riaa Responsible Investment Association Australasia

Responsible Investment Benchmark Report 2015 New Zealand

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BT Financial Group

NZSUPERFUND Te Kaitiaki Tāhua Penihana Kaumatua ō Aotearoa

Northern Trust | Asset Management

Report was prepared by RIAA based on survey data gathered and collated by EY

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Australian Ethical Investment

As a pioneer of the responsible investment community, Australian Ethical has maintained its position as one of the leading ethical investment companies in the world. For 29 years we have been helping our clients harness the power of money to deliver both competitive returns and positive change for society and the environment. Our philosophy is founded on the Australian Ethical Charter - a set of principles and practices that guide not only our research and investment process but our own corporate behaviour. In addition, every year we donate 10 per cent of our profits through our grants program, one of the highest percentages of corporate giving in Australia. We are proud to once again support RIAA and the vital work of the benchmark report.

BT Financial Group

BT Financial Group (BT) is Australia's largest administrator of superannuation, retirement and investments and is a signatory to the Principles for Responsible Investment. BT considers its role as one of a universal owner and long term investor on behalf of our beneficiaries. We believe that the research, assessment and management of environmental, social and governance (ESG) factors enhance our ability to meet the long term investment objectives for our funds, consistent with our fiduciary duty. It also provides greater insight into investment risks across all time frames. Managing for a long-term investment outcome is not only beneficial for this generation, but for generations to come. BT also recognises that by applying the principles underpinning consideration of ESG factors, there may be a better alignment between investor outcomes and the broader objectives of society.

New Zealand Superannuation Fund

The NZ$30 billion New Zealand Superannuation Fund invests globally to help pre-fund the future cost of universal superannuation in New Zealand. The Fund is managed by an Auckland-based Crown entity, the Guardians of New Zealand Superannuation. The Guardians believes that environmental, social and governance (ESG) factors are material to long-term investment returns, and is committed to integrating ESG considerations into all aspects of the Fund's investment activities. A founding signatory of the United Nations Principles for Responsible Investment, the Guardians also provides responsible investment services to the Accident Compensation Corporation and the Government Superannuation Fund Authority and is the Secretariat of the New Zealand Corporate Governance Forum.

Northern Trust Asset Management

Northern Trust Asset Management manages $960.1 billion in assets (as at 31 March 2015), across a wide range of strategies including Engineered Equity (smart beta), ESG and Index Management providing personalised solutions to investors around the world. Northern Trust Asset Management has more than 25 years of experience managing Responsible Investment portfolios and more than US$62 billion in positive and negatively screened assets under management. We understand that there is a broad set of motivations driving our clients into responsible investing. In doing so, we have designed a suite of capabilities to give clients flexibility in their approach and the assurance that their strategies will be supported by the full resources of our world class investment management processes and execution.

Research support from

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Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) is the peak industry body representing responsible and ethical investors across Australia and New Zealand. RIAA is a growing active network of over 150 members managing more than $500 billion in assets, including super funds, fund managers, consultants, researchers, brokers, impact investors, property managers, banks, community trusts and financial advisers.

RIAA's goal is to see more capital being invested more responsibly. RIAA works to shift more capital into sustainable assets and enterprises and shape responsible financial markets to underpin strong investment returns and a healthier economy, society and environment.

We do this by actively promoting the concept of responsible investment, across the finance industry and to the investing public, with the objective of increasing the uptake and deepening the impact of responsible investment.

RIAA works closely with and for its members on this cause, offering valuable services and benefits for members including:

- Being a hub of relevant and timely ESG and ethical information for our members, through our program of regular research, events, conferences, field trips and webinars.
- Acting as a strong voice for the industry through media and communications, to promote and grow demand for responsible and ethical investment
- Working to build the capacity of the industry in responsible investing through education, networking and thought leadership.

As this report shows, there has never been a more important time to be on top of the developments in responsible investing and there's no better way than by becoming a member of RIAA.

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Executive summary

In 2014, attention focused on responsible and ethical investing grew substantially, as more investors across the industry took stronger positions on issues including fossil fuels and increasing numbers of consumers aligned their investments with their values.

This year's New Zealand Responsible Investment Benchmark Report, along with its companion Australian Report, finds that responsible investment assets managed by asset managers and asset owners continued to grow strongly across Australasia, both at retail levels and institutional levels, across all responsible investment strategies:

- **Total assets managed under responsible investment strategies in New Zealand** have grown by 10% to reach $63.5 billion of assets under management (AUM) as at 31 December 2014.
- **Investments managed under core responsible investment strategies** – those traditionally referred to as ethical or Socially Responsible Investments (SRI), including Kiwisaver – rose again this year by 19% to $3.2 billion AUM.
- **Investments undertaking ESG integration (environmental, social and governance - referred to as broad responsible investment in this report)** represent $60.3 billion AUM (or 95% of responsible investments), reflecting the strong take up of ESG integration by many of New Zealand's largest asset owners.

This report maps important elements of the responsible investment industry in New Zealand across religious organisations, community trusts, sustainability themed asset managers (across sustainable agriculture and water), as well as retail asset managers and the growing offering of responsible Kiwisaver providers.

The strong uptake of responsible investment can be attributed to four key drivers:

- An increasing number of examples of companies' poor management of environmental, social, governance (ESG) and ethical issues impacting shareholder value;
- Growing demand from consumers to align retirement savings with their beliefs and values;
- An increase in activist and civil society groups engaging the finance sector as a means of affecting change within investee companies.
- An increasing awareness by fiduciaries that consideration of ESG issues is an important element of their responsibilities, particularly in light of the growing ESG megatrends such as climate change with broad and wide ranging investment implications.

This year's research again highlights how the New Zealand responsible investment industry is significantly led by the New Zealand Superannuation Fund and the Accident Compensation Corporation, with combined assets of $54.5 billion AUM, or 86% of AUM covered by this report.

In addition to these large asset owners, this report maps other important elements of the responsible investment industry in New Zealand across religious organisations, community trusts, sustainability themed asset managers (across sustainable agriculture and water), as well as retail asset managers and the growing offering of responsible Kiwisaver providers.

This year's report again shows that the consumer demand is starting to grow for responsible investment, with the core responsible investment rising again in absolute terms (by 19%) but also continuing its rise (albeit slowly) in relative terms against TAUM to 4% of TAUM.

RIAA anticipates that increasing interest from the public and media will further increase focus on responsible investment, which in turn is likely to translate to more of the public choosing responsible investment options as we are seeing in Australia.

The growth of the industry is not being seen just through growing responsible investment AUM, but also through the deepening of the way investors – in particular asset managers and asset owners – are implementing responsible investment strategies.

Total assets managed under responsible investment strategies have grown by 10% to reach $63.5 billion of assets under management (AUM) as at 31 December 2014.

For asset owners, this has manifested in the largest funds now using multiple responsible investment strategies across their entire portfolios rather than merely undertaking one responsible investment strategy.

Investments managed under core responsible investment strategies – those traditionally referred to as ethical or Socially Responsible Investments (SRI), including Kiwisaver – rose again this year by 19% to $3.2 billion AUM.

Examples of this are asset owners applying ESG integration across all asset classes, with some negative or norms-based screening, as well as undertaking corporate engagement and some with allocations to sustainability themed investments. Despite this development making categorisation of funds increasingly challenging, this trend appears consistent with more mature responsible investment markets, and increasingly is becoming the approach of this region's larger sophisticated asset owners.

For this first time this year, RIAA undertook a review and assessment of asset managers who are self-declared responsible investors against a framework developed based on global definitions of leading practice in ESG integration (described in detail in the companion Australian report). This was undertaken in order to estimate the level of AUM managed by asset managers showing a leading approach to ESG integration in addition to survey responses. This importantly provides a framework of what now constitutes global leading practice in ESG integration.

The AUM reported in the broad responsible investment category was determined by survey results in addition to this desktop assessment of 85 asset managers across Australasia, 9 of which were from New Zealand.

> The assessment finds once again that the myth of underperformance of responsible investments is unfounded

Importantly, alongside this growth in assets in New Zealand (and also in Australia), the Australian companion report also assesses the performance of Australian responsible investment funds compared with their benchmark index and the average of equivalent mainstream funds (the results are included in Appendix A). The assessment finds once again that the myth of underperformance of responsible investments is unfounded and highlights important results relevant for all markets:

- **Core responsible investment Australian Equities funds** strongly outperformed both the ASX300 and the average Large Cap Australian equities funds in all time periods across 1, 3, 5 and 10 years.
- **Core responsible investment International Equities funds** displayed strong results, including outperforming the average Large Cap International equities fund over 1, 3 and 5 years, but slightly underperforming over 10 years (both mainstream and responsible funds under-performed the MSCI World ex-Australia Index over 5 and 10 years)
- **Core responsible Multi-Sector Growth funds (i.e. balanced funds)** also outperformed their equivalent mainstream multi-sector growth funds across all time periods of 1, 3, 5 and 10 years

These results are good news for investors seeking to have a strong positive impact and strong financial returns from their investments. These strong results show that a responsible investment approach is consistent with good investment outcomes.

Conclusion:
Responsible Investment is a broad term capturing a wide diversity of investors and investment strategies. What unites this group of investors is the understanding that there are more factors driving investment returns than just what is disclosed in a company's financial statements. Whether the purpose for an investor is to invest ethically or better understand valuation drivers, all of these investors are applying responsible investment strategies within their investment decision-making processes.

Consistent with global trends in responsible investment, it is clear that leading investment organisations understand that responsible investment is now the benchmark of good investment practice, is increasingly demanded by clients (whether institutional investors or members of the public) and provides greater insights to inform good investment decision-making.

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About the Report

Good investors have long known that there is more that drives investment returns than just what is disclosed in financial reports.

Responsible investors understand that companies and assets won't thrive whilst ignoring environmental issues (pollution, climate change, water and other resource scarcity issues), social issues (local communities, employees, health and safety), corporate governance issues (prudent management, business ethics, strong boards, appropriate executive pay) or ethical issues.

In formal terms, responsible investing is a systematic investment process that takes into account environmental, social, governance (ESG) and / or ethical issues into the investment process of research, analysis, selection and monitoring of investments.

Responsible investment represents a commitment to look at a broader array of risks and value drivers in investment decision-making, beyond and in addition to reported financial risk, and to systematically assess how these factors impact on the value of the investment. This is in acknowledgement that investment value is driven by many factors that are not disclosed in financial reports. These are ESG factors – environment, social and corporate governance - that are ever more frequently proving to be critical to understand a full picture of the value of an investment.

"Responsible investment ...is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting.

UN Principles for Responsible Investment"

These ESG factors include company culture and management, brand value, good governance and corporate ethics, quality control, pollution control, carbon emissions, occupational health and safety, good human resources practices, stakeholder management and more. ESG factors differ on a sectoral basis, company specific basis and on an asset class basis, with all investments holding different levels of exposures (in the same way market trends impact different companies in different ways). This complexity of issues is why there is no template for assessing ESG risks, but rather it takes skilled investment expertise and a systematic process along with deep knowledge to fully integrate these factors into investment decision-making.

In addition to ESG as a value driver, responsible investors also include those who overlay values or ethical decisions on their investments in order to align their investments with personal or organisational values and beliefs. Again, values and ethics are not homogenous, and as such, the underlying investor is best positioned to ascertain how to reflect their beliefs across their investments. Consequently, across the many ethical investment products, there are a variety of approaches, including many different industries that are ultimately screened out of ethical products.

As this report demonstrates, responsible investment is a growing component of the finance industry across superannuation, asset management, banking, community finance and financial advisory services. It represents a spectrum of offerings from large investment managers who integrate ESG factors in their decision-making, to so called 'deep green' ethical investment funds that apply screening criteria over their investments. As this report discusses, the maturing of the industry is resulting in many investment organisations applying multiple responsible investment strategies to reflect both the assessment of ESG risk alongside an ethical position for better outcomes for their underlying beneficiaries.

What unites all responsible investors is the acknowledgement that there is more driving investment outcomes than just what is found in the financial reports.

Purpose of the report

This report (and its companion Australian report) provides industry data on the size, growth and performance of the New Zealand responsible investment market over the 12 months to 31 December 2014, and compares this with New Zealand's broader financial market. This Responsible Investment Benchmark Report 2015 is the 14th annual benchmark report prepared by RIAA covering the region of Australasia, with this being the first time a stand alone New Zealand report has been published.

International context

RIAA is a proud member of the Global Sustainable Investment Alliance (GSIA), together with ASrIA (Association for Sustainable & Responsible Investment in Asia), Eurosif (The European Sustainable Investment Forum), UKSIF (UK Sustainable Investment & Finance Association, US SIF (The Forum for Sustainable & Responsible Investment) & VBDO (Dutch Association of Investors for Sustainable Development). To enable comparison of Australasia's responsible investment market with those of other regions, this report has been prepared in line with the GSIA categories and definitions[1] of responsible investment as applied in the Global Sustainable Investment Review 2014, the report mapping the growth and size of the global responsible investment industry.

GLOBAL SUSTAINABLE INVESTMENT ALLIANCE GSIA

Responsible Investment Strategies

This report, consistent with the GSIA, recognises seven major strategies for responsible investing. To maintain a global standard of classification, this report is aligned with these seven categories:

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

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

1 Read the Global Sustainable Investment Review 2014 here http://www.gsi-alliance.org/members-resources/global-sustainable-investment-review-2014/

Core versus Broad Responsible Investment

For the purpose of this report, we differentiate between core and broad responsible investment strategies.

Core responsible investment strategies are defined as investments that apply as a primary responsible investment strategy at least one of the approaches of: screening (negative, positive or norms-based); sustainability themed investing; impact/community investing; or corporate engagement.

Broad responsible investment strategies are defined as those investments that apply ESG integration as a their primary responsible investment strategy.

This distinction is made to provide a useful differentiation of the data in a way that offers more granularity on the nature of the industry. Specifically, the core responsible investment strategies are made up in large part of those funds traditionally referred to as SRI or ethical strategies, with many of them being retail investment offerings (including the underlying managers for many superfund SRI options). As such, the core responsible investment data represents our closest proxy to retail take up of responsible investments.

In contrast, broad responsible investment tends to be made up of large institutional funds, for which ESG integration is undertaken as part of a mainstream investment offering (as opposed to a client chosen ethical, SRI or themed investment).

Increasingly, funds are applying multiple responsible investment approaches – for example ESG integration plus screening plus engagement. In this case, we allocate the fund to the primary responsible investment strategy being pursued, as determined through the survey responses, in conjunction with a RIAA review for consistency of classification with other equivalent or similar funds.

Currently in Australia and New Zealand, there are 82 asset manager signatories to the UN Principles of Responsible Investment, which means that all 82 asset managers are self declared responsible investors who have committed to integrate ESG into their investment decision making (among other commitments). According to PRI RI Transparency Reports, the 73 Australian asset managers represent approximately AU$821 billion in AUM, 9 New Zealand asset managers NZ$12.7 billion AUM and 8 New Zealand asset owners NZ$60.8 billion AUM.

However, for the purposes of this report, our intention is to set out the size of the responsible investment industry including only those we consider to be demonstrating leading practice in ESG integration, and as such, we have undertaken a detailed desktop analysis of all those asset managers who are signatories of the PRI plus other asset managers our database indicates are practicing ESG integration. For more detail on the assessment methodology, see the breakout box in the Broad Responsible Investment section of the report.

Methodology

Reporting boundary
This report covers the calendar year 2014 and all data is as at 31 December 2014, where possible. In some cases, data was not available on a calendar year basis and on these occasions data was taken from the closest available reporting point. Australian figures are presented in AUD, while New Zealand figures are presented in NZD.

The investment industry is highly internationalised. Responsible investment funds can be located in one country, managed in another, and sold in a third, meaning defining an Australasian market is increasingly difficult. This report is intended to provide a guide to the range of responsible investment options available in the Australasian market. It therefore includes assets managed in the region, as well as some products managed outside the region, but sold in Australia.

Data collection

Data used in compiling this report was generously provided and collated from the following sources:

- Directly supplied by more than 70 asset managers, super funds, financial advisers, and community investment managers via a data collection survey for assets under management (AUM), investment approach and performance
- Morningstar for Total Assets Under Management (TAUM) in Australasia and average performance of mainstream managed fund categories, as well as a secondary source of AUM for many of the funds listed
- RIAA database and industry contacts
- Desktop research of publicly available information regarding assets under management, performance data and investment strategies, including websites, annual reports and PRI RI Transparency Reports.

The response rate to this year's survey was 58% from Australian investors and 41% from New Zealand investors representing the vast majority of AUM as the respondents were skewed towards the larger asset managers. Where data was not available, there has been no extrapolation of data.

In some cases the 2013 data has been recalculated for this year's report where new or updated information was made available in order to maintain consistency for year on year comparison. For this reason, some data may be reported differently to that reported in last year's report.

Data was generously provided by 70 asset managers, super funds, financial advisers, community and impact investment managers

Data analysis and reporting

Due to the complexity of identifying a single primary responsible investment strategy, this year secondary responsible investment strategies were also nominated through the RIAA data collection surveys. These were used to identify the depth of the responsible investment approach and to identify overlap between responsible investment strategies to give a better view of the responsible investment market in Australasia.

Any identified double counting, resulting from overlapping investments, has been removed in the reported figures. RIAA is continuously working to improve its data collection processes to enhance the quality of data and broaden the scope of data collected.

The response rate to this year's survey was 58% from Australian investors and 41% from New Zealand investors

Data completeness

It is important to note that for many areas of responsible investment data there is no requirement for disclosure. As such, some investment custodians may be reluctant to supply information for reasons of privacy or commercial confidentiality. As a result, despite all efforts to include all assets managed under responsible investment strategies in this report, for categories outside of managed responsible investment portfolios it is likely that some data was not accessible. For this reason, data in this report should be considered conservative.

Responsible Investment in New Zealand

Responsible investment continues to be a major part of the investment market in New Zealand as reflected in assets under management, with a significant contribution to AUM by the NZ Superannuation Fund, the Accident Compensation Corporation and the Government Superannuation Authority.

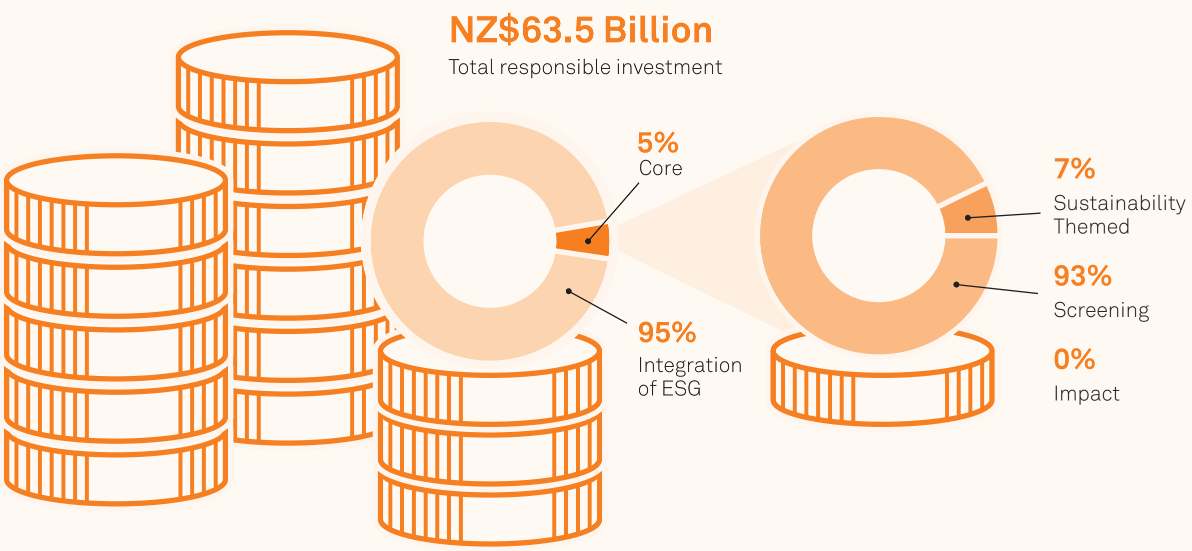
However, there are also strong pockets of responsible investment within the community trusts, as well as emerging interest in retail offerings including responsible and ethical Kiwisaver products.

Within the institutional asset manager community, there are more mixed findings, with some strong responsible investors, but many of the largest asset managers still not embracing responsible investment.

The New Zealand responsible investment sector grew by 10% in 2014 to reach NZ$ 63.5 billion AUM as at 31 December 2014.

This growth is dominated by the NZ Superannuation Fund and the Accident Compensation Corporation which makes up 86% of the total assets under management accounted for in this report, with combined assets of $54.5 billion.

Total responsible investment in New Zealand



Responsible Investment Approach	2014 Responsible Investment AUM ($m)	Revised 2013 Responsible Investment AUM ($m)	Change (based on revised 2013 figures)
Screening (Positive, negative)	2,972	2,592	15%
Sustainability themed investing	229	94	144%
Impact / community investing	0	0	0%
Core Responsible Total	**3,201**	**2,686**	**19%**
Broad Responsible Total ESG integration	**60, 268**		
TOTAL RESPONSIBLE INVESTMENT	**63,469**	**57,724**	**10%**

Core Responsible Investment Assets

Of the total responsible investment funds, 5% was classified as core responsible investment – those responsible investments applying screening, sustainability themed or impact investment - which is consistent with last year.

At this relatively smaller end of the industry, the core responsible investment funds have seen a strong growth of 19% in the last year, totalling NZ$3.2 billion as at 31 December 2014.

This increase was driven by an average one year return of 10% from NZ core responsible investment funds and the remaining growth attributed to increased inflows into core responsible investment products.

With core responsible investment offerings being the best proxy for retail demand, this indicates a reasonably strong lift in retail demand for ethically screened funds of approximately 10% in the last year.

With Morningstar reporting total assets under management in NZ of NZ$80.8 billion (including NZ Superannuation Fund), core responsible investments represent 4% of the market. In Australia, the equivalent funds represent 2.49% of TAUM.

The primary strategy employed by core responsible investment funds was positive or negative screening, making up 93% of all core responsible investment funds.

The funds assessed include a number of distinct categories of investment organisations:

- **A number of church groups** across New Zealand including NZ Anglican Church Pension Board, Quaker Investments and the Methodist Trust
- **Community Trusts** including Community Trust of Southland and Trust Waikato where screening was deemed the primary responsible investment approach (other trusts were incorporated in broad responsible investment undertaking ESG integration as their primary responsible investment strategy).

A number of retail ethical or SRI offerings are also included in core responsible investment including Kiwisaver products. These included:

- Amanah Kiwisaver
- AMP Responsible Investment Leaders
- ANZ OneAnswer Kiwisaver
- Grosvenor Financial Services Group Socially Responsible Kiwisaver (having also taken over Fidelity Ethical Kiwisaver during 2014)
- Koinonia Kiwisaver
- Quaystreet Balanced SRI Fund (a subsidiary of Craigs Investment Partners)
- Superlife Ethica Strategy
- Trust Investments Australasian Share Fund

Sustainability themed investments constituted 7% of core responsible investments after witnessing a significant increase of 144% over the course of 2014 due to large inflows into one manager. Of these funds, this data relates to:

- Sustainable Agriculture - Southern Pastures Management
- Water fund - Pathfinder

No data was gathered on **impact and community investments** in this year's survey. There is a challenge here in categorising the community trusts, who are involved in active community investment through their grant making. However, for the purposes of this report, the trusts are assessed on the responsible investment processes covering their investments not their grants. For the most part, the community trusts who are PRI signatories are categorised under ESG integration (broad responsible investment) based on survey results and an assessment of PRI Transparency Reports (apart from the two listed above).

Broad Responsible Investment Assets

Globally, ESG integration constitutes a major force in the investment industry today, with New Zealand being no exception.

In New Zealand, this report finds significant assets managed under ESG integration strategies (referred to as broad responsible investments) across asset owners and asset managers, often with secondary responsible investment strategies including screening.

Those asset owners and asset managers included in this report have been determined by survey results, coupled with a desktop assessment that included a review of PRI Transparency Reports.

As set out in detail in the Australian companion report, RIAA has always taken a conservative approach to estimating the value of AUM integrating ESG factors, as we know there is a great range of depths to which these investment practices are applied. For the first time this year, in addition to survey responses, RIAA undertook a desktop assessment of all those asset managers who are self-declared responsible investors (primarily from PRI signatory lists) and assessed them against a framework developed from researching global definitions of leading practice in ESG integration. This assessment framework and process is described in detail in the Australian companion report.

There have been challenges in categorising some of these investment organisations due to the multiple responsible investment strategies being implemented which is a trend we are increasingly seeing from the more mature responsible investment organisations, including some of our region's larger and more sophisticated asset owners.

For example, the three large New Zealand asset owners - New Zealand Superannuation Fund, the ACC and the Government Superannuation Fund Authority – undertake ESG integration, but in addition all operate under ethical investment policies that screen out certain industries. All three have exclusions across tobacco, anti-personal mines, cluster munitions, nuclear explosive devices and in some cases whale harvesting.

The NZ Superannuation Fund has in addition what is commonly referred to in Europe as a norms-based exclusion policy, whereby additional exclusions can be made based on breaches of international conventions, including the UN Global Compact. This has allowed additional company specific exclusions on a case-by-case basis, for example excluding the miner Freeport-McMoran in 2012 due to breaches of human rights at its Grasberg Mine.

These screening processes are applied across the whole fund, but are set to complement other strategies from ESG integration and corporate advocacy and engagement.

This hybrid approach, also taken up by a number of large asset owners in Australia (although making it more challenging to categorise for surveys such as this one) offer asset owners more tools to deal with ESG and ethical risks.

Watching the trends across our region and in other parts of the world, RIAA anticipates more asset owners and managers undertaking the approach of adopting multiple responsible investment strategies.

Those asset owner and asset managers with ESG portfolios valued at over NZ$1 billion are shown in the graph below.

Where an asset manager is managing assets of an asset owner also included in the scope of this report, all assets of that manager have conservatively been excluded from the broad responsible investment total presented at the start of this section in order to prevent double counting.

New Zealand PRI signatories:
In total, New Zealand has:

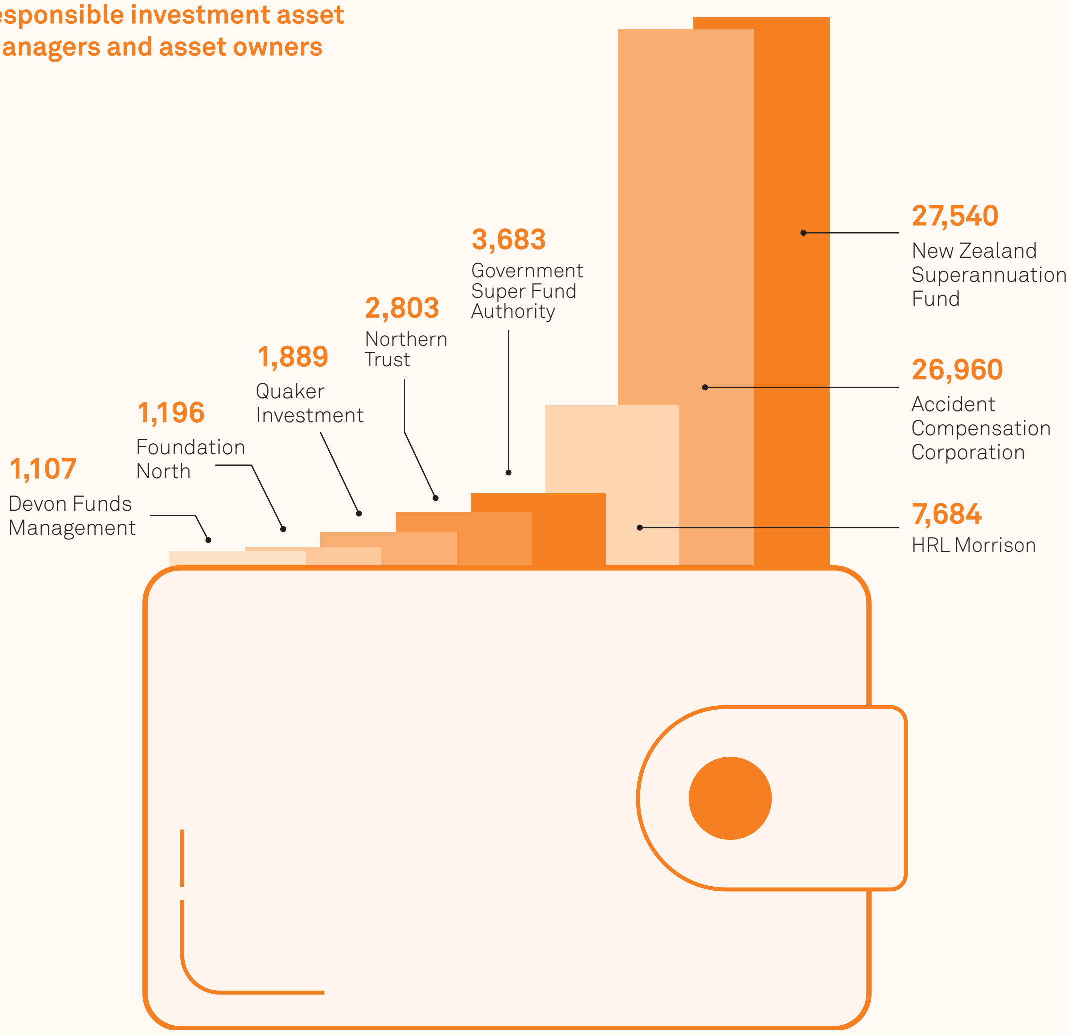
- 8 asset owner signatories to the Principles for Responsible Investment managing $60.8 billion AUM (including the NZ Superannuation Fund, ACC and community trusts), and
- 9 asset manager signatories managing $12.7 billion AUM.

However, of the top 10 asset managers in New Zealand by assets (taken from Morningstar sources), only three of these are signatories to the PRI, and all three only because their offshore parent entities are signatories. This indicates that at the institutional level beyond the large and mainly government asset owners, there remains a lot of scope for improvement in the take up of responsible investment generally.

The investment organisations included in the broad responsible investment category in this year's report include:

- Accident Compensation Corporation
- Canterbury Community Trust
- Devon Funds Management
- Direct Capital
- DNZ Property
- Foundation North (formerly ASB Community Trust)
- Government Super Fund Authority
- HRL Morrison
- New Zealand Superannuation Fund
- Northern Trust Asset Management
- Otago Community Trust

Largest New Zealand responsible investment asset managers and asset owners



Glossary

AUM – Assets under management - measures the total market value of all the financial assets which a financial institution manages on behalf of its clients
ESG – Environment, social and governance
GSIA – Global Sustainable Investment Alliance
PRI – UN Principles for Responsible Investment
RIAA – Responsible Investment Association Australasia
TAUM – Total assets under management as defined by Morningstar refers to the total asset base for the managed fund industry.

Definitions of responsible investment strategies

Broad Responsible Investment – investment that applies an ESG integration overlay, usually on to mainstream investment management strategy

Core Responsible Investment – investment that takes one of the following approaches:

- Screening of investments – negative, positive and norms-based screening
- Sustainability themed investing
- Impact/community investing
- Corporate engagement and shareholder action

ESG Integration – ESG integration involves the systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis and investment decision making based on an acceptance that these factors represent a core driver of both value and risk in companies and assets.

Negative screening – screening that systematically excludes industry sectors, companies, practices or even, at times, countries based on specific ESG or ethical criteria from a fund or portfolio. This approach is also often referred to as values-based or ethical screening. Common criteria used in negative screening include gaming, alcohol, tobacco, weapons, pornography and animal testing

Positive screening – involves screening investment in sectors, companies or projects selected for positive ESG or sustainability performance relative to industry peers in a defined investment universe. It can also refer to best-in-class screening, and involves identifying those companies with superior ESG performance from across all sectors.

Norms-based screening – norms-based screening is screening of investments against minimum standards of business practice based on international norms such as those defined by the United Nations (UN). This can include, for example, excluding companies that would contravene the UN Convention on Cluster Munitions, but also screening primarily based on ESG criteria developed through international bodies such as the UNGC (United Nations Global Compact), ILO (International Labour Organisation), UNICEF (United Nations Children's Fund) and the UNHRC (United Nations Human Rights Council).

Sustainability themed investing – focuses on investment in themes or assets specifically related to sustainability factors. This commonly refers to funds that invest in clean energy, green technology, sustainable agriculture and forestry, green property, or water technology. This category also includes multi-strategy portfolios that may contain a variety of asset classes or a combination of these themes

Impact investing – includes targeted investments aimed at solving social or environmental problems whilst also delivering financial returns. Impact investing includes community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social purpose.

Corporate advocacy and shareholder action – 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 that is guided by comprehensive ESG guidelines.

Appendix A

Performance of Australian Core Responsible Investment Funds

Australian Share Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 16-30 funds sampled depending on time period)	6.9%	17.6%	8.0%	8.1%
	Large-Cap Australian Share Fund Average	4.3%	14.2%	5.8%	6.8%
	S&P/ASX300 Accumulation Index	5.3%	14.7%	6.5%	7.4%

International Share Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 2-13 funds sampled depending on time period)	15.5%	24.7%	11.7%	4.2%
	Large-Cap International Share Fund Average	12.5%	22.9%	11.1%	4.9%
	MSCI World ex Australia Index $A	15.0%	24.8%	12.5%	5.5%

Multi-Sector Growth Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 4-10 funds sampled depending on time period)	10.9%	13.9%	7.6%	7.7%
	Multi-Sector Growth Fund Average	7.8%	12.9%	7.2%	5.6%

Appendix B

Entities included in this report

Accident Compensation Corporation
Amanah Kiwisaver
AMP Capital Investors
ANZ
Devon Funds Management
Direct Capital
Foundation North
Government Super Fund Authority
Grosvenor Financial Services Group
Koinonia Kiwi Saver Scheme
New Zealand Superannuation Fund
Northern Trust
Methodist Trust Association
Pathfinder
Quaker Investments
Quaystreet (Craigs Investment Partners)
Southern Pastures Management
Superlife/Ethica
The New Zealand Anglican Church Pension Board
Trust Investments Australasian Share Fund
Trust Waikato

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