the most valuable workers in communities.

But not all activities have been positive. 2020 also bore witness to the rise of greenwashing and investment managers face legal risks if the claims they make about ESG and/or responsible investment (both with their products and practices) are not accurate.

In Europe, the SFDR, the Non-Financial Reporting Directive and the EU Taxonomy now require greater ESG disclosure and alignment. In the US, the Securities and Exchange Commission is increasing oversight over ESG claims and others are leaning on voluntary standards to set the compass for appropriate behaviours for ESG feature disclosures (e.g. CFA Institute's draft ESG Disclosure Standard for Investment Products).

The *Global Sustainable Investment Review 2020* shows that global sustainable investments have reached US$35.3 trillion in assets under management, now equating to 36% of all professionally managed assets.

AUSTRALIAN RESPONSIBLE INVESTMENT CONTEXT

In November 2020, the Australian Sustainable Finance Initiative (ASFI), which brought together Australia's major banks, superannuation funds, insurance companies, financial sector peak bodies and academia, released the Australian Sustainable Finance Roadmap. The Roadmap aims to align Australia's financial system with a sustainable, resilient and prosperous future for all Australians,[7] and was followed in May 2021 by a Momentum Tracker report. The Roadmap includes 37 recommendations, including the development of Australia's own sustainable finance taxonomy and support to establish a First Nations Economic Empowerment Office.

2020 and 2021 have been significant years for Australian investors with respect to social and cultural issues. Developments have included:

- the *Modern Slavery Act 2018* – a reporting requirement for entities (including investors) with an operating revenue threshold of above AUD$100 million – leading to the first tranche of modern slavery reports;
- a focus on cultural heritage protection and the inadequacies of state, territory and Commonwealth laws to uphold free, prior and informed consent as shown by the destruction of Juukan Gorge and Rio Tinto's inadequate response; and
- a concerted, coordinated campaign to have Endeavour (Woolworths) withdraw plans for building a Dan Murphy's alcohol store near three dry Aboriginal communities in the Northern Territory.

The landscape on investor climate action has been vibrant throughout 2020 and 2021. Several significant industry and legal developments have signalled that stronger action is consistent with consumer expectations and trustees' fiduciary duties:

- The Australian Prudential Regulation Authority highlighted the financial nature of climate change risks and strengthened its monitoring of climate change risk disclosures.
  - It released the Draft Prudential Practice Guide CPG 229 Climate Change Financial Risks in April 2021.[9]
  - It announced plans[10] to assess Australia's largest authorised deposit-taking institutions (ADIs) in 2021.
  - It signalled intentions to update the Prudential Practice Guide SPG 530 to assist superannuation entities to formulate and implement investment strategies inclusive of environment, social and governance factors.
- The Australian Securities and Investments Commissions (ASIC) progressed requirements for directors to consider climate change risk.
- The *McVeigh v REST* case, which was settled out of court, provided Australian investors with the minimum standards in terms of climate action and disclosures for a super fund.
- The Hutley Opinion on fiduciary duty and climate change risk reaffirmed that trustees have a responsibility to manage financially material risks such as climate change in delivering 'best interest' outcomes to beneficiaries.
- There was a surge in the number of asset owners and investment managers publicly making net zero commitments.
- Investor-supported company initiatives to better manage climate risk included, for example, ANZ not renewing its debt arrangements with Newcastle Port – the world's largest coal port.

There was also a focus on leadership and culture in Australia's investment marketplace and in the media:

- There was major public scrutiny of the AMP Board with respect to not adequately addressing shareholder concerns about a company culture of sexual harassment.
- ASIC reviewed the prevalence of greenwashing in the marketplace as many managers seek to ride the wave of popularity of movements such as impact investing and so-called 'rainbow washing' with the SDGs.
- The Australian Government's 'Your Future, Your Super' measures were set to 'clarify' the definition of best interest duty in the context of super funds and company boards (best financial interests).
- There was more sophisticated engagement. Investors pushed harder with companies, challenging membership of industry associations running counter to society trends and even publicly lobbying governments to improve cultural heritage protection laws.

FIGURE 11 ASFI Roadmap and suggested timeframe for implementation of the recommendations[8]

	2022	2025	2030
1. Embedding sustainability into leadership	1. Accountability for sustainability led from top 3. Support employee codes 5. Establish permanent ASFI 6. Establish a First Peoples Financial Services Office 7. Work to codify free, prior and informed consent	1. Manage and measure impact on others 2. Build skills and capabilities 3. Build inclusive cultures 4. Align remuneration structures with sustainable long-term value creation and consider embedding sustainability targets 5. Establish special projects and forums to provide guidance on Roadmap implementation 8. Establish International partnerships to support Roadmap implementation	
2. Integrating sustainability into practice	10. Join International Platform on Sustainable Finance 12 & 13. Develop TCFD reporting guidance 14. Play leadership role in development of TNFD 16. Create stress-testing framework and develop guidance 19. Embed sustainability into regulatory guidance and standards 20. Embed sustainability into outsourcing and procurement	9. Establish Taxonomy project 11. Financial institutions report according to TCFD on 'if not, why not' basis 12. ASX 300 report according to TCFD on 'if not, why not' basis 14. Fund research and develop TNFD guidance 15. Mandate sustainability reporting and align with international developments 16. Undertake scenario analysis and stress testing for climate risk 17. Expand vulnerability assessments 18. Value environmental and social externalities 19. Embed sustainability information into products and services 20. Develop stewardship codes	16. Expand scenario analysis and stress tests to include other sustainability risks 18. Facilitate compilation of national- and state-level data sets
3. Enabling resilience for all Australians	24. Establish FIAPs, review current practices and design of products and services 26. Build financial capability 28. Enable financial decisions based on values and sustainability preferences 29. Develop product design principles	22. Support establishment of community finance 23. Develop income and revenue contingent loans 25. Measure and report on: financial distress for households; financial outcomes for Aboriginal and Torres Strait Islander peoples 27. Develop labelling standards 30. Develop Australian-focused well-being framework	
4. Building sustainable finance markets	31. Establish targets and trajectories to support net-zero-aligned decisions 34. Promote climate risk mitigation efforts and ensure buildings are disaster resilient 35. Support development of sustainability impact and resilience markets 37. Finance development and regeneration of real assets (infrastructure and property)	32. Support development of a sustainable capital market 33. Report on functioning of sustainable finance markets 36. Support the formation of Social Impact Investment wholesaler	

*The numbers within the table refer to the Roadmap recommendation number

Key for timeframes
Short-term 2021–2022
Medium-term 2023–2025
Long-term 2026–2030

Source: Australian Sustainable Finance Initiative

Responsible Investment Leaders

WHO ARE RESPONSIBLE INVESTMENT LEADERS?

The 54 Responsible Investment Leaders in 2020 are listed under Figure 12. Most of the Leaders (40) are Australian investment managers. The rest (14) self-classify as international investment managers with a significant presence in Australia. Investment management firms with headquarters outside of Australia comprise six of the top ten Leaders.

AT A GLANCE:

- Responsible Investment Leaders are investment managers that achieved a score of 15 out of 20 or above on RIAA's Responsible Investment Scorecard.
- In 2020, 27% (54 out of 198) of investment managers are Leaders (see Figure 12).

riaa Responsible Investment Association Australasia

Responsible Investment Leader 2021

RIAA's Scorecard consists of 15 questions, covering four key areas, or pillars:

Pillar 1: Coverage of and **commitment to responsible investing** and transparency;

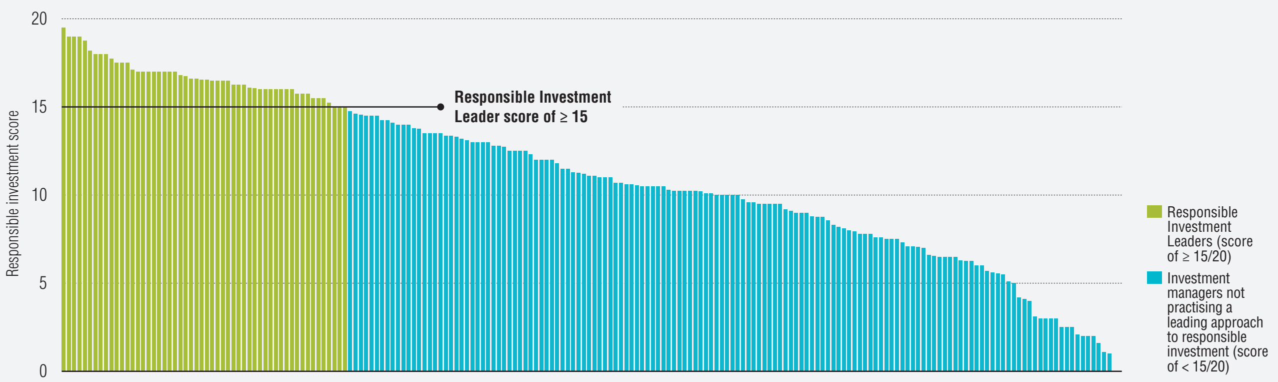
Pillar 2: Enhancing **risk management through explicit and systematic consideration of ESG factors** and other screens, including reporting of these;

Pillar 3: Being strong stewards for more sustainable and resilient assets and markets; and

Pillar 4: Allocating capital to benefit stakeholders and contribute to solutions as well as measurement and **reporting of outcomes.**

Each pillar is weighted equally (i.e. maximum score is 5 points for each), giving a total maximum score of 20. In 2020, none of the Responsible Investment Leaders reached the maximum score. The highest score was 19 out of 20. RIAA's full Responsible Investment Scorecard is in Appendix 4.

FIGURE 12 Responsible Investment Scorecard results of investment managers in the Research Universe



Aberdeen Standard Investments Australia Limited
Acadian Asset Management
Affirmative Investment Management
Alliance Bernstein
Alphinity Investment Management
AMP Capital Investors Limited
Amundi Asset Management
Ausbil Investment Management
Australian Communities Foundation
Australian Ethical
AustralianSuper
Aviva Investors
Aware Super
AXA Investment Managers (Asia) Singapore Ltd
BNP Paribas Asset Management Australia
Christian Super
Clean Energy Finance Corporation
Dimensional Fund Advisors
Dexus
Ethical Investment Advisers
FIL Investment Management Australia Limited (Fidelity International)
First Sentier Investors
Franklin Templeton
Future Super
Generation Investment Management
IFM Investors
Janus Henderson Investors
Lazard Asset Management LLC
Local Government Super (Active Super)
Magellan Asset Management
Maple-Brown Abbott
Martin Currie
Melior Investment Management
MFS Investment Management*
Mercer
Morphic Asset Management
Nanuk Asset Management Pty Ltd
Mirova
New Forests
Northern Trust Asset Management
Nuveen, a TIAA Company
OneVentures Pty Ltd
Pendal Group Ltd
Perennial Value Management
PIMCO Australia Pty Ltd
Queensland Investment Corporation
Rest
Robeco (Australia)
Russell Investments
Stewart Investors
Teachers Mutual Bank Limited
UBS Asset Management
U Ethical
UniSuper
Uniting Financial Services

*Investment manager for whom data was not received during survey period; investment manager AUM not included in the total responsible investment AUM of $1,281 billion. The addition of this investment manager takes the total Leaders in 2020 to 55.

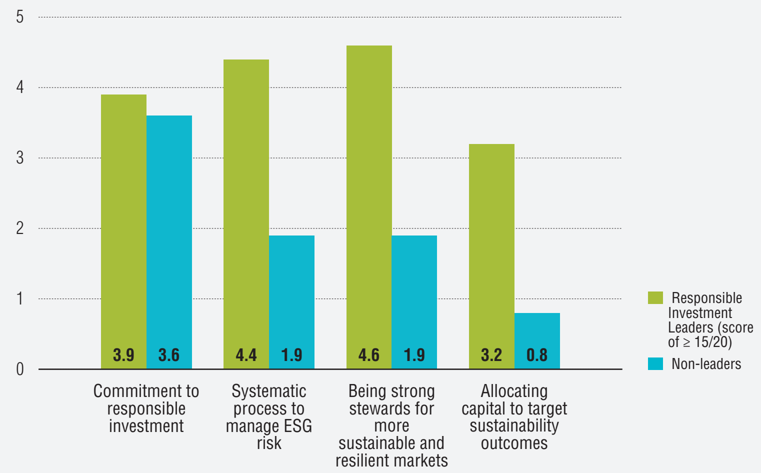
The average scores of Responsible Investment Leaders and non-leaders attained for each pillar (see Figure 13) provides some interesting insights and opportunities for comparison. Looking at pillar by pillar average scores reveals that the two groups scored similarly on Pillar 1, where the average score of non-leaders (72%) was close to the cut-off (of 75%) that signals leading practice. This indicates that investment managers in Australia typically demonstrate a strong commitment to responsible investment, which is evidenced through the publication of organisational responsible investment policies, coverage of policies of a substantial proportion of total AUM, and the public disclosure of responsible investment commitments.

One aspect of commitment where both Leaders and non-leaders falter is full holdings disclosure. The leaders' average score was just 69% on this indicator because the standard practice currently is only to disclose holdings partially. Disclosure of holdings is important as it allows stakeholders to identify which companies, funds and assets their investments are supporting.

The widest gap between Leaders and non-leaders is in the areas of stewardship (Pillar 3) and ESG integration and risk management (Pillar 2). Stewardship is the pillar that Leaders excel at. Leaders are better at disclosing their stewardship and active ownership activities (i.e. voting and proxy voting) than non-leaders. They also tend to excel at reporting on engagement with companies, including the nature of activities and outcomes, which are rewarded with higher scores. Finally, Leaders are particularly good at demonstrating explicit and systematic inclusion of ESG factors in investment analysis and investment decisions and disclosing revenue and activity thresholds applied to screens.

The area where both Leaders and non-leaders perform the weakest is allocation of capital to responsible investment (Pillar 4). This pillar measures whether investment managers apply a systematic and transparent process of benefiting stakeholders, as well as intentionality. For example, do investment managers use sustainability and impact themes; do they apply specific thresholds for investments or non-financial targets such as portfolio carbon intensity; does their investment criteria include intentionality such as an impact thesis or impact targets; and do they measure, monitor and report on sustainability and impact outcomes? The average score of Leaders was just 3.2 out of 5 (63%), while the average score of non-leaders was 0.8 out of 5 (15%). Clearly, allocation of capital towards sustainability targeted assets and practices remains a challenge for investors in Australia and may be regarded as the next task that a maturing responsible investment industry will need to tackle.

FIGURE 13 Average scores of Responsible Investment Leaders and non-leaders on RIAA's Scorecard



Practices that demonstrate commitment to responsible investment

RESPONSIBLE INVESTMENT POLICY

Investment managers continue to improve disclosure practices. In 2020, the proportion of investment managers in the Research Universe that publicly disclose their responsible investing policies increased to 76%. A further 16% had a responsible investment policy but did not disclose it publicly – leaving 8% of investment managers without a responsible investment policy (Figure 14).

A responsible investment policy is a crucial step in engaging in responsible investment at the organisational level. Such a policy articulates:

- how extra-financial factors are managed in the valuation of assets and allocation of capital;
- how fiduciary duty is exercised through stewardship of capital (including voting over all relevant holdings and disclosing these publicly);
- the role of the organisation in working with other members of the investment community in delivering a more stable financial and economic system; and
- how the organisation avoids harm, benefits stakeholders and contributes to solutions through its engagement with investee management and allocation of capital towards sustainable assets and enterprises.

A policy will also include a range of commitments for better accountability and transparency such as through disclosures related to underlying holdings, outcomes from corporate engagement and shareholder activism activities, and real-economy outcomes resulting from sustainability-themed and impact investing activities.

HOLDINGS TRANSPARENCY

RIAA considers transparency to be a cornerstone of accountability and essential for an efficient and effective market-based system. Information related to product holdings helps institutional and retail investors make better informed investment decisions.

Investment managers in the Research Universe can demonstrate a commitment to transparency by disclosing their fund holdings publicly. The level of holdings disclosure did not change materially from 2019 to 2020. Thirty-six percent of investment managers disclose their full fund holdings in 2020, the same as 2019, and 27% disclose some holdings, slightly lower than the previous year. Of concern is the high proportion (37%) of investment managers that do not disclose holdings publicly at all, although some investment managers in this category may disclose holdings directly to their clients rather than the wider public (Figure 15).

FIGURE 14 Responsible investment policy and its disclosure

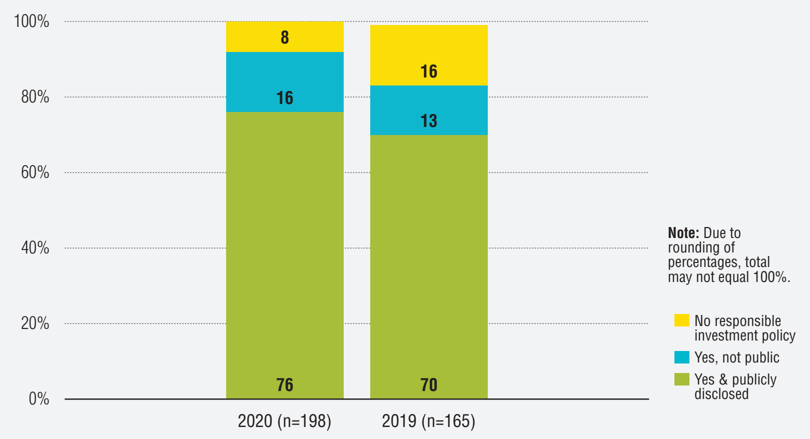


FIGURE 15 Level of disclosure of investment managers' holdings in the Research Universe

Responsible investment market share and performance

MARKET SHARE

The share of responsible investment in the Australian market continues to grow and reached a record $1,281 billion AUM in 2020. Responsible Investment AUM in Australia (which represents the AUM of Responsible Investment Leaders covered by at least one responsible investment approach) increased by $298 billion (30%) since 2019. AUM using leading responsible investment approaches grew at 15 times the rate of the entire investment market, which grew by 2%. The AUM managed by the remainder of the market decreased by $234 billion to $1,918 billion (Figure 16).

The number of investment managers that claim to be engaged in responsible investment has also increased in 2020 to 198, from 165 in 2019, despite the proportion staying constant, at one-quarter. The 198 responsible investment managers that include the Responsible Investment Leaders, collectively have $2,853 billion of AUM or 89% of the $3,199 billion Total Managed Funds in Australia (Figure 17).

While the number of Responsible Investment Leaders increased by 23% from 44 in 2019 to 54 in 2020, the proportion of Responsible Investment Leaders to non-leaders stayed the same and the Responsible Investment AUM increased as a portion of the Australian investment market from 31% in 2019 to 40% in 2020.

COVERAGE OF ASSETS UNDER MANAGEMENT (AUM) BY RESPONSIBLE INVESTMENT APPROACHES

Responsible investment approaches are now applied to the total AUM of 74% (146 of the 198) of responsible investment managers in the Research Universe (Figure 18). Sixteen percent apply at least one type of responsible investment approach to the majority (50-99%) of their AUM. This means that 89% (177 of 198) of investment managers in the Research Universe apply at least one responsible investment approach to 50% or more of their entire AUM.

FIGURE 16 Responsible Investment AUM compared to remainder of market in Australia 2018–2020 ($ billions)

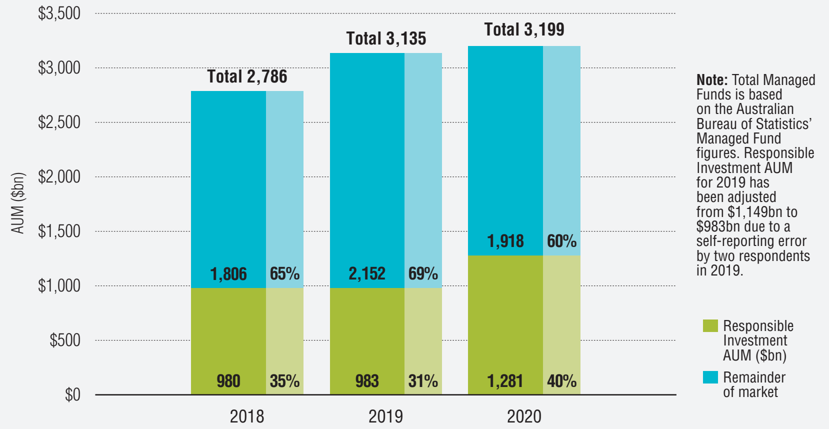


FIGURE 17 Proportion of Total Managed Funds managed with one or more responsible investment approach

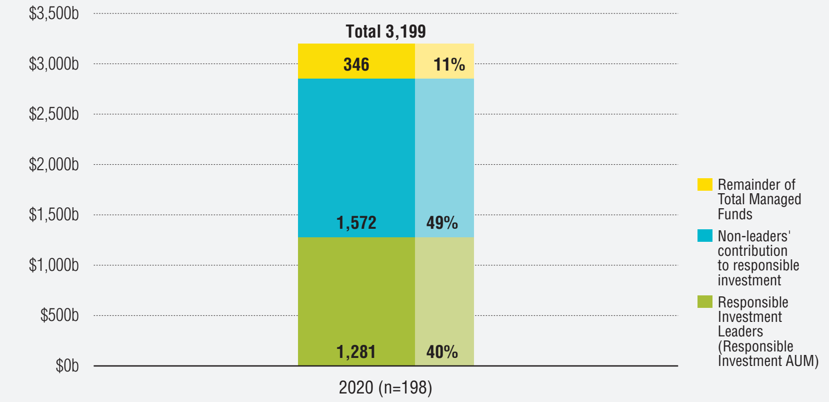
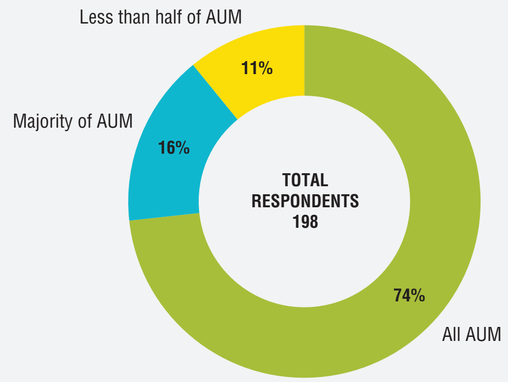


FIGURE 18 Proportion of investment managers (in the Research Universe) whose total AUM is subjected to at least one responsible investment approach



PERFORMANCE OF RESPONSIBLY INVESTED FUNDS COMPARED TO MAINSTREAM FUNDS

The performance of capital markets was significantly impacted by the COVID-19 pandemic in 2020, particularly in the first quarter. Not surprisingly, the pandemic also impacted the responsible investment market. In 2020, all funds tumbled over the one-year timeframe compared to 2019. For example in 2019, the weighted average return (net of fees) of responsible investment funds was 24.7%, the Australia Fund Equity Large Blend achieved 22.3% (provided by Morningstar Direct™), while the total return on the S&P/ASX 300 was 23.8% (provided by Morningstar Direct™) on the Australian share market[11]. In contrast, in 2020, all three achieved returns below 2% although responsible investment funds performed on par with mainstream funds (Figure 19). Low performance in 2020 also impacted returns over the three- and five-year time horizons but not to the same extent.

Despite economic setbacks, responsible investment funds outperformed both the international share and multi-sector growth funds in 2020 across the one-, three- and five-year time horizons, similar to 2019. However, it was a different story in the Australian share fund market, where responsible investment funds remained on par with the Australia Fund Equity Large Blend but underperformed the S&P/ASX 300 in 2020 for the three- and five-year time horizons. One possible explanation is that companies with mid- and small-market capitalisation, which are included in the S&P/ASX 300 but not in the Australia Fund Equity Australia Large Blend, fared better than large market cap equities in 2020 overall.

FIGURE 19 **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™

Over the ten-year horizon, responsible investment funds yielded similar or better results than the Australian share and multi-sector growth funds, and underperformed the international Equity World Large Blend. Yet the 2020 results indicate that responsible investments perform consistently in the short term, even though they are historically expected to yield long-term benefits.

Monitoring the performance of responsible investment funds compared to mainstream funds will remain important for the near future, particularly as economies begin to recover from the long-term impact of the COVID-19 pandemic. As responsible investing becomes the norm, and an ever-increasing proportion of Total Managed Funds become managed to responsible investing approaches, RIAA anticipates the performance of responsible investment funds and mainstream funds (measured as weighted average performance net of fees over 10 years) will ultimately converge.

Responsible investment approaches

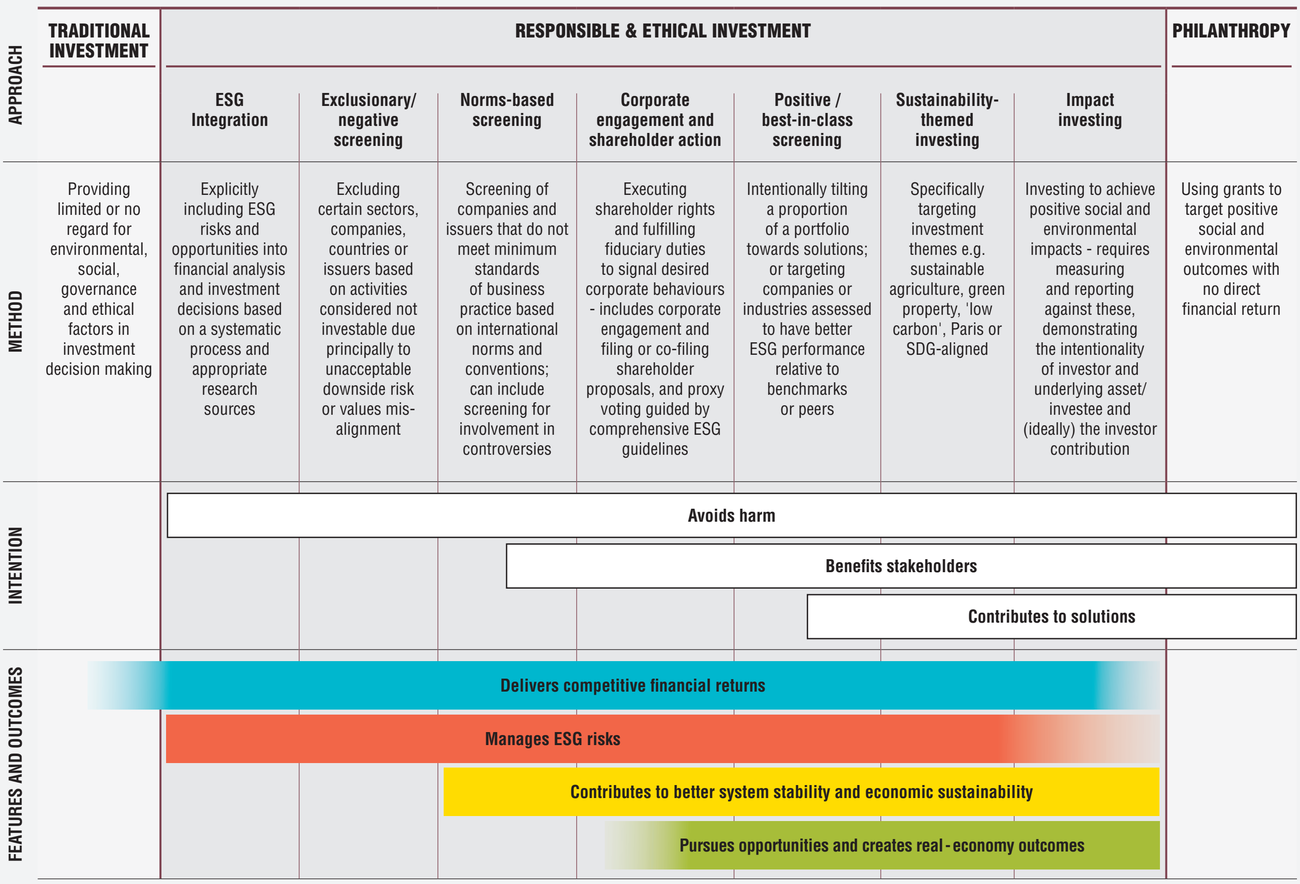
To enable comparison of Australia's responsible investment market with those of other regions, this report has been prepared in line with the seven approaches for responsible investment (Figure 20) as detailed by the GSIA and applied in the *Global Sustainable Investment Review 2020,* which maps the growth and size of the global responsible investment market.[12] Many investment managers now deploy not just one or two, but a full suite of responsible investment approaches across a portfolio in pursuit of delivering to the best interests of beneficiaries. RIAA's responsible investment spectrum shows the possible range of approaches applied.

Responsible Investment Leaders (as reflected in RIAA's Responsible Investment Scorecard):

- **systematically consider material ESG risks** in valuations, for example through applying best-in-class and norms-based screening, and ESG integration;
- **engage with and vote** on ESG-related company resolutions to contribute to better performing companies and stronger sustainability outcomes (referred to as corporate engagement and shareholder action); and
- **target sustainability outcomes** through where and how they allocate capital (sustainability-themed and impact investing, negative screening).

Responsible Investment Leaders *also* demonstrate a commitment to **good governance** through publishing their responsible investing policies and processes, and inviting stakeholders to hold them to account for their performance against targets they set. A cornerstone of good governance is transparency and Responsible Investment Leaders are expected to fully disclose the holdings across all portfolios they manage on behalf of their clients (responsible investment policy, holdings transparency).

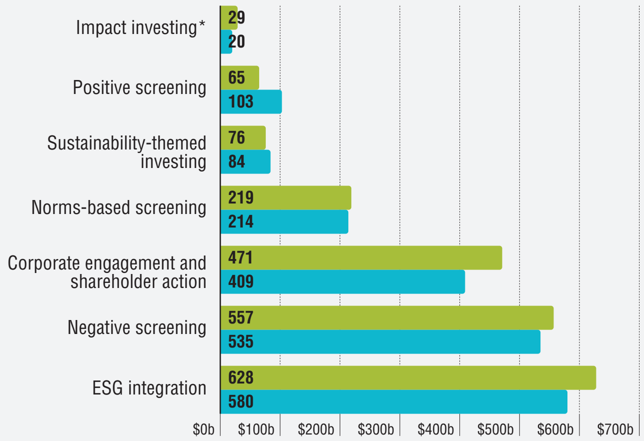
FIGURE 20 RIAA's responsible investment spectrum



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

Of the seven approaches for responsible investment, ESG integration, negative screening, and corporate engagement and shareholder action are by far the most common in Australia (Figure 21). The data suggests Australian investment managers are prioritising better managing ESG-related risks and engaging investee companies to improve their respective performance, over increasing flows of capital into sustainability-themed investment. Despite its small base, impact investment increased by 46% in 2020 (mostly due to growth in green, social and sustainability bonds).

FIGURE 21 **Total AUM covered by responsible investment approaches of survey respondents**



*2020 data for impact investing is a combination of data from the *Benchmarking Impact 2020* report and new impact investment products released in 2020 collected via desktop research.

IMPACT INVESTING

Impact investment in Australia continued to grow in 2020, reaching $29 billion (Figure 22 overleaf) and includes 145 impact investment products (Figure 23 overleaf). This is a significant 46% increase, from $19.9 billion in 2019, when only 111 products were on the market. In this report, RIAA considers green, social, climate and sustainability bonds as impact investments and these products make up the bulk (88%) of impact investments. The remaining impact investments comprise real assets ($2.2 billion), private debt ($287 million), public equity ($195 million), private equity ($97 million), social impact bonds ($66 million), other fixed income ($18 million) and others including multi-asset class investments.

DEFINITION:

Impact investing refers to investments made with the explicit **intention** of generating positive social and/or environmental impact alongside a financial return, and **measurement** of this impact. Ideally, an impact investment will also provide **additionality,** meaning delivery of benefits beyond what would have occurred in the absence of the investment.

AT A GLANCE:

- Impact investment is a powerful tool to lead to positive social and/or environmental change, yet it still represents a small share of the responsible investment market.
- By volume, impact investment continues to be dominated by green, social, climate and sustainability bonds.
- In 2020, impact investment AUM is $29 billion (Figure 22 overleaf), growing from $19.9 billion in 2019.

Impact investment products released in 2020

Investa Property Group
Building on Australia's first property green loan with ANZ for $170 million in January 2019, Investa Commercial Property Fund (ICPF) has since closed loans of $100 million with HSBC, CBA, and Westpac. Each Climate Bonds Initiative certified loan enables ICPF to up-cycle its existing debt into green debt, to finance greening its portfolio of buildings.

Shinhan Bank
Shinhan Bank priced an AUD$400 million COVID-19 alleviation social bond. This deal is Australia's first COVID-19 labelled social bond with proceeds allocated to employment generation and access to essential services.

Save the Children Impact Investment Fund
Save the Children launched a flexible fund that provides between $100,000 and $1 million in loans and equity investment that improves the lives of vulnerable children and families. The fund is invested in start-ups and social enterprises aligned to Save the Children's mission, prioritising organisations that have a positive impact at the core of their business, are already generating revenue, have passionate and talented founders and teams, and have a strong and stable business model.

Conscious Investment Management – Specialist Disability Accommodation (SDA) Fund 1
Under a partnership between Summer Housing and Conscious Investment Management (CIM), The Paul Ramsay Foundation, APS Foundation and For Purpose Investment Partners, the CIM-managed SDA Fund will invest $48 million into 60 specialist disability accommodation apartments. These are developed and managed by Summer Housing and the impact is to increase the availability of high-quality, purpose-built homes for people in need.

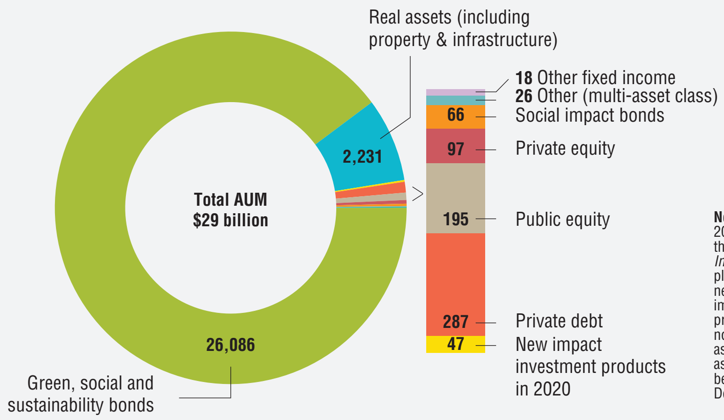
Impact investment recognises that investors have different expectations in terms of financial returns, therefore impact investment products are highly versatile and are often bespoke responsible investments. Impact investment has emerged as a powerful tool for investors to achieve positive sustainability outcomes and is expected to be increasingly important in the future.[13]

Despite the versatility of impact investment products, green, social and sustainability (GSS) bonds continue to dominate the impact investment market (Figure 22). Although GSS bonds include overseas issuances primarily, some Australian issuances, including those by large retail banks, also occur.

The four case studies on page 19 illustrate some of the new impact investments released in 2020.

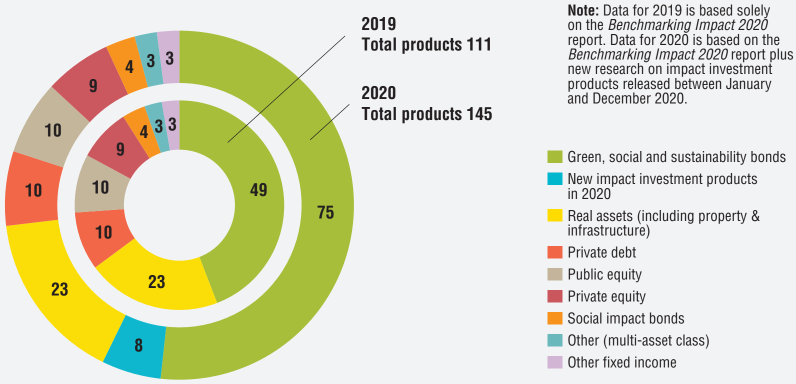
According to the Global Impact Investing Network, the size of the global impact investing market in 2020 is estimated at US$715billion[14] compared with the world's total financial stock of US$100 trillion.

FIGURE 22 **Impact investments in 2020 ($ millions)**



Note: Data for 2020 is based on the *Benchmarking Impact 2020* report plus new research on new GSS bonds and impact investment products (which have not been categorised as public equity, real assets, etc.) released between January and December 2020.

FIGURE 23 **Number of impact investment products in 2019 and 2020**



Note: Data for 2019 is based solely on the *Benchmarking Impact 2020* report. Data for 2020 is based on the *Benchmarking Impact 2020* report plus new research on impact investment products released between January and December 2020.

Impact investing from the Benchmarking Impact report

In 2020, RIAA published *Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020* in partnership with the Deakin Business School. *Benchmarking Impact* brings together two pieces of research: a study of 125 Australian investors and a study of 111 impact investment products widely offered to Australian investors in 2019. The report shows how the impact investment market is growing in Australia, highlights the diversity of products and impacts targeted and that opportunities span all asset classes.

SUSTAINABILITY-THEMED INVESTING

Sustainability-themed investing has decreased 8.5% from $84 billion in 2019 to $76 billion AUM in 2020 (Figure 21). The main trends in sustainability-themed investing in 2020 among the 28 survey respondents that apply this approach (Figure 24), were similar to the previous year, with climate change (which includes investments in low carbon/ greenhouse gas emission mitigation, energy efficiency and renewable energy) (34%), and natural capital (which includes biodiversity preservation, sustainable land and water management, healthy rivers and ecosystems) (21%) as the most common themes. Given the COVID-19 pandemic in 2020, it is no surprise that healthcare and medical (13%) was the third most popular theme, along with sustainable transport (13%).

Consumer interest in sustainability-linked investment is gauged using RIAA's Responsible Returns online tool.[15] The tool allows members of the public to select themes they would like to include or exclude in their search of responsible investment products. The public can select from a predetermined list and RIAA collects the results of searches and uses this to identify the key issues consumers search for when choosing a responsible and ethical superannuation, banking or investment products[16] (Figure 25). The most sought sustainability-themed investment issues in 2020 were renewable energy and energy efficiency (34%), sustainable land and agricultural management (17%), impact investments (10%) and social and sustainable infrastructure (10%).

DEFINITION:

Sustainability-themed investing refers to investment in themes or assets that specifically aim to improve social or environmental sustainability. This commonly involves funds that have an explicit objective to improve sustainability outcomes alongside financial returns, such as investment into clean energy, green technology, sustainable agriculture and forestry, green property or water technology.

AT A GLANCE:

- Sustainability-themed investing has decreased 8.5% from $84 billion in 2019 to $76 billion AUM in 2020 (Figure 21).
- The most common sustainability themes by AUM are climate-related investments (34%), natural capital (21%), and healthcare and medical (13%) (Figure 24).
- The primary issues that investment managers include as sustainability themes in their investments are in line with consumers' interests, most notably renewable energy and energy efficiency, and sustainable land and agricultural management, which comprised 34% and 17% of consumer searches respectively, completed on the Responsible Returns online tool (Figure 25).

FIGURE 24 **Sustainability-themed investments by theme (% AUM) in 2020 and 2019**

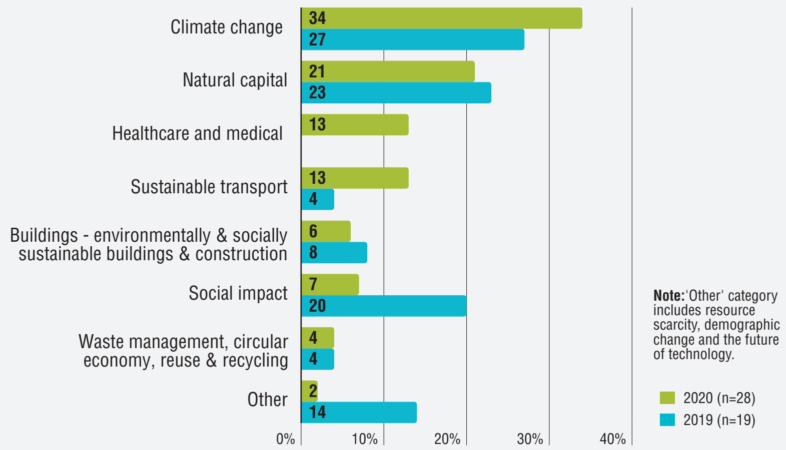
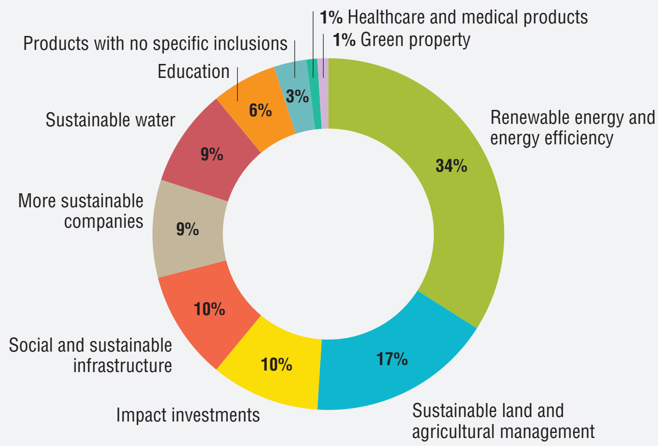


FIGURE 25 **Consumer searches using the Responsible Returns online tool (January to December 2020)**



NEGATIVE/EXCLUSIONARY SCREENING

Negative screening has increased its reach from $535 billion in 2019 to $557 billion AUM in 2020 and remains the second most widely used responsible investment approach in Australia. Meanwhile, the most frequently excluded category is tobacco, screened by 76% of those applying negative screening in 2020, followed by controversial weapons, screened by 64%, and gambling at 58% (Figure 26).

All categories, except for screening for human rights abuses and controversial weapons, were less frequently screened for in 2020 compared to 2019. The rise in human rights abuses screening may reflect an increase in reporting to the *Modern Slavery Act 2018* that requires businesses to identify and address their modern slavery risks and maintain responsible and transparent supply chains.[17]

Other activities and practices for which investment managers screen (not featured in Figure 26) include sugar (high content and/or predatory marketing) (19%), predatory lending (17%), genetic engineering (12%), meat and meat products (7%) and companies that don't pay their fair share of tax (7%).

Consumer preferences for exclusions is determined by collecting the results of users searching for negative screens on the Responsible Returns online tool for a 12-month period (January to December 2020). Results from these searches shows the key issues consumers seek when choosing a responsible and ethical superannuation, banking or investment product that best match their interests.[18] Figure 27 indicates that the most frequently searched exclusion categories are fossil fuels (25%), human rights abuses (15%) and animal cruelty (10%). This figure also shows that 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.

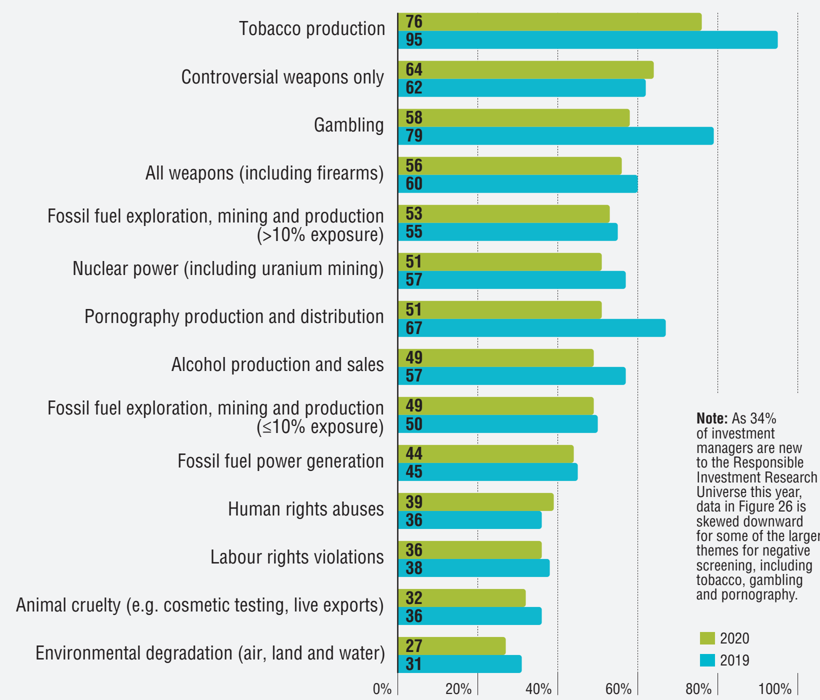
DEFINITION:

Negative/exclusionary screening refers to the systematic exclusion of certain sectors, companies, activities, regions or issuers from funds based on certain criteria. Exclusion criteria often include product categories or sectors (e.g. fossil fuel, weapons, tobacco), company practices (e.g. animal testing, violation of human rights, corruption) or controversies.

AT A GLANCE:

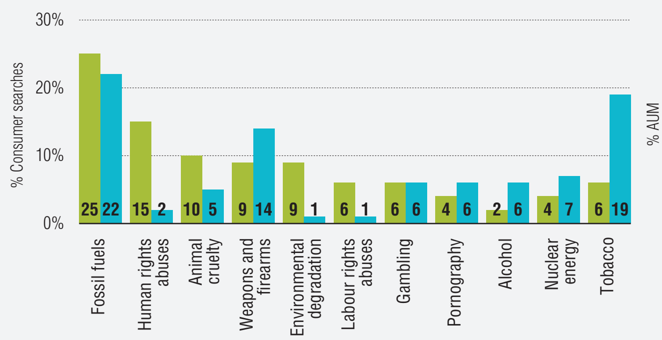
- Negative screening has increased its reach from $535 billion in 2019 to $557 billion AUM in 2020 (Figure 21) and remains the second most widely used responsible investment approach in Australia.
- In 2020 the most frequently excluded category is tobacco (screened by 76%) followed by controversial weapons (64%), and gambling (58%) (Figure 26).
- Screening of human rights abuses and controversial weapons increased in 2020.
- Investment managers' exclusion screening is not always aligned with consumer demands, notably in the areas of human rights concerns, animal cruelty and environmental degradation, where consumers seek products that exclude on these grounds more often (Figure 27).

FIGURE 26 Frequency of issues screened by survey respondents who negatively screen



Note: As 34% of investment managers are new to the Responsible Investment Research Universe this year, data in Figure 26 is skewed downward for some of the larger themes for negative screening, including tobacco, gambling and pornography.

FIGURE 27 Exclusion categories of survey respondents (% AUM) compared to consumer searches for exclusions on RIAA's Responsible Returns online tool



Note: Weapons and firearms includes armaments and controversial weapons manufacturing; environmental degradation includes logging; tobacco includes tobacco growing and production.

BEST-IN-CLASS OR POSITIVE SCREENING

The use of positive screening as a responsible investment approach declined in value from $103 billion AUM in 2019 to $65 billion AUM in 2020 (Figure 21). Despite this decline, 51% of survey respondents incorporate positive screening as part of their broader responsible investment approach.

RIAA explains this decrease in part is due to a reclassification of the activities that constitute best-in-class or positive screening. These are:

1. investment managers applying a best-in-class threshold as an overlay to their ESG integration practices and hence reclassifying as *ESG integration*; and
2. investment managers more accurately classifying some positive screening activities as either *sustainability-themed investing*; or *norms-based screening* – the latter of which also forms the basis of the many factors considered as part of ESG integration valuation and allocation practices.

Figure 28 shows that the most frequently screened issues by survey respondents are renewable energy and energy efficiency (73%), sustainable water management and use (63%), and transition risk management and circular economy reuse and recycling (both 60%).

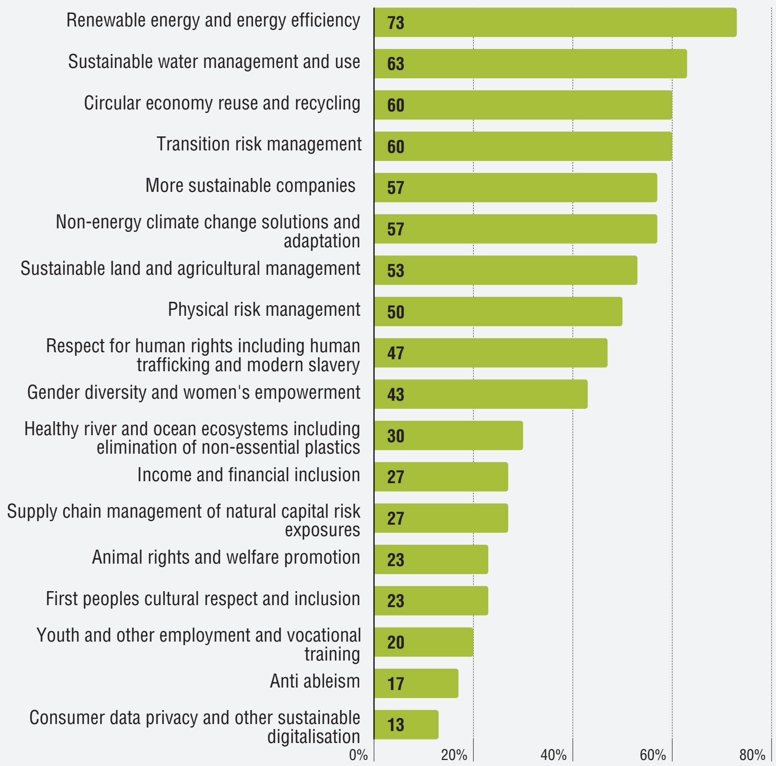
DEFINITION:

Positive screening is the inclusion of certain sectors, companies or projects based on positive ESG or sustainability performance criteria relative to industry peers. This criterion may include the goods and services a company produces, or how well a company or country is responding to emergent opportunities, such as the rollout of zero-carbon energy assets. **Best-in-class screening** refers to the identification of sectors, companies or projects selected for superior ESG performance relative to industry peers.

AT A GLANCE:

- Application of positive screening declined from $103 billion in 2019 to $65 billion AUM in 2020 (Figure 21).
- Positive screening is mostly applied to renewable energy and energy efficiency, followed by sustainable water management and use, transition risk management and circular economy reuse and recycling (Figure 28).

FIGURE 28 **Positive screening – frequency of issues screened by survey respondents**



NORMS-BASED SCREENING

The 31% of survey respondents deploying norms-based screening in 2020 increased their coverage to $219 billion AUM (an increase of $5 billion from 2019). This made norms-based screening the fourth most widely applied responsible investment approach (Figure 21). As investors face increasing pressure to be good stewards and improve real world outcomes, the international standards applied through norms-based screening become an important enabler for investment decision-making and improved transparency.

The most popular international treaty or convention used by survey respondents to screen investments in 2020 was the UN Global Compact (83%), followed by the Principles for Responsible Investment (78%), the UN Guiding Principles on Business and Human Rights (50%) and the Paris Agreement (50%) (Figure 29). The UN Global Compact (UNGC) is the world's largest corporate sustainability initiative that encourages companies to align their operations with universal principles on human rights, labour, environment and anti-corruption.

Companies and other issuers of securities that fail to meet these universal principles are often faced with severe criticism. Following the destruction of Juukan Gorge in May 2020 – a place of personal, cultural and spiritual significance for the Puutu Kunti Kurrama and Pinikura peoples – Rio Tinto faced extreme criticism. Investors have since recognised the integral reputational and monetary risks associated with failure to consider inclusion and respect for First Nations peoples' rights and self-determination, resulting in greater screening of norms and standards such as the UNGC.

DEFINITION:

Norms-based screening involves the screening of investments on the basis of minimum standards of relevant business practice. Standards applied are based on international norms and conventions, such as those defined by the United Nations (UN). In practice, norms-based screening may involve the exclusion of companies that contravene the UN Convention on Cluster Munitions, as well as positive screening based on ESG criteria developed through international bodies such as the United Nations Global Compact, International Labour Organization, United Nations Children's Fund, and the UN Human Rights Council.

AT A GLANCE:

- Norms-based screening AUM in 2020 increased from $214 billion in 2019 to $219 billion (Figure 21).
- While norms-based screening is the fourth most popular responsible investment approach in Australia, it is used by just 31% of survey respondents, in contrast with its popularity in Europe, where 74% of investors used it in 2020, according to the *Global Sustainable Investment Review*.[19]

FIGURE 29 Frequency of international conventions and treaties used in norms-based screening

ESG INTEGRATION

ESG integration that is well-defined and systematically embedded in investment and valuation practices can be an effective investment approach. Outside Australia, ESG integration continues to dominate in the United States, Canada and New Zealand.[20]

More asset classes are covered by ESG integration across the responsible investment market than ever before. Fifty-seven percent of investment managers in the Research Universe have equities, fixed income corporate, fixed income sovereign or at least 85% of their AUM subjected to an explicit and systematic approach to ESG integration, compared to only 41% in 2019 (Figure 30). The percentage of investment managers that have only one main asset class or 50% of AUM covered by ESG integration decreased from 27% in 2019 to 10% in 2020, while the proportion of investors with all asset classes or minimum 85% AUM covered by ESG integration increased to 57%. As the proportion of the other categories did not change significantly this suggests that investment managers are extending the coverage of ESG approaches to more assets and asset classes.

Investment managers in 2020 have started to more discerningly classify their best-in-class and positive screening activities into what is now more widely considered leading practice ESG integration. This could in part account for the steep rise in the coverage of ESG integration across Australian investment manager asset classes and portfolio coverage.

The regulator's amplification of the need for investment mangers to address financially material climate risk and the advent of this first full year of the Commonwealth's *Modern Slavery Act*, may be two other reasons to explain the jump in figures between 2019 and 2020.

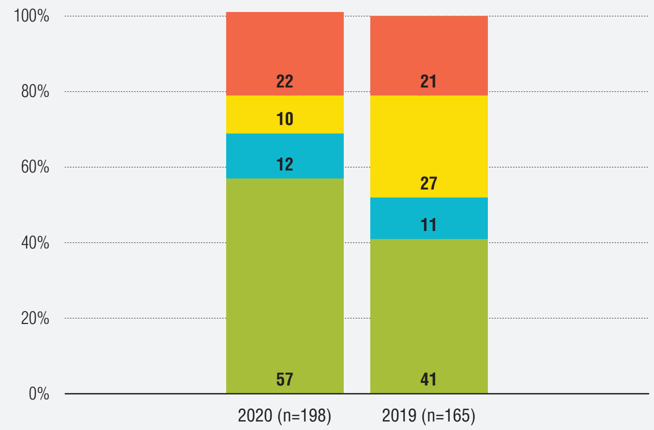
DEFINITION:

Environmental, social and governance (ESG) integration involves the explicit inclusion of ESG risks and opportunities into financial analysis and investment decisions. This approach is based on a systematic process involving appropriate research and the belief that these factors are a core driver of investment value and risk.

AT A GLANCE:

- ESG integration remains the predominant responsible investment approach employed in Australia, and extends to $628 billion AUM in 2020 from $580 billion in 2019 (Figure 21).
- In 2020, 57% of investment managers in the Research Universe indicated that they have equities, fixed income corporate, fixed income sovereign or at least 85% of AUM covered by an ESG approach. This is up from 41% in 2019 (Figure 30).

FIGURE 30 Change in the proportion of AUM covered by an explicit and systematic approach to ESG integration among investment managers in the Research Universe



Note: Due to rounding of percentages, total may not equal 100%.

CORPORATE ENGAGEMENT AND SHAREHOLDER ACTION

The activity, reporting and outcomes around investment manager corporate engagement and shareholder action has exploded during 2020. International collaborations such as Climate Action 100+ is evidence of this. In 2020, stewardship activities by leading investment managers extended beyond corporate engagement and shareholder action. Some investment managers, such as from RIAA's Human Rights Working Group, exercised their stewardship responsibilities by engaging directly in the public policy making process by, for example, providing submissions to the Western Australian Government on its review of its Native Title laws.

However, in Australia the parameters around leading stewardship practices is still in formation with Australian investment managers operating voluntarily under two different stewardship codes: Australian Council of Superannuation Investors' (ACSI) Asset Owners Stewardship Code and the Financial Services Council's (FSC) Internal Governance and Asset Stewardship Standard. A key recommendation by ASFI is the introduction of a government-supported stewardship code that sets, harmonises and enhances stewardship practices.[21]

This year's data shows that corporate engagement and shareholder action continues to be among the top three responsible investment approaches in Australia. The AUM employed under this approach grew 15% from $409 billion in 2019 to $471 billion (Figure 21).

The most significant difference between 2019 and 2020 is the greater adoption of reporting on both activities and outcomes, and a shift away from reporting on only one or the other. Thirty-one percent of the Research Universe demonstrates leading practice by reporting on activities and outcomes; an increase from 21% the year before (Figure 31).

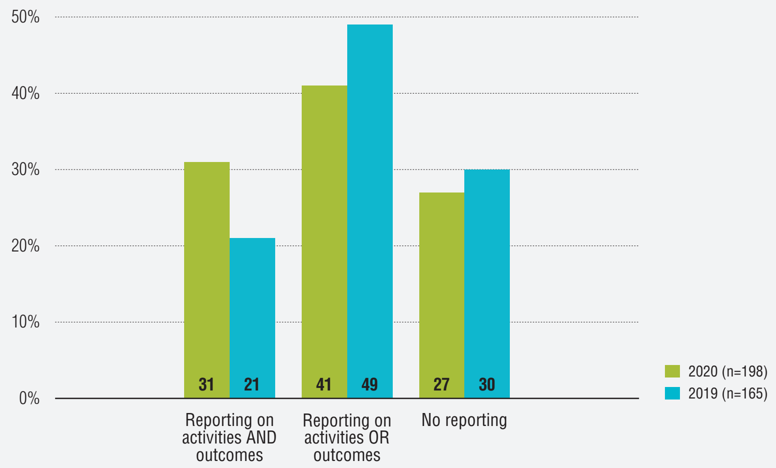
DEFINITION:

Corporate engagement and shareholder action refers to the influence and power of shareholders over corporate behaviour through engagement. This is often conducted through direct interaction, 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:

- In 2020, corporate engagement and shareholder action increased as a key responsible investment approach, growing from $409 billion in 2019 to $471 billion in 2020 (Figure 21).
- Thirty-one percent of the Research Universe demonstrates transparency by reporting on both corporate engagement activities **and** outcomes, a jump from only 21% in 2019 (Figure 31).

FIGURE 31 Reporting on activities and outcomes from corporate engagement and shareholder action in the Research Universe



Organisations such as ACSI, Regnan and the Australasian Centre for Corporate Responsibility are increasingly active in supporting shareholders to bring issues of concern to top corporate executives and decision-makers. Frequently cited engagement themes in 2020 include climate change risk disclosures; governance including bonuses paid during the pandemic; human capital, specifically in response to the pandemic; ethics and corporate culture including executive promotion and sexual harassment; cultural heritage protection; modern slavery due diligence; lobbying and membership of industry associations; world heritage protection; and social engagement.[22]

Market drivers and future trends

KEY GROWTH FACTORS

In 2020, investor demand remains the top motivator for responsible investment in Australia. Survey respondents were asked to nominate the top three growth factors and 40% indicated that demand from institutional investors was the predominant factor (Figure 32). Investor demand is driven by ESG considerations embedded in the investment process and enables managers to assess risks and opportunities. This further supports findings that ESG integration is becoming a mainstream process in portfolio decisions. Growing interest by underlying investors to align investments with mission and/or values remains the second largest driver, followed by the growing acceptance that ESG factors impact the financial performance of investments. Here, survey respondents saw no performance trade-off as a result of greater ESG consideration in their investments.

The inclusion of ESG in risk-management processes is a driver for 12% of funds, up from 9% in 2019. This growth may be a result of national and global events throughout the year, including the COVID-19 pandemic, increased awareness of health and wellbeing, bushfires, climate strikes and increasing public awareness of climate risk, which have amplified the value that fund managers place on ESG integration in risk management.

BARRIERS TO GROWTH OF THE RESPONSIBLE INVESTMENT MARKET

The three main barriers to growth in responsible investment in 2020 remained the same, although the order differs compared to 2019 (Figure 33):

1. lack of understanding or capacity to apply responsible investment (32%);
2. lack of awareness by members of the public of responsible investment (31%); and
3. performance concerns (27%).

A welcome result is that investment managers are more confident with the returns provided by responsible investment funds and less concerned about performance of responsible investment in 2020 (at 27%) than they were in 2019 (35%).

FIGURE 32 Key drivers of market growth by survey respondents

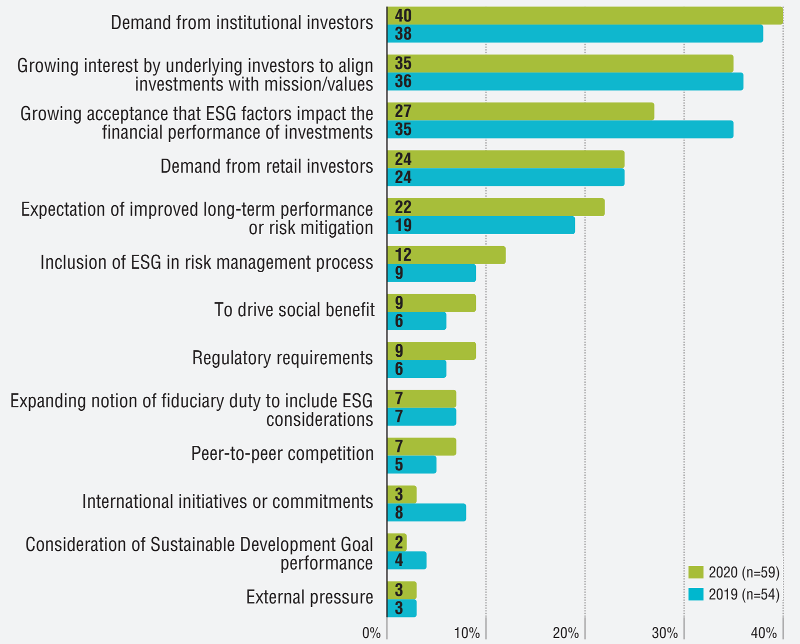
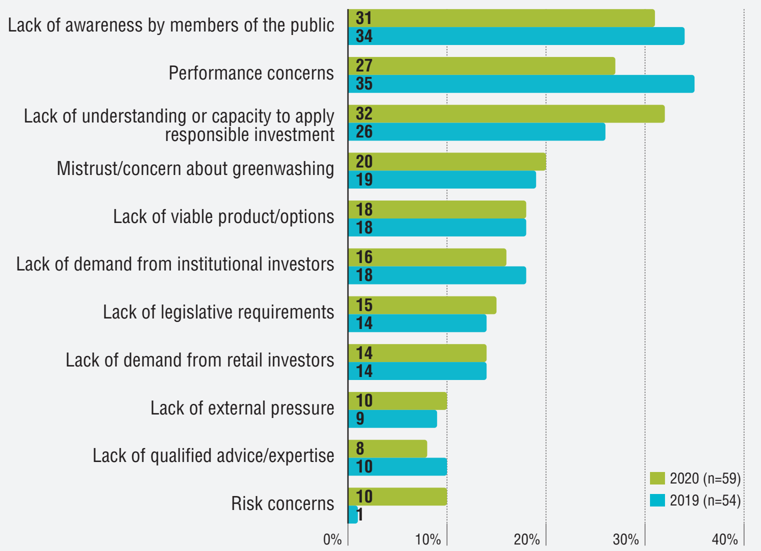


FIGURE 33 Key deterrents to responsible investment market growth by survey respondents



Perceptions of responsible investment performance are beginning to align more closely with research that shows responsible investment funds on average perform on-par with or better than mainstream funds. Unfortunately, there are no simple or quick solutions to overcoming the top barriers, as addressing a lack of understanding or capacity to apply responsible investment, lack of public awareness and performance concerns will take time, resources and effort by a mix of stakeholders.

SOURCES USED TO INFORM RESPONSIBLE INVESTMENT DECISIONS

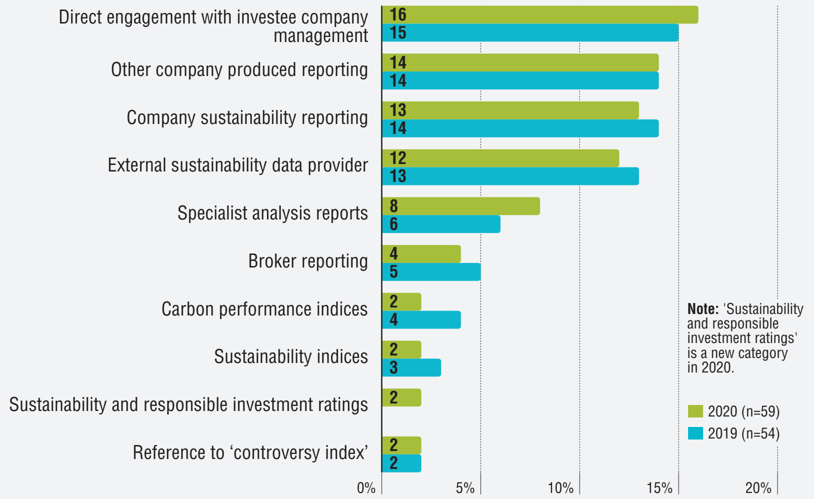
Survey respondents were asked to identify the information sources they used to inform responsible investment decisions (Figure 34). The top three information sources are:

1. direct engagement with investee company management (16%);
2. other reports produced by companies (including annual reports, company website or investor reporting) (14%); and
3. company sustainability reports (13%).

The order of the sources used has remained unchanged since last year, indicating that investment managers still rely on the same sources of information to make investment decisions.

External information, such as from ESG research providers, specialist reports and rating agencies, are increasingly used in the investment decision-making process. For example, 12% of investors in 2020 used external sustainability data providers and specialist analysis reports as key data sources.

FIGURE 34 **Information sources used in responsible investment decision-making by survey respondents**



Appendices

APPENDIX 1: ABBREVIATIONS

ABS	Australian Bureau of Statistics
ASFI	Australian Sustainable Finance Initiative
ASIC	Australian Securities and Investments Commission
AUM	Assets under management
ESG	Environmental, social and governance
GSIA	Global Sustainable Investment Alliance
PRI	UN-backed Principles for Responsible Investment
RIAA	Responsible Investment Association Australasia
SDGs	Sustainable Development Goals
TCFD	Taskforce on Climate-Related Financial Disclosures
UN	United Nations

APPENDIX 2: DEFINITIONS

Responsible Investment Assets Under Management: Assets of those investment managers applying at least one responsible investment approach that scored greater than or equal to 15 (out of 20) on RIAA's Responsible Investment Scorecard.

Investment managers: financial institutions (asset managers and asset owners to the extent that they directly manage investments in-house) that were assessed via the online survey or desktop research.

Responsible investment, also known as **ethical investing** or **sustainable investing**, is a comprehensive approach to investing, where social, environmental, corporate governance and ethical issues are considered alongside financial performance when investing. There are numerous ways to engage in responsible investment, and investors often use a combination of responsible investment approaches (see below).

Definitions for each of the seven responsible investment approaches: The following guidance was provided to participants to help them classify the responsible investment approaches applied to their investments.

ESG integration
GSIA states: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis.

RIAA elaborates: the explicit inclusion by investment managers of environmental, social and governance risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources. This approach rests on the belief that these factors are a core driver of investment value and risk.

Negative or exclusionary screening
GSIA states: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria.

RIAA elaborates: the exclusion from a fund or portfolio of specific sectors, companies, countries, or issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer, for example, to product categories (e.g. weapons, tobacco), company practices (e.g. animal testing, violation of human rights, corruption) or controversies.

Norms-based screening
Screening of investments against minimum standards of business practice based on international norms and standards such as those issued by the Organisation for Economic Co-operation and Development (OECD), International Labour Organization, United Nations (UN) and the UN Children's Emergency Fund (UNICEF).

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

RIAA elaborates: executing shareholder rights and fulfilling obligations to influence corporate behaviour, including through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines and policies, and accompanied by disclosure of activities and outcomes.

Positive or best-in-class screening
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 responds to emergent opportunities such as the rollout of a net-zero carbon economy. Includes best-in-class screening, which involves investment in companies or projects selected for positive ESG performance relative to industry peers and that achieve a rating above a defined threshold.

Sustainability-themed investing
Investment in themes or assets specifically contributing to sustainable solutions – environmental and social – where impact is intentional and measured (e.g. sustainable agriculture, green buildings, lower carbon tilted portfolio).

Impact investing

GSIA states: a targeted investment aimed at solving social or environmental problems where capital is specifically directed to traditionally underserved individuals and communities and financing provided to businesses with a clear social or environmental purpose.

RIAA elaborates: impact investments satisfy three core principles: intentionality, measurability and contribution:

Intention

- the investor and/or manager intend to benefit stakeholders and/or contribute to solutions through their investments (as evidenced in the 'impact thesis'); and
- the impact performance objectives of each asset being invested in are principally (meaning equal to or greater than 50% with impact intention aligned with B and C; balance of fund at least A – see below) benefiting stakeholders or contributing to solutions.

Measurability

- an investor or manager has an impact thesis; and
- has a demonstrated process for managing impact; and
- at least annually reports impact performance to relevant external stakeholders.

Contribution

- at a minimum, the investor or manager can demonstrate that they signal that impact matters (this means to consider measurable positive and negative enterprise impacts proactively and systematically in their investment decision-making); and
- communicates this consideration to external stakeholders.

The Impact Management Project (IMP) convention classifies the **impact performance** (or goals) of an enterprise as either:

A. (Act to avoid harm) – the enterprise prevents or reduces significant effects on important negative outcomes for people and planet; or
B. (Benefits stakeholders) – the enterprise not only acts to avoid harm, but also generates various effects on positive outcomes for people and the planet; or
C. (Contributes to solutions) – the enterprise not only acts to avoid harm, but also generates one or more significant effect(s) on positive outcomes for otherwise under-served people and the planet.

APPENDIX 3: METHODOLOGY

REPORTING BOUNDARY

This report covers the nature and scope of responsible investing in Australia. As the financial sector is a global 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 to demarcate the Australian market's boundary. This report covers assets managed within Australia and outside the region where they are managed on behalf of Australian clients. Selected international investment managers were included if they have operations in Australia, manage assets on behalf of Australian clients, and demonstrate strong responsible investment commitments, including through membership of RIAA (as of 2020 calendar year). Data collected and analysed covers the period between 1 January to 31 December 2020. If data was not available for the calendar year the closest available reporting date was used.

This research is primarily targeted at investment managers, rather than asset owners, focusing on capturing the underlying managers of the capital being deployed responsibly in this market. Data was captured from asset owners to the extent that they directly manage investments in-house. In the survey, only internally managed funds were captured. Increasingly, asset owners are moving funds management in-house.

Many of the Australian responsible investment market products 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 (see below on Limitations due to self-declaration and self-classification. Data on funds held outside of managed responsible investment portfolios was not accessible. For these reasons and the matters identified in this section, this report provides a conservative depiction of the responsible investment environment in Australia.

All financial figures are presented in Australian dollars.

DATA COLLECTION

Data used to compile this report was generously provided by and collected from:

- investment managers and asset owners;
- **Morningstar Direct™,** which provided data for the average performance of mainstream managed fund categories; **Morningstar Direct™** also provided a secondary source of AUM data for some of the funds listed;
- RIAA's databases;
- desktop research of publicly available information regarding assets under management, performance data and investment approaches from sources including company websites, annual reports, PRI Responsible Investment Transparency Reports and the ABS; and
- RIAA's *Benchmarking Impact* 2020 report to inform the impact investing section.

For a second year, Total Managed Funds was defined as reported by the ABS as it is well aligned with the purposes of this report.[23] For a definition of Total Managed Funds, refer to the ABS website.[24]

A total of 198 investment managers were targeted by the survey; 59 financial institutions responded , while the remaining 139 were assessed through desktop analysis. In total, this research managed to gather a comprehensive summary of the entire responsible investment market in Australia. Responses that identify the key drivers and detractors of responsible investment were only taken from survey respondents. No data has been extrapolated from its original source.

The survey was delivered online through a platform designed by KPMG and distributed to investment managers by RIAA. Investment managers that filled out the survey in 2019 received the survey prefilled with some information, such as fund names, to facilitate survey completion.

DATA ANALYSIS AND REPORTING

KPMG carried out data cleaning and analysis, with input from RIAA. KPMG used Alteryx to analyse data, importing data from 2019 and previous years to allow for comparison and trends analysis. One important step in data cleaning is to identify fund overlaps between survey respondents. Duplicate funds were removed to the best of our ability. RIAA is continuously improving its data collection process to enhance the quality of reported figures and to ensure that all Australian market products are identified.

LIMITATIONS DUE TO SELF-REPORTING AND SELF-CLASSIFICATION

This study relies on investment managers' self-reported data in combination with desktop research. RIAA reviews self-declared data, including those that feed into the Scorecard scores to ensure that they are an accurate representation of the investment manager's approach to responsible investment. Self-declared data of responsible investment that is publicly available such as published on corporate websites or in the PRI Transparency Reports has typically gone through several levels of scrutiny within an organisation and holds a certain degree of accountability. Self-reported data is checked against these publications or other published data, but only to a limited extent due to time and resources. RIAA does, however, reach out to individual respondents from time to time to check that data has been correctly reported.

Survey respondents were asked to self-classify their assets under management according to the proportion covered by one or more of the seven responsible investment approaches (as distinguished by the GSIA). For example, an investment manager would indicate that a sustainability-themed investment approach covers 40% of their assets. Discussion with investment managers and analysis of survey responses indicates that there is a grey area when classifying sustainability-themed investing and impact investing. Impact investment is often used as a colloquial term for allocation towards solution-style investments, such as renewable energy. Hence the assets under management for impact investment was determined by relying on RIAA's *Benchmarking Impact 2020* report (which targeted impact investment specifically) and desktop research on impact investments, including green bonds released in the 2020 reporting period.

Research methodology includes checking over self-declared data, but the data is not assured and errors in reporting occur from time to time. For example, Responsible Investment AUM for 2019 has been adjusted from $1,149 billion to $983 billion due to an error in self-reporting of responsible investment AUM in 2019 for an investment manager. This affected the total Responsible Investment AUM for the entire market and is annotated in relevant figures through this report. RIAA continues to inform and educate the market about the differences between these styles of investment and how to self-classify.

APPENDIX 4: RESPONSIBLE INVESTMENT SCORECARD 2020

Core pillars and weighting	Question description	Scoring methodology
1. **Committing to RI = worth 5 points**		
1.1 **Coverage of total Assets Under Management (AUM) by Responsible Investment**	What proportion of all AUM is being managed with a responsible investment strategy?	1.0 = 100% 0.75 = 75-99% 0.5 = 50-74% 0.1 = 10-49% 0.0 = 0-9%
1.2 **Responsible investment policy**	Does your organisation have an RI policy? Is your RI policy disclosed publicly? The policy does not specifically need to be called a 'Responsible Investing' policy. It can be your companies ESG or Sustainable finance policy for example. The Policy does need to outline your organisation's principles, commitments, and approach to Responsible Investment.	2.0 = yes and publicly disclosed 1.0 = yes, not public 0 = no
1.3 **Commitment to transparency**		
1.3.1 **Disclosure of responsible investment commitment**	Does your organisation report its approach to responsible investing and its implementation clearly on its website?	1.0 = RI approach is disclosed in greater detail, such as including link to PRI Report and/or RI approach 0.5 = They say they do RI but no detail 0 = no disclosure
1.3.2 **Disclosure of fund holdings**	Does your organisation disclose a FULL list of its investments?	1.0 = Yes, full fund holdings are disclosed (99-100%): 0.5 = Yes, but fund holdings are only partially disclosed (11%-98%): 0 = Top 10, fewer or no holdings are disclosed
2. **Managing risk = worth 5 points**		
2.1 **Systematic process for ESG: Is there evidence of integrating ESG into traditional financial analysis described?**		
2.1.1 **How embedded is ESG integrated into strategy? Does RI strategy account for the explicit inclusion of ESG factors?**	Select all that are relevant to your approach to ESG integration. ESG factors are systematically considered in the: A. selection, retention and realisation of assets B. construction of portfolios C. risk assessment and management D. selection, assessment and management of managers (if you use external managers).	0.5 = at least one aspect considered or all four 0 = no aspects considered

2.1.2 **Extent of relevant asset class that ESG covers**	What is the extent of relevant asset classes covered by your explicit and systematic approach to ESG integration?	0.5 = equities, fixed income corporate, fixed income sovereign OR at least 85% of AUM 0.3 = at least two main asset classes OR 75% of AUM 0.1 = at least one main asset class OR 50% of AUM 0 = no option selected
2.1.3 **ESG embeddedness/ integration:**	Consider how your organisation demonstrates the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions. Select all that are relevant. A. ESG analysis is integrated into fundamental analysis B. ESG analysis is used to adjust forecasted financials and future cash flow estimates C. ESG analysis is integrated in portfolio weighting decisions D. Companies, sectors, countries and currency are monitored for changes in ESG exposure and for breaches in risk limits	1.0 = 4 selected 0.75 = 3 selected 0.5 = 2 selected 0.2 = 1 selected 0 = no option selected
2.1.4 **Disclosure of ESG integration**	Does your organisation disclose its approach to ESG integration (such as through PRI reporting, website etc.)?	1.0 = yes 0 = no
2.2 **Evidence of systematic and transparent application of screens**		
2.2.1 **Applying screens to investments**	Does your organisation have a transparent and systematic process of applying screens (such as norms-based, controversies and negative screens)?	1.0 = yes 0 = no
2.2.2 **Revenue and activity thresholds applied to screens**	Does your organisation disclose revenue and activity thresholds applied to screens?	1.0 = yes 0.5 = yes, revenue and activity thresholds are partially disclosed 0 = no
3. **Stewarding sustainable and resilient assets and markets = worth 5 points**		
3.1 **Evidence of activity in other areas of active ownership & stewardship: voting**	To what extent does the organisation demonstrate stewardship and active ownership commitments, such as through voting and proxy voting?	2.0 = Voting across all possible holdings (e.g. directly held equities, or in mandates for fund manager and other third parties to action) 1.0 = Voting across those holdings for which the fund is materially exposed 0 = no voting
3.2 **Evidence of activity in other areas of active ownership & stewardship: Corporate Engagement**	Thinking about how the organisation demonstrates stewardship commitments, such as corporate engagements, select all of the following that are true.	2.0 = company engagement reporting on activities AND outcomes 1.0 = company engagement reporting on activities only 1.0 = company engagement reporting on outcomes only 0 = no engagement
3.3 **Member of collaborative initiative**	Is the organisation a member of a collaborative initiative, e.g. Investor Group on Climate Change, Principles for Responsible Investment, Climate Action 100+, other groups?	1.0 = member of more than one group 0.5 = member of one group 0 = no groups
4. **Allocating capital = worth 5 points**		
4.1 **Evidence of systematic and transparent positive screening and/or sustainability investment criteria**	What evidence exists of a systematic and transparent process of benefiting stakeholders (positive screening and/or sustainability themed investing)? Select all that apply.	1.0 = Explanation of positive social or sustainability-themed screen, including disclosure of thresholds and materiality for investment (e.g. GRESB, Green Star rating etc.) 1.0 = Extra-financial targets set (e.g. at least 30% lower carbon intensity than index) 1.0 = A targeted plan of systemic company/sector engagement, including case studies or other evidence demonstrating benefit to stakeholders 0 = none of the above
4.2 **Evidence of intentional, systematic, and transparent process of contributing to solutions by way of impact investment criteria and measurement**	Is there evidence of an intentional, systematic, and transparent process of contributing to solutions (impact investing and measurement of impact)?	1.0 = Investment criteria including intentionality as evidenced by targets, for example (easily accessible on website) and disclosure of thresholds and materiality for investment 1.0 = measurement and reporting on real world outcomes from investment 0 = none of the above

APPENDIX 5: INVESTMENT MANAGERS IN THE RESEARCH UNIVERSE

SURVEY RESPONDENTS

- Aberdeen Standard Investments Australia Limited
- Affirmative Investment Management
- Alphinity Investment Management
- Altius Asset Management
- AMP Capital Investors Limited
- Aoris Investment Management
- Australian Ethical
- AustralianSuper
- Aware Super
- AXA Investment Managers (Asia) Singapore Ltd
- BlackRock Investment Management (Australia) Limited
- BNP Paribas Asset Management Australia
- Christian Super
- Cooper Investors
- Daintree Capital
- Ellerston Capital
- Ethical Investment Advisers
- FIL Investment Management (Australia) Limited (Fidelity International)
- First Sentier Investors
- Franklin Templeton
- Generation Investment Management
- H.R.L Morrison & Co
- Hyperion Asset Management
- IFM Investors
- Impact Investment Group (IIG)
- Invesco
- Investa Property Group
- JANA Investment Advisers
- Local Government Super
- Maple-Brown Abbott
- Martin Currie
- Melior Investment Management
- Mercer
- MFS Investment Management*
- Milford Asset Management
- Morphic Asset Management
- Nanuk Asset Management Pty Ltd
- Mirova
- New Forests
- Northern Trust Asset Management
- Nuveen, a TIAA Company
- OneVentures Pty Ltd
- Optar Capital
- Pendal Group Limited
- Perennial Value Management
- Perpetual Investment Management Limited
- QIC
- Rest
- Robeco
- Russell Investments (Australia)
- Solaris Investment Management Limited
- State Street Global Advisors
- Stewart Investors
- Teachers Mutual Bank Limited
- UniSuper
- Uniting Financial Services
- VanEck
- Vanguard Investments Australia Ltd
- Warakirri Asset Management
- WaveStone Capital

*Investment manager for whom data was not received during survey period

INVESTMENT MANAGERS ASSESSED BY DESKTOP ANALYSIS

- AAG Investment Management Pty Ltd
- Acadian Asset Management
- Adamantem Capital
- Allan Gray Australia
- Allegro Funds Pty Ltd
- AllianceBernstein
- Amundi
- Ardea Investment Management
- Argo Infrastructure Partners LP
- Artesian Capital Management Pty Ltd
- Ausbil Investment Management
- Auscap Asset Management
- Australian Catholic Superannuation and Retirement Fund
- Australian Communities Foundation
- Australian Unity Limited
- Avenir Capital
- Aviva Investors
- Bentham Asset Management Pty Ltd
- BetaShares
- Blue Oceans Capital
- Brandon Capital Partners Pty Ltd
- Brightlight Group Pty Ltd
- BT Financial Group
- Cadence Investment Partners LLP
- Cameron Hume Limited
- CareSuper
- Carthona Capital
- Celeste Funds Management Limited
- Challenger Limited
- Charter Hall Group
- Clean Energy Finance Corporation
- Clearmatch
- Colonial First State
- Conduit Capital
- Continuity Capital Partners Pty Limited
- CPE Capital (CPEC)
- Crescent Wealth
- Dexus
- Dimensional Fund Advisors
- DMP Asset Management Ltd
- DNR Capital
- Eaton Vance Investment Managers
- ECP Asset Management
- EG Funds Management
- Eiger Capital
- Elm Responsible Investments
- Energy Industries Superannuation Scheme (EISS)
- Epsilon Direct Lending (Provisional Signatory)
- Equip Super
- ESSSuper
- Ethical Partners Funds Management
- Fairlight Asset Management
- Firetrail Investments Pty Ltd

Fortitude Investment Partners Pty Ltd
Fortius Fund Management
Future Fund
Future Super
Greencape Capital
Gryphon Capital Investments Pty Ltd
Gunn Agri Partners
HESTA Super Fund
Hostplus
NRMA Superannuation Pty Limited
Infradebt
Infrastructure Capital Group
Insurance Australia Group (IAG)
Insync Funds Management
Intrinsic Investment Management
Investors Mutual Limited (IML)
ISPT Super Property
Janus Henderson Investors
K2 Asset Management
Karara Capital
Kilter Rural
Kinetic Investment Partners
L1 Capital Pty Ltd
Lakehouse Capital
Lazard Asset Management LLC
LeapFrog Investments
Lendlease
Lennox Capital Partners
Lighthouse Infrastructure
Liverpool Partners
LOGOS Property Group Limited
LUCRF Super
Macquarie Asset Management
Magellan Asset Management
MaxCap Group
Media Super
Merlon Capital Partners
Mirvac Group
MTAA Super
NAOS Asset Management Limited
NGS Super Fund
Nikko AM Australian Equities
Nikko Asset Management Co. Ltd.
Northcape Capital
NovaPort Capital Pty Ltd
Odyssey Private Equity
Pacific Equity Partners
Pacific Road Capital
Palisade Investment Partners Limited
Pengana Capital Group
Phoenix Portfolios Pty Ltd
PIMCO Australia Pty Ltd
Plato Investment Management
Platypus Asset Management Pty Ltd
PM Capital
Potentum Partners
Providence Asset Group
QBE Insurance Group Limited
Qualitas
Rare Infrastructure Limited
Redpoint Investment Management
Renaissance Property Securities Pty Ltd
Riparian Capital Partners Pty Ltd
SAS Trustee Corporation
Stafford Capital Partners
State Super
StatewideSuper
Suncorp Group
Sunsuper
Sustainable Insight Capital Management
T. Rowe Price
Talaria Asset Management
Talaria Capital
Tasplan
Taurus Funds Management Pty Limited
Telstra Super Pty Ltd
Terra Firma Capital Partners
The Impact Fund (Conscious Investment Management)
Ubique Asset Management Pty Ltd
UBS Asset Management
UEthical
Vantage Infrastructure
Victorian Funds Management Corporation
Vision Super
Whitehelm Capital Pty Ltd
Yarra Capital Management

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