A benchmark report on responsible investment in Australia and New Zealand by the Responsible Investment Association Australasia
The 2013 Responsible Investment Benchmark Report has been made possible with the support of our sponsors:

**ADVANCE BT FinancialGroup**

Advance Asset Management is a specialist asset management business within BT Financial Group (Australia’s largest administrator of superannuation, retirement and investments). Our focus is on delivering on the investment management needs of our investors within our robust risk management framework.

We believe researching, assessing and managing Environmental, Social and Governance (ESG) factors enhances our ability to meet the long-term investment objectives for our funds. The level of ESG integration and individual investment manager capabilities forms an important part of our selection process. We encourage our investment managers to include ESG factors in their investment processes as we believe it provides a greater level of risk analysis and enhances portfolio risk management.

Managing for a long-term investment outcome is not only beneficial for this generation, but for generations to come.

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**Australian Ethical**

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 27 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.

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**Bankmecu**

At bankmecu, we are 100% owned by our customers. This allows us to offer a more responsible approach to banking. Reinvesting profits for the benefit of our customers and being guided by their values and expectations are just a couple of ways we show our commitment to responsible banking. Through our Community Investment Program, we contribute up to 4% of our after tax profits into programs that aim to help solve economic, social and environmental problems and make a positive, measurable and sustainable difference to society. We’re also passionate about implementing corporate transparency, ethics and sustainability, and encouraging stakeholder engagement.

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**Perpetual**

Perpetual Investments (‘Perpetual’) is part of Perpetual Limited, an Australian listed company. With roots stretching back more than 125 years, Perpetual has a long heritage in providing financial services to large and small Australian investors based on trustworthiness, independence and integrity of the highest order.

Perpetual’s investment philosophy recognises that environmental, social and governance (‘ESG’) factors influence investment performance. Being a responsible investor is about considering ESG factors in investment analysis and decision making, and promoting improved ESG practises across companies. This has broader benefits including better business conduct, increased market efficiency, sustainable environmental management and ultimately a more cohesive and fairer society.

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In partnership with: Research provided to RIAA by: Research support from:
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RIAA is the industry body representing responsible investors throughout Australasia, with the aim of promoting responsible investment to accelerate its uptake and deepen its impact.

Our members represent a cross section of the investment industry, from super funds, fund managers, service providers to financial advisers. RIAA's membership currently consists of 158 investment organisations and individuals, who manage over $500 billion in funds under management.

RIAA acts as a hub for the responsible investment industry, supporting its members by amplifying issues, advocating on their behalf and delivering solutions with the goal of achieving the mission of promoting stable markets, maximising financial returns and creating positive environmental, social, governance and ethical outcomes.

RIAA acts as a catalyst to assist its members undertake responsible and sustainable investment by creating opportunities for collaboration, education and advocacy. RIAA produces a number of industry focused events, convenes working groups and undertakes research, keeping its members connected and at the forefront of responsible investing.

Some of the ways RIAA does this is via:
• Policy and advocacy
• Research
• Events and networking opportunities, including our annual conference in Australia and New Zealand
• Education through our RI Academy
• Certification and public awareness through the Responsible Investment Certification Program

Belonging to RIAA demonstrates a commitment to responsible investment and keeps you at the forefront of the industry.

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With eight of the top ten investment managers in Australia now signed on to the UN Principles for Responsible Investment, it would be fair to say that responsible investment has become mainstream.

So what is responsible investment and why is such a large proportion of the investment market self-declared responsible investors?

At its most basic, responsible investment represents a commitment to looking at a broader array of risks and value drivers in investment decision-making than purely financial risk in acknowledgement that investment value is driven by many issues that are off balance sheet. This includes 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.

Consideration of these environment, social and corporate governance (ESG) factors are ever more frequently proving themselves to be the benchmark of good investment practice.

But as this report demonstrates, responsible investment is so much more than this, and is a term that represents a blossoming sub-sector within the finance industry across superannuation, funds management, banking, community finance and financial advisory services with an array of offerings from ethical through to the cusp of mainstream investment.

STATE OF THE INDUSTRY

Funds under management:

This year’s Responsible Investment Benchmark report presents data on the current state of the industry compiled from 117 funds, over 100 advisers and 20 community finance organisations, including input from data provided by Morningstar and Mercer.

Total funds under management in responsible investment portfolios at the end of 2012 – including all ethical and socially responsible funds, as well as the funds managed under ESG integration that are rated as above average - totalled $152 billion, or approximately 16% of total assets under management (TAUM) in Australia, having grown from 13% of TAUM in 2011 and 8% in 2010.

Compared to 2011, responsible investment funds under management have increased by 30% in dollar terms, from $117 billion to $152 billion.

In Australia, ESG Integration has proven to be the dominant method of responsible investment, representing 89% of the overall market total ($135 billion) having experienced 33% growth between 2011 and 2012.

Funds managed in core responsible investment portfolios (commonly referred to as ethical or socially responsible investment funds) grew only a modest 4.2% during 2012 from $14.6 billion to $15.2 billion despite some of the strongest performance of funds in many years.

New Zealand is also a very strong responsible investment story this year, with funds in New Zealand having increased from NZ$19.3 billion to NZ$22.6 billion, growth of 17%.

1 Only funds with ESG strategies rated as “above average” by Mercer are included in this category.
Compared to Total Assets Under Management (TAUM) in New Zealand, core responsible investment funds invested under a screening approach or a sustainability theme represented a massive 38% of TAUM across the country, heavily represented by New Zealand Superannuation Fund.

Advisers also directly manage responsible investment portfolios for their clients with 30 firms with direct core responsible investment portfolios totalling $1,532 million in 2012, very similar to 2011 results of $1,539 million.

Performance:

The most common criticism of the various responsible investment approaches is that investors will be sacrificing returns for investing more responsibly.

This year’s report again blows this myth out of the water:

**Core responsible investment funds are delivering better returns than both the benchmark and the average of all mainstream funds in all but one category across time periods (1, 3, 5 & 10 years) in three major investment categories – Australian equities, international equities and multi-sector growth funds**.

<table>
<thead>
<tr>
<th>Australian Share Funds</th>
<th>Average Responsible Investment Fund (50)</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Large-Cap Australian Share Fund Average</td>
<td>18.14%</td>
<td>1.66%</td>
<td>-2.24%</td>
<td>8.18%</td>
</tr>
<tr>
<td></td>
<td>S&amp;P/ASX 300 Accumulation Index</td>
<td>19.74%</td>
<td>2.80%</td>
<td>-1.81%</td>
<td>9.05%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International Share Funds</th>
<th>Average Responsible Investment Fund (18)</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Large-Cap International Share Fund Average</td>
<td>14.04%</td>
<td>1.27%</td>
<td>-5.00%</td>
<td>0.78%</td>
</tr>
<tr>
<td></td>
<td>MSCI World ex Australia Index $A</td>
<td>14.14%</td>
<td>1.91%</td>
<td>-4.55%</td>
<td>0.93%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Multi-Sector Growth Funds</th>
<th>Average Responsible Investment Fund (13)</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Multi-Sector Growth Fund Average</td>
<td>13.80%</td>
<td>3.86%</td>
<td>-0.41%</td>
<td>5.52%</td>
</tr>
</tbody>
</table>

Only in multi-sector growth funds did the average responsible investment fund 1 year performance slightly underperform the mainstream average (returns of 12.5% vs 13.8%).

**The 2012 average returns for responsible investment funds (Australian equities) was a stellar 21.45%**.

Typifying a strong year for ethical and responsible funds in 2012 was Perpetual’s Wholesale Ethical SRI Fund achieving the top performing equity fund in Australia returning 39.7%.

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2 This data is reported net of fees, consistent with Morningstar data.
Strong performance in core responsible investment funds generated an estimated $2 billion in additional funds under management (FUM) in these portfolios (growing to $15.2 billion). However, this was largely masked in the modest 4.2% growth in FUM in this category, which was due to large net outflows across a number of funds – clearly many investors left at the wrong time.

Such strong performance can be put down in part to the fact that most of these core responsible investment funds (as opposed to broad responsible investment funds) tend to have much lower exposure to the resources sector than mainstream funds in a year that saw resources stocks go off the boil.

The 5 years post-GFC has been stronger in all fund categories compared with the benchmark and average mainstream funds.

Furthermore, 10 year performance continues to stand out with strong outperformance of responsible investment funds.

Beyond the continuing growth and strong performance of responsible investment funds, this year’s report also highlights the broadening of responsible investment offerings, with special sections in this report covering the rise of impact investment and responsible banking.

Now more than ever, there are responsible financial products offered across every asset class and for every type of investor showing a continued maturing and deepening of the industry.

Responsible investing across Australia and New Zealand is truly coming of age.
With eight of the top ten investment managers in Australia now signed on to the UN Principles for Responsible Investment, it would be fair to say that responsible investment has become mainstream. So what is responsible investment and why is such a large proportion of the investment market self-declared responsible investors?

At its most basic, responsible investment represents a commitment to looking at a broader array of risks and value drivers in investment decision-making than purely financial risk in acknowledgement that investment value is driven by many issues that are off balance sheet. This includes 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.

In the parlance of responsible investing, these are the ESG factors – environment, social and corporate governance – sometimes referred to as extra-financial factors - that are ever more frequently proving themselves to be critical elements of good investment practice.

But as this report demonstrates, responsible investment is so much more than this, and is a term that represents a blossoming sector of the finance industry across superannuation, funds management, banking, community finance and financial advisory services. It represents a spectrum of offerings from those largest investment managers who integrate ESG factors in their decision making in line with commitments to UN PRI, to so called ‘deep green’ ethical investment funds who apply screening criteria across their investments.

**What is responsible investment?**

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

*It 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**

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But what unites all responsible investors is that the investment decision making is based on more than just financial analysis. All responsible investors undertake rigorous financial analysis, but in addition, undertake more research on a raft of other drivers of value and risk as a core element of their investment process, across research, analysis, selection and monitoring of an investment.

The Global Sustainable Investment Alliance (GSIA), to which RIAA is a proud member, recognise five major approaches to socially responsible investing:

- Screening of investments
- Sustainability themed investing
- Impact/community investing
- Integration of ESG factors
- Corporate engagement and shareholder action

DEFINITIONS AND REPORT METHODOLOGY

The overall aim of this report is to provide credible data on the size and growth of the Australasian responsible investment market (defined as Australia and New Zealand) and to compare this with trends in Australasia’s broader financial market and responsible investment industry internationally.

The Responsible Investment Benchmark Report 2013 is the 12th annual benchmark report prepared by RIAA, and the first report to present Australian and New Zealand responsible investment data using the GSIA categories and definitions as they have been applied to the Global Sustainable Investment Review 2012. To align the report with the Global Sustainable Investment Review, this year the data balance has been changed from financial year to calendar year. As a result, figures presented in the current report are not directly comparable with those presented in the 2011 report. The data featured in this report was collected in May 2013 for periods ending 31 December 2011 and 31 December 2012, enabling a year-on-year comparison.

RESPONSIBLE INVESTMENT STRATEGIES EXPLAINED

The responsible investment strategies covered by this report are defined below. Funds were allocated to a strategy based on their primary approach. The sum of these individual strategies results in the responsible investment assets under management included in this report.

1. Screening of investments

There are three distinct approaches to screening, including:

A. Exclusionary/negative screening – This involves systematically excluding industry sectors, companies or practices (or 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.

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3 RIAA is a proud member of the Global Sustainable Investment Alliance, along with ASrIA (Association for Sustainable & Responsible Investment in Asia), Eurosif (The European Sustainable Investment Forum), SIO (Sustainable Investment Organization Canada), UKSIF (UK Sustainable Investment & Finance Association), US SIF (The Forum for Sustainable & Responsible Investment) & VBDO (Dutch Association of Investors for Sustainable Development).

4 Read the Global Sustainable Investment Review 2012 here www.gsi-alliance.org/resources/
B. **Positive/best-in-class screening** - Investment in sectors, companies or projects selected for positive ESG or sustainability performance relative to industry peers in a defined investment universe. Best-in-class screening involves identifying those companies with superior ESG performance from across all sectors, and does not exclude companies or activities based on ESG or ethical grounds.

C. **Norms-based screening** – 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 United Nations Global Compact, ILO (International Labour Organisation), UNICEF (United Nations Children’s Fund) and the UNHRC (United Nations Human Rights Council).

2. **Sustainability themed investing**

This category involves 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.

3. **Impact/community investing**

These include targeted investments, typically made in private markets, 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 or environmental purpose (see special section on Impact Investment). By leveraging the private sector, these investments can provide solutions at a scale that purely philanthropic interventions usually cannot reach and are often intended to augment limited public funds available for delivering social services. Investors usually include high net wealth individuals, institutional investors, charities, corporations and foundations who invest across a wide range of asset classes and where success is measured by a combination of financial returns and environmental and social impact.

4. **Integration of ESG factors**

Constituting the largest category of responsible investment in terms of funds under management, 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. ESG knowledge and data is used to inform the analysis of risk, innovation, operating performance, competitive and strategic positioning, quality of management, corporate culture and governance and to enhance financial valuation, portfolio construction, engagement and voting practices.

5. **Corporate advocacy and shareholder action**

This strategy employs 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. Investor activism on governance issues has grown substantially in the last ten years, particularly in Britain and the United States, and especially in relation to director elections and remuneration. More recently, environmental and social resolutions have also grown in number and support in the United States and in 2011 Australia’s first dedicated climate change shareholder resolution was brought forward.
CORE RESPONSIBLE INVESTMENT VS BROAD RESPONSIBLE INVESTMENT

In addition to using the GSIA categories to classify responsible investment funds, the report also splits the responsible investment market into core responsible investment and broad responsible investment.

**Core responsible investment:** Includes specifically tailored managed funds, direct share portfolios managed by financial advisers, and also microfinance and microcredit offered by banks. These are most commonly ethical and socially responsible investment (SRI) funds and include responsible investment approaches of screening, sustainability themes and impact/community investment (often in addition to ESG integration).

**Broad responsible investment:** Includes ESG integration, corporate and shareholder engagement, voting and activism. The most significant element in terms of funds under management is ESG integration, which is most often utilised as part of a mainstream investment manager strategy.

**Data collection**

Data was gathered from a range of sources over April to June 2013. Managed funds data was generously provided directly by fund managers and industry research specialists Morningstar. Information on Total Assets Under Management (TAUM) and the average performance of mainstream managed fund categories were also provided by Morningstar. Data on the other segments was collected and collated by RIAA and CAER directly from the responsible investment organisations and other sources via desktop research.

Initial requests for data were made by email and then followed up by telephone, where necessary. 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 funds managed under responsible investment mandates in this report, for categories outside of managed responsible investment portfolios, it is likely that some funds data was not accessible. For this reason, data in this report should be considered conservative.

Throughout the process we contacted 35 fund managers, over 100 advisers and 20 organisations offering community finance.

Furthermore, the data upon which the ESG integration figures have been generously provided by Mercer, taken from their proprietary Global Investment Manager Database (GIMD).

The figures stated in this report are as at 31 December 2011 and 31 December 2012 unless otherwise noted.

All calculations of performance, growth levels and market share were performed by CAER. Double counting occurs when investment from a retail fund (offered by the same fund manager or superannuation fund) is then invested in a wholesale fund or mandate of another fund. Double counting has been removed in the reported figures unless otherwise stated.
According to Morningstar, total assets under management (TAUM) in Australia as at December 2012—
including all types of mainstream managed investment portfolios—comprised $934 billion, compared to 
$887.1 billion in 2011.

Responsible investment portfolios (excluding community finance) at the same point in time totalled 
$152 billion, or approximately 16% of TAUM in Australia, compared with 13% of TAUM in 2011 (and 8% in June 
2010) indicating a clear continued growth of responsible investment funds as a total proportion of the investment market.

Compared to 2011, responsible investment funds under management have increased by 30% in dollar terms, from $117 billion to $152 billion. In Australia, ESG Integration has proven to be the dominant method of responsible investment, representing 89% of the overall market total ($135 billion). ESG Integration has produced the largest growth, witnessing a 33% increase in total funds under management between 2011 and 2012.

Other approaches, such as community investments and sustainability themed investments, have also seen considerable growth in funds under management in the last year (19% and 16% respectively), although remain as a relatively small portion of total responsible investments.

The total number of funds that use a screening approach to investments, which includes most of the ethical funds, also showed a slight overall increase of funds under management of 2%.

Neither corporate advocacy or shareholder engagement have been taken on widely in Australia yet, although proportionally, funds under management with corporate advocacy as a primary approach have increased by 33%.

Most fund managers consider engagement with companies on ESG issues as an integrated part of their investment approach, but would not identify this as the primary responsible investment approach.

Corporate advocacy investment strategies include portfolios that have been specifically constructed with the aim of influencing corporate behaviour with relation to ESG issues. Until recently these portfolios have attracted relatively small funds, which remains the case this year, at around $12 million under management.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>Change</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Screening of Investments</td>
<td>12,108</td>
<td>12,377</td>
<td>2%</td>
<td>8.15%</td>
</tr>
<tr>
<td>Integration of ESG factors</td>
<td>101,546</td>
<td>135,386</td>
<td>33%</td>
<td>89.14%</td>
</tr>
<tr>
<td>Sustainability themed investing</td>
<td>2,438</td>
<td>2,825</td>
<td>16%</td>
<td>1.86%</td>
</tr>
<tr>
<td>Impact/community investing</td>
<td>1,070</td>
<td>1,275</td>
<td>19%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Corporate engagement and shareholder action</td>
<td>9</td>
<td>12</td>
<td>43%</td>
<td>0.01%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>117,170</td>
<td>151,875</td>
<td>30%</td>
<td>100%</td>
</tr>
</tbody>
</table>
2012
$151.9b
Dollars under management

2011
$117.2b

30% Increase in RI
16% of Total Assets Under Management

8.15% Screening of Investments
89.14% Integration of ESG factors
1.86% Sustainability themed investing
0.84% Impact/community investing
0.01% Corporate engagement and shareholder action

Corporate engagement and shareholder action

16% of Total Assets Under Management

12
This section of the report examines growth and performance of Core responsible investment portfolios.

For the purposes of this report, core responsible investment includes those specifically tailored managed funds, direct share portfolios managed by financial advisers, and also microfinance and microcredit offered by banks and credit unions.

These are most commonly ethical and socially responsible investment (SRI) funds and include responsible investment approaches of screening, sustainability themes and impact/community investment.

**RESPONSIBLE INVESTMENT PORTFOLIOS BY SCREENING APPROACH**

Managed core responsible investment portfolios grew by 4.2% during 2012 from $14.6 billion to $15.2 billion, an increase of $616 million. The main factor contributing to this growth was incredibly strong investment performance during the year, generating an estimated $2 billion in additional FUM, which was largely offset by net outflows across a number of funds between December 2011 and 2012.

According to Morningstar, TUAM in Australia comprised $934 billion in December 2012. Therefore, responsible investment portfolios in December 2012 of $15.2 billion are 1.63% of TAUM, a slight reduction from 1.64% of TAUM in 2011.

The 4.2% growth of core responsible investment portfolios was lower than the market average with TAUM of all types of managed portfolios increasing by 5% across the same period.

When broken down by screening approach, exclusion/negative screening flat lined this year, with a minor reduction of FUM of 1%, largely due to outflows from some major funds.

However, funds applying positive screening and sustainability themed investing both grew strongly in the year, at 13% and 16% respectively.
In Australia, no funds have yet been discovered that apply a norms-based screening as a primary approach to selecting investments (e.g. screening based on UN conventions such as the UN Convention on Cluster Munitions) despite this being found on a large scale in Europe where there is US$3 trillion in FUM. This is largely due to funds not primarily reflecting international norms or conventions as part of their responsible investment approach.

The number in brackets alongside each responsible investment category in the table below indicates the number of fund managers that have responsible investment funds in each category (NB: each of these fund managers may have a number of funds or trusts that fall into these categories).

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion/negative screening</td>
<td>9,750</td>
<td>9,661</td>
<td>-1%</td>
</tr>
<tr>
<td>Positive/best-in-class screening</td>
<td>2,398</td>
<td>2,715</td>
<td>+13%</td>
</tr>
<tr>
<td>Sustainability themed investing</td>
<td>2,825</td>
<td>2,438</td>
<td>+16%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>14,586</td>
<td>15,202</td>
<td>+4%</td>
</tr>
</tbody>
</table>

Figure 1 - Portfolio Performance by Screening Approach

**RESPONSIBLE INVESTMENT VS. MAINSTREAM SHARE FUNDS**

When assessed against the average mainstream funds, core responsible investment funds are delivering better returns in almost all periods across one, three, five and ten years in all three major investment categories – Australian equities, international equities and multi-sector growth funds.

The average return is based on asset-weighted return contributed by each responsible investment fund within its category (where funds have provided performance figures) and all figures are reported net of fees. The number of funds included in each category in the table below is indicated in brackets.

Mainstream indices and funds comparison data are all calculated by Morningstar using a comparable methodology. Details on Morningstar categories have been included in the footnotes.
One standout performance of 2012 was RIAA Member, Perpetual’s Wholesale Ethical SRI Fund, which was the top performing equity fund in Australia in the twelve months to December 2012. The fund’s 39.7% return over the year is outstanding when compared with all other funds – mainstream or responsible.

Interestingly, amongst ethical investors (particularly the adviser community), there are many such stories of significant outperformance of funds against the benchmark in 2012. This can be put down in part to the fact that most of these core responsible investment funds have much lower exposure to the resources sector than mainstream funds in a year that saw resources stocks go off the boil.

---

<table>
<thead>
<tr>
<th>Australian Share Funds</th>
<th>Average Responsible Investment Fund (50)</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-Cap Australian Share Fund Average(^5)</td>
<td>21.45%</td>
<td>2.90%</td>
<td>-1.23%</td>
<td>11.34%</td>
<td></td>
</tr>
<tr>
<td>S&amp;P/ASX 300 Accumulation Index</td>
<td>18.14%</td>
<td>1.66%</td>
<td>-2.24%</td>
<td>8.18%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International Share Funds</th>
<th>Average Responsible Investment Fund (18)</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-Cap International Share Fund Average(^6)</td>
<td>17.08%</td>
<td>4.03%</td>
<td>-1.33%</td>
<td>3.10%</td>
<td></td>
</tr>
<tr>
<td>MSCI World ex Australia Index $A</td>
<td>14.04%</td>
<td>1.27%</td>
<td>-5.00%</td>
<td>0.78%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Multi-Sector Growth Funds</th>
<th>Average Responsible Investment Fund (13)</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-Sector Growth Fund Average(^7)</td>
<td>12.52%</td>
<td>3.99%</td>
<td>0.85%</td>
<td>6.39%</td>
<td></td>
</tr>
</tbody>
</table>

---

5 Large-cap Australian share funds invest primarily in large Australian companies in the top 70.0% of the capitalisation of the Australian sharemarket. There were 529 large-cap Australian share funds on Morningstar’s database at 18 June 2013.

6 Large-cap international share funds invest primarily in large international companies in the top 70.0% of the capitalisation of the international share market. There were 346 large-cap international share funds on Morningstar’s database at 18 June 2013.

7 Multi-sector growth funds invest in a number of asset classes and have 61.0 – 80.0% of their assets in growth assets such as equities and property. There were 236 multi-sector growth funds on Morningstar’s database at 18 June 2013.

15
Figure 2 - Responsible investment vs. mainstream share funds

Note: Some funds may not have provided long-term performance data. The number of funds indicated for average responsible investment funds represents the number considered for 1 year returns. The total count of funds in each time period may differ. Average fund performance has been calculated on an asset-weighted return basis. Therefore, while some funds have not provided performance figures for all time frames presented above, this has been considered in the weighted performance.
RESPONSIBLE INVESTMENT FUND MANAGERS

Fund managers with responsible investment funds under management above $5 million as at December 2012 are listed as follows:

* Note: Totals for BT Investment Management are as at 30 September 2011 and 30 September 2012. Totals for other investment managers are as at 31 December 2011 and 31 December 2012.
<table>
<thead>
<tr>
<th>Year</th>
<th>$M</th>
<th>% Market Share</th>
<th>% Year Change</th>
<th>% Change Cumulative</th>
<th>% Change of Total Investment Management (all managed investments)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun 03</td>
<td>2,355</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Jun 04</td>
<td>4,500</td>
<td>0.70%</td>
<td>91%</td>
<td>91%</td>
<td>N/A</td>
</tr>
<tr>
<td>Jun 05</td>
<td>7,670</td>
<td>1.15%</td>
<td>70%</td>
<td>226%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Jun 06</td>
<td>11,985</td>
<td>1.54%</td>
<td>56%</td>
<td>409%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Jun 07</td>
<td>17,102</td>
<td>1.87%</td>
<td>43%</td>
<td>626%</td>
<td>20%</td>
</tr>
<tr>
<td>Jun 08</td>
<td>15,810</td>
<td>1.59%</td>
<td>-8%</td>
<td>571%</td>
<td>-8.7%</td>
</tr>
<tr>
<td>Jun 09</td>
<td>13,997</td>
<td>1.64%</td>
<td>-11%</td>
<td>494%</td>
<td>-14.3%</td>
</tr>
<tr>
<td>Jun 10</td>
<td>15,406</td>
<td>1.67%</td>
<td>10%</td>
<td>554%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Jun 11</td>
<td>16,516</td>
<td>1.76%</td>
<td>7%</td>
<td>601%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Dec 11*</td>
<td>14,586</td>
<td>1.64%</td>
<td>N/A</td>
<td>519%</td>
<td>N/A</td>
</tr>
<tr>
<td>Dec 12</td>
<td>15,202</td>
<td>1.63%</td>
<td>5%</td>
<td>546%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

* Note: the drop in RI managed portfolios between June 2011 and December 2011 is largely due to the change of methodology to align to the RIAA Benchmark report with the GSIA (Global sustainable Investment Alliance) methodology. It does not reflect a drop due to performance or outflows.
The graph above shows the percentage annual change in TAUM for the Australian market compared to the percentage annual change of responsible investment managed portfolios since 2007, around the time of the GFC. This shows that relative to the general market, responsible investment funds have grown more strongly or fallen less sharply than the overall market in the post-GFC period, highlighting their lower volatility and greater resilience in the face of tumultuous markets.

**FINANCIAL ADVISER RESPONSIBLE INVESTMENT PORTFOLIOS**

In addition to investing in managed responsible investment funds, advisers directly manage investment portfolios for their clients under responsible investment policies.

Figures for this segment were gathered by surveying financial advisers with a declared interest in advice on responsible investment. Of that group, 30 firms confirmed that they advised clients on direct core responsible investment portfolios - which totalled $1,532 million as at 31 December 2012. This is very similar to the size of direct core responsible investment portfolios managed by financial advisers as at 30 June 2011, when we recorded funds of $1,539 million for 28 advisers.

This segment suffers from under-reporting as advisers that are known to provide this type of service are sometimes unwilling to share funds under management - information they regard as commercially sensitive – as such these numbers are likely to be very much underestimated.
The broad responsible investment sector is primarily made up of those funds that apply an ESG integration overlay on to mainstream investment management strategy, whilst avoiding exclusions of any kind. This sector also includes a small number of funds active in corporate and shareholder engagement, voting and activism.

The broad responsible investment sector has continued to grow substantially from $101.6 billion in 2011 to $135.4 billion in 2012, by 33%.

As a proportion of TAUM by all mainstream managed investment portfolios, the broad responsible investment market made up 14.5% of this $934 billion in 2012, up from 11.4% in 2011.

Of this broad responsible investment category, corporate advocacy and shareholder action only represent a small fraction of the total, however funds under this strategy have grown by 33%, largely due to growth of Australian Ethical’s specialised Advocacy Fund.

**Figure 6 - Broad Responsible Investment in 2012**

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESG integration*</td>
<td>101,505</td>
<td>135,386</td>
</tr>
<tr>
<td>Corporate advocacy and shareholder action**</td>
<td>9</td>
<td>12</td>
</tr>
</tbody>
</table>

* Note: ESG Integration has been calculated based on data as at 31 March 2013 for 2012 and as at 30 June 2011 for 2011.

** Total funds for corporate advocacy and shareholder action have been calculated based on the total funds under management for investment funds identified as having their primary responsible investment strategy falling into this category.
ESG INTEGRATION

The size of funds using ESG integration as a strategy has been calculated based on information provided by Mercer, based on the amount of funds under management that have achieved an “above average ESG rating” in Australia and New Zealand from Mercer’s Global Investment Manager Database (GIMD).

Since 2008, Mercer’s manager research process has expanded to include evaluation of the extent to which traditional fund managers in all asset classes and regions behave as active owners and integrate ESG factors into their investment decision making. This includes taking ESG factors into account at the strategy level, as well as applying each strategy an ESG rating.

The category of ESG Integration (after currency conversion and excluding those counted under Core Responsible Investment) is estimated to total $135.4 billion in 2012, compared to $101.5 billion in 2011.

This estimate has been calculated on the basis of information from Mercer’s proprietary GIMD which does not collect static data, therefore a snapshot of assets under management as at March 2013 has been used to compare to the snapshot taken in June 2011 for the previous Responsible Investment Benchmark Report.

This 33% increase reflects both better self-reporting of investment managers through Mercer’s GIMD database, as well as growing assets under management for investment managers who manage above average ESG rated investment products.

Above average ESG ratings are awarded to managers who have demonstrated integration of ESG factors across the investment process evidenced in portfolio construction, implementation and management, monitoring, and being well progressed in active ownership with companies as well as participating in collective initiatives.

Among all the above average ESG rated investment products, 73% of the products are managed by UN PRI signatories (this is calculated using number of above average ESG rated products rather than AUM).

When compared to the total funds under management by Australian UN PRI signatories, now at $943 billion (see below), the broad responsible investment figures used in this section ($135.4 bill) represent merely those who have deeply integrated ESG into their investment decision making processes, and hence remains a conservative estimate.

CORPORATE ADVOCACY AND SHAREHOLDER ACTIVISM

Funds under management with the designated primary aim to influence corporate behaviour or shareholder activism increased 33% from $9m in 2011 to $12m in 2012 with the increase in funds being due to a combination of inflows and performance.

Australian Ethical’s Climate Advocacy Fund (now known as the Australian Ethical Advocacy Fund) did not put forward any shareholder resolutions in 2012 but did engage with some companies, as well as pursuing change on issues including tobacco, animal testing and coal seam gas.
As an alternative method to measure funds that were used to influence corporate behaviour, we estimate the value of shares voted in support of resolutions at company general meetings that specifically aimed at broader environmental or social responsibility. In 2011 it was estimated that funds totalling $1.3 billion supported shareholder resolutions with a specific focus on corporate performance on environmental and social issues. No resolutions specifically aiming at environmental or social issues were put to general meetings during 2012.

On 29 May 2013, the Australasian Centre for Corporate Responsibility (ACCR) was officially launched with an aim to improve company behaviour and performance concerning environmental, social and governance issues using shareholder engagement and activism techniques. This new centre is based on the US based Interfaith Centre on Corporate Responsibility which has been operating for over 40 years.
Responsible investment funds in New Zealand increased from NZ$19.3 billion to NZ$22.6 billion from 2011 to 2012, a particularly strong increase of 17%. Compared to Total Assets Under Management (TAUM) in New Zealand, core responsible investment funds invested under a screening approach or a sustainability theme represented a massive 38% of TAUM across the country.

The table below shows a breakdown of each of the responsible investment categories.

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2012</th>
<th>Change</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusionary/negative screening</td>
<td>16,734.5</td>
<td>19,857.3</td>
<td>19%</td>
<td>87.81%</td>
</tr>
<tr>
<td>Positive/best-in-class screening</td>
<td>7.6</td>
<td>9.2</td>
<td>24%</td>
<td>0.04%</td>
</tr>
<tr>
<td>Norms-based screening</td>
<td>1,209.8</td>
<td>1,334.9</td>
<td>10%</td>
<td>5.90%</td>
</tr>
<tr>
<td>ESG Integration</td>
<td>247.2</td>
<td>270</td>
<td>9%</td>
<td>1.19%</td>
</tr>
<tr>
<td>Sustainability themed investing</td>
<td>1,049.7</td>
<td>1,140.8</td>
<td>9%</td>
<td>5.04%</td>
</tr>
<tr>
<td>Impact/community investing</td>
<td>1.9</td>
<td>1.8</td>
<td>-8%</td>
<td>0.01%</td>
</tr>
<tr>
<td>Total</td>
<td>19,250.7</td>
<td>22,614.2</td>
<td>17%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The funds in the negative/exclusionary screening category dominate the responsible investments in New Zealand, representing 88% of the total responsible investment funds. This category increased from NZ$16.7 billion to NZ$19.8 billion – a very strong increase of 19%.

The funds in this category are made up in large part by the New Zealand Superannuation Fund (NZ Super) but also includes a number of the smaller New Zealand based funds. Nonetheless, the increase in this category has been largely driven by NZ Super who increased funds that undergo screening (i.e. new funds being managed under a screening approach). Whilst NZ Super carries out negative screening, the consideration of ESG factors is integrated into all of the fund’s investment activities, from investment analysis, due diligence through to manager monitoring, voting and post investment reviews.

Compared to Total Assets Under Management (TAUM) in New Zealand, core responsible investment funds invested under a screening approach or a sustainability theme represent 38% of TAUM. Core responsible investment when excluding the New Zealand Super Fund still totalled NZ$1.41 billion as at 31 December 2012 which represents 4% of TAUM in New Zealand.

List of New Zealand Funds included in this year’s New Zealand responsible investment benchmark:

- AMP Capital New Zealand – Responsible Investment Leaders
- ASB Community Trust
- Craigs Investment Partners Investment Management
- Fidelity Life
- Just Dollar$ Trust
- New Zealand Superannuation Fund
- Pathfinder Global Water
- Prometheus Finance
- Super Life
- The Methodist Church of New Zealand Investment Advisory Board
- The Quaker Investment Ethical Trust
- Trust Investments - Sustainable Australasian Share Fund
- Trust Waikato
2011
$19.3b
2012
$22.6b

17% increase from 2011

- Exclusionary/negative: 87.81%
- Positive/best-in-class: 0.04%
- Norms-based: 5.90%
- ESG integration: 1.19%
- Sustainability themed investing: 5.04%
- Impact/community investing: 0.01%
Global Sustainable Investment Review 2012

In January 2013 the Global Sustainable Investment Alliance (GSIA) released the first global review of total funds under management in responsible and sustainable investments. The Global Sustainable Investment Review 2012 (the Review), was a collaboration of the GSIA, as well as non-member organisations AfricaSIF.org and SIF Japan and is the first report to collate the results from the market studies of regional sustainable investment forums from Europe, the US, Canada, Asia, Japan, Australia and Africa.

The Review found that, globally, at least US$13.6 trillion worth of professionally managed assets incorporated ESG considerations into their investment selection and management. This represents 21.8% of the total assets managed professionally in the regions covered by the Review, conclusively showing that the sustainable investment industry has significant scale in the global arena.

According to the definition of sustainable investment used throughout the Review, Europe is the largest region with about 65% of the known global sustainable investing assets under management. The three biggest regions—Europe, the United States, and Canada—together account for 96% of such assets.

The Review found that the most common sustainable investing strategy used globally is screening of investments (primarily negative/exclusionary screening), which has been applied to US$8.3 trillion in assets. This is followed by integration of ESG factors (US$6.2 trillion) and corporate engagement/shareholder action (US$4.7 trillion).

Norms-based screening is also significant at US$3.0 trillion, but this approach is currently only found on a large scale in Europe.

Positive/best-in-class screening stands at just over US$1.0 trillion, while impact investing and sustainability themed investments are comparatively small at US$89 billion and US$83 billion respectively.

Negative screening is the most consistently applied approach across the markets covered in the Review, and was found in significant scale across all markets except Japan. The Review also noted large differences in the popularity of specific strategies employed across regions. For instance, the US market contributes most of the global assets invested in positive screening and impact investing, while most thematic investments originate from Europe and Africa.

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9 For more information on the GSIA, see www.gsi-alliance.org/resources/
RESPONSIBLE BANKING

Symbolic of an industry continuing to mature, this year’s report highlights not only continuing growth of total assets under management, but equally important, a broadening of responsible investment product offerings in the market and in sectors not often focused upon as part of the traditional ‘ecosystem’ of responsible investing.

In particular, strong growth in funds under management has continued from within community finance providers, up 8% to $1.3 billion in 2012. This solid performance tells only part of the story of a sub-sector within the responsible investment industry that is maturing rapidly and undertaking some of the most pioneering work in new product innovation at the retail level.

IMPACT INVESTMENT AND COMMUNITY FINANCE

In this category a broad range of community finance organisations and deposit funds were surveyed. This category includes the total assets of organisations dedicated to pooling funds for financing community investment, specific community investment funds and the value of loan portfolios within institutions that are dedicated to community benefit or microfinance purposes.

Ten community finance providers had total assets of $1,275 million in 2012, an increase of 8% on funds the same organisations provided as at 31 December 2011. The growth in community sector finance and impact investments demonstrates the ongoing efforts of a handful of organisations to build community finance and micro-credit infrastructure in Australia.

Community finance providers include organisations ranging from large banks such as Westpac and NAB who have established micro loan or community focused lending options and programmes, to smaller community focussed banks such as Bendigo Bank and bankmecu. It also includes smaller specialist focussed social impact investment organisations such as Community Sector Banking, Foresters Community Finance, Social Ventures Australia and Social Enterprise Finance Australia.

Impact and Community Finance Providers

<table>
<thead>
<tr>
<th>bankmecu</th>
<th>Social Ventures Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bendigo Bank</td>
<td>UCA Funds Management (Development Fund)</td>
</tr>
<tr>
<td>Community Sector Banking</td>
<td>Uniting Financial Services (Self Help Investment and other social loans)</td>
</tr>
<tr>
<td>Foresters Community Finance</td>
<td>Westpac (includes Indigenous Capital Assistance Scheme, Matching Loans Program, Many Rivers)</td>
</tr>
<tr>
<td>NAB (includes No Interest Loan Scheme, ‘StepUp’ low interest loans, ‘AddsUp’ matched savings, &amp; Microenterprise loans)</td>
<td></td>
</tr>
<tr>
<td>Social Enterprise Finance Australia</td>
<td></td>
</tr>
</tbody>
</table>

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As this year on year data shows, the sector has continued to flourish despite the ups and downs of the market in the post-GFC (global financial crisis) years.

The sector is heavily represented by organisations operating under a cooperative model often as credit unions, effectively operating as member owned financial institutions.

The findings from our annual Benchmark Report that these institutions have held up strongly throughout and post the GFC is supported by findings at an international level. According to the International Labour Organization (ILO), “financial cooperatives have fared better than the investor-owned banks in times of crisis. Savings and credit cooperatives, cooperative banks and credit unions have grown, kept credit flowing especially to small and medium sized enterprises, and remained stable across regions of the world while indirectly creating employment.” Between 2007 and 2010, for example, European cooperative banks grew their assets under management by 10% and their number of customers by 14%10.

The lines blur where community finance meets big banking, as there is an increasingly murky distinction between the big banks and their responsible banking offerings and the community banks, financial co-operatives, and beyond. In Australia, for example, we have examples of large publicly listed banks operating in a decentralised model that approximates credit unions.

But what is apparent, is the pioneering banking product innovation at the retail level is coming from many of these financial institutions that we categorise as community finance providers.

As such, a strong responsible banking sector continues to grow in Australia from the small credit unions through to offerings within the big listed Australian banks, offering alternative responsible products to the retail market, servicing important niches, such as rural communities, not for profit sectors, industry specific communities and those looking for a different way of banking.

This year’s report highlights two of the companies operating in this community finance sector. These case studies below are just an example of how responsible investment is spreading beyond the traditional asset classes of equities. There now remains few assets that can’t have a responsible impact, even responsible cash.

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Australia's first customer owned bank, bankmecu, aims to invest retail deposits held in everyday bank accounts in ways that create shared value for its customers, the community and the environment.

By simply understanding the potential economic, social and environmental impacts its lending has in areas such as housing and motor vehicle finance, bankmecu then applies innovation to designing products that make a difference.

In practice this is how it's done:

The bank determines interest rates on its car loans according to the level of greenhouse emissions of the cars being financed - lower emissions means a lower interest rate for the loan. bankmecu then forwards credit offsets for the greenhouse gas emissions produced by the car each year for the term of the loan by planting and protecting trees in its Conservation Landbank.

bankmecu also offers its lowest variable interest rate to customers who choose to finance homes that are designed to exceed the statutory minimum Nationwide House Energy Rating Scheme (NatHERS). Then for new owner-occupied home construction loans, bankmecu offsets an amount of land equivalent to the land the property is built on into the bank's very own Conservation Landbank.

bankmecu’s Conservation Landbank stands at some 900+ hectares in Western Victoria. The Conservation Landbank is an asset owned by the bank's customers and is being developed, protected and managed in partnership with Landcare and Trust for Nature. As at 30 June 2012, bankmecu has committed to offset more than 41,000 tonnes of CO2-e and 331,000m2 of land.

Banking responsibly for social impact

Arguably Australia’s largest social enterprise, last year marked a decade of operation for Community Sector Banking, which was created when a consortium of 20 not-for-profit organisations and Bendigo Bank joined forces. Today, this joint venture provides more than 6,500 not-for-profit organisations with tailored banking that helps them to achieve their goals.

Community Sector Banking's most recent innovation – the Social Investment Deposit Account – was created to support its vision to make a real difference in the community while still making a competitive financial return to investors. Developed with responsible banking principles in mind, the Social Investment Deposit Account is at first glance a simple investment account. The difference is that Community Sector Banking gives away 50% of net account profits to social projects.

Aimed at community minded individuals and organisations looking for an account that contributes to social change, the Social Investment Deposit Account is a safe, secure investment. It also invites account holders to co-contribute a portion of the interest earned on their account, to be distributed to community projects and programs through a grants program.

Until 2015, Community Sector Banking has pledged the funds towards improving the financial wellbeing and literacy of disadvantaged Australians. All donations are currently held in a fund to be distributed through a community grants model which will kick off later this year.

Community Sector Banking is proud to be part of the growing responsible banking sector.
Interest continues to grow in the responsible investment industry this year on the issue of impact investment and how it can provide a new asset for retail through to institutional responsible investors. This year, the slow but steady stream of new impact investment products have been emerging on the market, such as social benefit bonds.

Measuring this growth of an emerging asset class, an important benchmark report on the current state of the industry was launched by the Department of Education, Employment and Workplace Relations – IMPACT–Australia: investment for social and economic benefit.¹¹

Fitting with this increasing interest by responsible investors, with much of that activity coming from RIAA members, we have included below an excerpt of this important report.

Summary and Australian Highlights

Impact investing is emerging modestly as a field of its own in Australia, led by pioneers in the field who are pairing strong social outcomes with economic results. Creating these opportunities drives investment back into communities, providing much-needed capital for often neglected social issues in Australian society. These (sometimes collaborative) impact investments focus on delivering social, environmental and cultural benefits as well as financial returns.

The IMPACT-Australia report highlights the diversity of the impact investment field and the opportunities it presents for investment. It demonstrates how ‘first leaders’ from a range of sectors across business, finance and social entrepreneurship have championed the cause, outlining opportunities for growth and providing examples for others to follow.

What is Impact Investing?

Impact Investing is an investment which is carried out with the intention of achieving a positive cultural, environmental or social benefit as well as some measure of positive financial return. It can be noted that the financial return distinguishes impact investing from other activities such as grant funding, and the structure (ensuring positive social outcomes) distinguishes it from traditional investments in capital markets. The IMPACT-Australia report highlights that impact investing spans asset classes, types of organisations, sectors and locations whilst delivering a range of financial returns and societal benefits.

What is the status of impact investment in Australia?

Currently no definitive index providing data on the size of the field or its performance exists. IMPACT-Australia notes that globally, JP Morgan and the Global Impact Investing Network (GIIN) “have estimated that there were at least US$36 billion of impact investment assets under management in 2012, US$8 billion of transactions occurring in that year and an expectation of at least US$9 billion in 2013”12. Additionally, the Global Sustainability Investment Alliance (GSIA) has collated research that indicates at least US$89 billion in AUM in 2012 was represented by “impact and community investing” (a broader categorisation of impact investment).

Coming back to Australia, the term impact investing is only beginning to enter the mainstream industry vocabulary. In Australia, impact investments have arisen when “circumstances, need, energy and opportunity have come together”. In Australia, this increased interest has emerged across institutional investors, community finance intermediaries, banks, corporations, superannuation funds and government.

In terms of closing the gap between Australia’s impact investment sector and the US or UK, should impact investment continue to become slightly more popular and mainstream, the gap may close relatively quickly – potentially under two or three years. Foundations for increasing the scale of impact investing in Australia are in place. But these foundations need action – not just interest. Those investors interested need to communicate and in some cases, even collaborate to broach the potential challenges ahead.

How is it working in Australia?

There are already fully functioning impact investments around Australia; success stories that highlight through their work just why impact investment is so important. In Melbourne, a young woman has been saved from a life of homelessness and unemployment through STREAT. STREAT is a social enterprise providing homeless youth with a supported pathway to long-term careers in the hospitality industry. The cafe this particular young woman works in was purchased with equity invested in STREAT, which is itself a small social enterprise.

Equity investments, such as STREAT, are less common forms of impact investment in Australia with the predominant form of activity being individual transactions (that is ‘deal by deal’) and debt financing (loaning organisations funds to acquire property or equipment).

Another successful (though less practiced) model starting to emerge in Australia includes projects, like Hepburn Community Wind or Goodstart Early Learning, where the transactions included a combination or layering of finance from different investors (with differing motivations) making different types of capital available.

IMPACT-Australia notes, however, that in these examples of layered and combination financing cited that “some capital was provided on terms that absorbed a greater degree of real or perceived risk and this encouraged and enabled other investors to participate on terms that met their more mainstream investment criteria”.

12 More information on this breakdown of funds by destination can be found on page 7 of IMPACT-Australia report.
Who is involved?

Australian responsible investors working in the area include a long list of RIAA members: Social Ventures Australia, Foresters Community Finance, Social Ventures Australia, Community Sector Banking, Social Investment Australia, Ethinvest, Australian Ethical Investment, Net Balance, Colonial First State Investments, AMP Capital, Perpetual Investments, Mercer Investments, bankmecu, Christian Super and more.

Next Steps & RIAA

As societies grow so too do their needs. Unmet needs present opportunities for investors to innovatively address this gap in the market. Impact investing supplies capital for this. It creates the opportunity for entrepreneurship and where infrastructure is concerned, it also creates jobs in the process.

RIAA is supporting this outlook and encourages the growth of impact investment in Australia. As part of its policy and advocacy work RIAA is engaging with its members and the wider community on issues within impact investing. Various working groups and RIAA member-only events highlight just how this sector of the investment chain is growing and how many of RIAA’s members are pioneering the path for successful impact investment.

For more information on the report visit DEEWR website at http://deewr.gov.au/

Social Benefit Bonds are an innovative financial product, making it easier for preventative social programs with clearly defined social outcomes to thrive. There are a myriad of benefits when investment in these programs is realised, such cost savings to Government, who in turn, share these savings with the SBB investors.

In June 2013 SVA issued the first SBB in Australia, the Newpin SBB. To encourage investment from a broader spectrum of investors, the Newpin SBB offered some capital protection and interest guarantees for the early years. The SBB appealed to institutional investors, making the Newpin SBB the first to attract investment from Superannuation. There are two further SBBs being arranged in NSW, one recently launched by the Benevolent Society (addressing out of home care) and another which SVA is structuring with Mission Australia, focussing on the area of recidivism.

Social Benefit Bonds provide a number of innovations, specifically they:
- Provide a mechanism by which private capital can invest directly in public programs;
- Encourage new approaches to addressing longstanding social issues;
- Result in efficient allocation of Government resources by ensuring they only fund programs with a proven outcome;
- Promote accountability and transparency by requiring reporting against a clearly defined social outcome

The first SBB was issued in the UK in 2010 (the Peterborough Bond), and addressed recidivism, whilst targeting a return of between 7.5-13% if the social goals were met.

For a full list of those working in the area and their projects refer to the full report.
OTHER ESG INTEGRATION INITIATIVES

UN PRI Signatories

Australian fund managers committed to incorporate environment, social and governance (ESG) factors into their investment process has seen continued support, highlighted by the number of signatories to the United Nations Principles for Responsible Investment (UN PRI). The UN PRI was launched in April 2006 to signify a commitment from investment institutions to develop their application of ESG factors across their investment portfolios (not just specialist responsible investment products). Australian signatories represent 11% of the 1,196 signatories globally.

Total global funds under management or advice of the 120 Australian signatories are approximately US$943 billion. This accounts for approximately 3% of the US$34 trillion in total assets managed or advised by all signatories globally.

Within this the Australian funds under management for the investment manager component of UN PRI signatories is US$608 billion. Allowing for the fact that the UN PRI data includes assets that are managed overseas, it is reasonable to state that over half of the funds under management of Australian asset managers now fall under a UN PRI commitment to ESG integration. These statistics clearly demonstrate that Australia has continued to show strong support for this initiative.

The launch of the PRI's new Reporting Framework in April 2012 requires greater transparency and accountability from signatories in relation to ESG integration and their implementation of the PRI Principles. While reporting using the framework was voluntary in 2012, it will be mandatory for a subset of indicators in 2013.

In the year to June 2013, New Zealand signatories remain relatively steady at 18. New Zealand signatories represent 1.5% of the global 1,196 UN PRI signatories.

Total global funds under management or advice of the 18 signatories based in New Zealand are approximately US$36.6 billion, less than 1% of the US$34 trillion in total assets managed by all signatories globally.

Within this, the New Zealand funds under management for the investment manager component of UN PRI signatories is US$5.42 billion. Allowing for the fact that the UN PRI data includes assets that are managed overseas, it is reasonable to state that over 10% of the funds under management of New Zealand asset managers now fall under a UN PRI commitment to ESG integration.

UN PRI Professional Service Partners

| Australian Council of Super Investors (ACSI) | Frontier Advisors | SIRIS |
| Australian Institute of Superannuation Trustees | ME Bank | The Climate Institute |
| Blue Sky Water Partners | Pennam Partners | The Emerald Club |
| Corporate Analysis Enhanced Responsibility (CAER) | Regnan Governance Research and Engagement Pty Ltd | Value Adviser Associates |
| Dowse CSP | Reputex | Value ESG |
| | Responsible Investment Association | | |
### UN PRI Asset Owner Signatories - Australia

<table>
<thead>
<tr>
<th>Australian Capital Territory</th>
<th>Goldman Sachs JBWere Superannuation Fund</th>
<th>SAS Trustee Corporation</th>
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<tr>
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<td>HESTA Super Fund</td>
<td>StatewideSuper</td>
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<td>Tasplan</td>
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<td>Insurance Australia Group (IAG)</td>
<td>Telstra Super Pty Ltd</td>
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<td>Local Government Superannuation Scheme</td>
<td>TWUSUPER</td>
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<td>Christian Super</td>
<td>Local Super</td>
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<td>LUCRF Super</td>
<td>Uniting Financial Services</td>
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<td>CSC</td>
<td>Media Super</td>
<td>VicSuper</td>
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<td>Energy Industries Superannuation Scheme (EISS)</td>
<td>Mirvac Group</td>
<td>Victorian Funds Management Corporation</td>
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### UN PRI Asset Owner Signatories - New Zealand

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<td>The Canterbury Community Trust</td>
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<td>Otago Community Trust</td>
<td>Trust Waikato</td>
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### UN PRI Investment Manager Signatories - Australia

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<th>AAG Investment Management Pty Ltd</th>
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<td>Allegro Funds Pty Ltd</td>
<td>Drapac</td>
<td>NovaPort Capital Pty Ltd</td>
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<td>EG Funds Management</td>
<td>Orion Asset Management</td>
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<td>Alphinity Investment Management Limited</td>
<td>Eureka Funds Management</td>
<td>Pacific Equity Partners</td>
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<td>AMP Capital Investors</td>
<td>Five Oceans Asset Management</td>
<td>Perennial Investment Partners Limited</td>
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<td>Perpetual Investments</td>
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<td>Plato Investment Management</td>
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<td>Hunter Hall Investment Management Limited</td>
<td>Platypus Asset Management Pty Ltd</td>
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<td>Hyperion Asset Management Limited</td>
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<td>Intrinsic Investment Management Pty Ltd</td>
<td>RARE Infrastructure Limited</td>
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<td>Investa Property Group</td>
<td>Redpoint Investment Management</td>
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<td>Investors Mutual Limited (IML)</td>
<td>Remagen Capital Limited</td>
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<td>Ironbridge Capital</td>
<td>Resolution Capital Limited</td>
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<td>ISPT Super Property</td>
<td>Sigma Funds Management Pty Ltd</td>
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<td>CHAMP Private Equity</td>
<td>JCP Investment Partners</td>
<td>Solaris Investment Management Limited</td>
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<td>Charter Hall Group</td>
<td>Kinetic</td>
<td>Stockland</td>
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<td>Citola Limited</td>
<td>LeapFrog Investments</td>
<td>Taurus Funds Management Pty Limited</td>
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<td>Colonial First State Global Asset Management (including First State Investments)</td>
<td>Legg Mason Asset Management Australia Limited</td>
<td>The GPT Group</td>
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<td>Continuity Capital Partners Pty Limited</td>
<td>Lend Lease Investment Management</td>
<td>Treasury Asia Asset Management (TAAM)</td>
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<td>Magellan Asset Management</td>
<td>Tyndall Equities Australia Limited</td>
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<td>Dalton Nicol Reid</td>
<td>Maple-Brown Abbott Limited</td>
<td>Ubiqau Asset Management Pty Ltd</td>
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<td>DEXUS Property Group</td>
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<td>Merlon Capital Partners</td>
<td>Wealthcheck Funds Management</td>
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<td>Metisq Capital</td>
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Carbon Disclosure Project

Another indication of the level of fund manager interest in ESG issues is provided by the Carbon Disclosure Project (CDP). This represents a process whereby institutional investors collectively sign a single global request for disclosure of information on the management of greenhouse gas emissions by the world's largest listed companies. On their behalf CDP seeks information on those companies' business risks and opportunities presented by their climate change and greenhouse gas emissions data. The 2012 project for Australia involved surveying companies in the S&P/ASX 200 Index on behalf of 665 global investors with assets under management of more than US$78 trillion.

Within Australia and New Zealand the Carbon Disclosure Project is administered by the Investor Group on Climate Change.

In 2012, 50% of ASX200 companies responded to the CDP survey, the same percentage as in 2011. This represented 85% of the ASX200 by market capitalisation and highlights the greater response by Australia's larger companies. Indeed, the response rate for the ASX100 was 71%, down slightly from 73% in 2011. However, this was still below the Global 500 response rate of 81%.

In 2012, 42% of NZX50 companies responded to the CDP survey, the same percentage as in 2011. This represented 91% of the NZX50 by market capitalisation and highlights the greater response by the larger companies list on the New Zealand stock exchange. The response rate was below that of the ASX200 (50%), ASX100 (71%) and the Global 500 (81%).

Investor Group on Climate Change

Another collaboration of investment owners and managers in this field is a local initiative called the Investor Group on Climate Change Australia and New Zealand. Its stated purpose is to ensure that the risks and opportunities associated with climate change are incorporated into investment decisions.

According to the IGCC, its 66 members speak for over $900 billion in funds under management, an increase of 28% in dollar terms from 61 members with $700 billion reported in 2011 (as at 30 June 2011).

Engagement services

Service providers in Australia that specialise in engagement services on behalf of investors include Regnan and the Responsible Engagement Overlay offered by F & C Management. Other organisations that are active in engaging with companies on behalf of members or clients include for example, the Australian Council of Superannuation Investors (ACSI) and ESG service providers SIRIS and CAER.
ESG INDICES

For the fourth time we present a list of indices based on ESG criteria and analysis. Some of these indices are available for investment while others are used to demonstrate the performance of companies based on sustainability criteria. There is also a growing range of global sustainability indices available to Australian investors and for which Australian companies may be eligible to qualify.

List of Australian ESG Indices

<table>
<thead>
<tr>
<th>Index Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACT Australian Cleantech</td>
<td>Over 75 ASX listed cleantech companies. Cleantech covers technologies that come under the categories of renewable energy, low emissions technologies, water and wastewater reuse and treatment technologies, low emissions transport technologies, recycling and packaging technologies and systems, as well as demand side management for energy, water and other resources. Sub-indices for: solar, biofuels, water, waste, efficiency/storage/fuel cells and geothermal segments.</td>
</tr>
<tr>
<td>AuSSI - Australian SAM Sustainability</td>
<td>The AuSSI tracks the performance of listed Australian companies that lead in a range of sustainability criteria compared to sector peers. The index uses a best-in-class approach to select sustainability leaders across all industry sectors based on pre-defined sustainability criteria. Australian companies are assessed by RobecoSAM based on its annual Corporate Sustainability Assessment.</td>
</tr>
<tr>
<td>Carbon Disclosure Leadership Index (CDLI)</td>
<td>Identifies companies whose Carbon Disclosure Project (CDP) responses demonstrate to investors that the company has assessed and understands the risks, opportunities, management and mitigation strategies associated with climate change.</td>
</tr>
<tr>
<td>Corporate Responsibility Index (CRI)</td>
<td>Compiled by Business in the Community (BITC) in the UK in cooperation with the St James Ethics Centre. The index is a strategic management tool to help businesses to develop, measure and communicate best practice in the field of corporate social responsibility.</td>
</tr>
<tr>
<td>Ethinvest Environmental Share Price Index</td>
<td>The non-weighted index is formed based on approximately 30 ASX listed companies selected on the basis of their environmental performance. Most of the listed companies are small and mid-caps. Founded by Ethinvest and maintained by Ethical Investor.</td>
</tr>
<tr>
<td>FTSE4Good Australia 30</td>
<td>The index is derived from the FTSE4Good Global Index that assesses companies against a set of ESG inclusion criteria based on research from EIRIS and CAER.</td>
</tr>
<tr>
<td>FTSE Shariah Australia</td>
<td>Index of the largest and most liquid companies that are compliant with Shariah principles based on research provided by Yasaar Ltd. Typical exclusions are: conventional finance, high debt ratios, alcohol, pork related products and non-halal food production, entertainment (casinos, gambling, and pornography), tobacco and weapons.</td>
</tr>
<tr>
<td>Reputex Climate Change Opportunity</td>
<td>Identifies the impact on earnings of climate change risk and the best performing companies in a climate change economy.</td>
</tr>
<tr>
<td>Reputex Environment Opportunity</td>
<td>Includes companies that are exposed to environmental risk and positioned to mitigate and adapt to these constraints.</td>
</tr>
<tr>
<td>Reputex Governance Leaders</td>
<td>Provides exposure to companies which display strong corporate governance performance.</td>
</tr>
<tr>
<td>Reputex Sustainability 120 Index</td>
<td>Provides exposure to 120 companies within ASX 300 Index which demonstrate effective mitigation of corporate governance, environmental, social and workplace risks.</td>
</tr>
<tr>
<td>IPD Green Property Investment Index</td>
<td>Launched in February 2011 the index quantifies the investment performance of buildings with a Green Star, NABERS Energy or NABERS Water rating.</td>
</tr>
</tbody>
</table>
The Responsible Investment Certification Program was designed to encourage informed choice about responsible investment products and services available in Australia and New Zealand. The program provides assurance, independent verification and information for consumers about the way in which responsible investment products and services operate and is the only initiative of its kind in the world.

The Program provides for disclosure and guidance at all points in the investment cycle – for individual investors, financial advisers, dealer groups, fund managers and superannuation funds.

Individuals and organisations certified under the program as at July 2013 are as follows. Full details of licensees can be found on RIAA’s website at www.responsibleinvestment.org.

**ASSET OWNERS**

- Australian Catholic Superannuation and Retirement Fund
- Australian Christian Super
- Australian Ethical Investment and Superannuation
- Christian Super Combined Fund
- The Emerald Wrap
- Statewide Super
- UniSuper

**FUND MANAGERS**

- AMP Capital Investors
- Ausbil Dexia
- Australian Ethical Investment Blackrock
- Community Sector Banking
- Cromwell Fund Management
- Dalton Nicol Reid
- Foresters Community Finance Hunter Hall
- Investa Properties
- Perennial Investment Partners
- Perpetual Investments
- UCA Funds Management

**FINANCIAL ADVISERS**

- Alex Jamieson
- Andrew Gaston
- Anderw Melling
- Anne Marie Spagnolo
- James Baird
- Jonathan Neal
- Karen McLeod
- Katrina Hawker
- Lisa Greeve
- Louise Edkins
- Mark Lowe
- Mark Tindale
- Michael Driessen
- Michelle Brisbane
- Richard Whan
- Stephen Walden
- Stuart Barry
- Trevor Thomas

**DEALER GROUPS**

- Ethical Adviser
- Ethical Investment Services
This year’s Benchmark report highlights the continuing strength of the responsible investments industry, with the numbers demonstrating both a broadening across asset classes and a deepening into the mainstream investment community. This 2013 report again reminds the industry of the great need to further accept and commit to a new financial landscape that includes environmental, social and governance considerations as best practice in investment decision making.

The numbers we see in this report are a measure of industry growth and a signal that - as funds continue to perform - we require greater skills to manage and maintain these new benchmarks. If our funds are going to continue to perform, our people must too.

This is at the core of the global call to up-skill and train the investment profession to integrate ESG in to financial practice. RIAA’s RI Academy has been meeting this increasing global demand for high performance training in responsible investment.

RI ACADEMY THE NUMBERS SO FAR:

- 700+ Investment Professionals
- 25 Countries

The RI Academy provides industry leading training for financial services, corporate and other professionals needing to understand how environmental, social and governance issues are impacting company performance, shareholder value and investment decision making.

The Academy’s global curriculum creates a body of knowledge and common language designed to upskill teams and professionals across investment and capital markets.

RI Academy courses are delivered entirely online. They feature content from leading international experts, real life and hypothetical case studies, financial modeling and have been designed to help maximise the practical application of key ESG concepts in the shortest possible time frame.

Don’t wait to be outperformed. Start training now.

Visit the RI Academy and enroll today.

www.riacademy.org

Responsible Investment Fundamentals • Responsible Investment Essentials • Enhanced Financial Analysis
<table>
<thead>
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<th>Asset Managers</th>
<th>Contact Details</th>
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<tr>
<td>AMP Capital Investors</td>
<td>Adam Kirkman&lt;br&gt;<a href="mailto:adam.kirkman@ampcapital.com">adam.kirkman@ampcapital.com</a>&lt;br&gt;www.ampcapital.com.au&lt;br&gt;+61 2 9257 1115</td>
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<tr>
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<td>BlackRock</td>
<td>Dianne Essey&lt;br&gt;<a href="mailto:dianne.essey@blackrock.com">dianne.essey@blackrock.com</a>&lt;br&gt;www.blackrock.com.au&lt;br&gt;+61 2 9272 2211</td>
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<td>BNP Paribas Investment Partners</td>
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<td>Peter Lambos&lt;br&gt;<a href="mailto:peter.lambos@btim.com.au">peter.lambos@btim.com.au</a>&lt;br&gt;www.btim.com.au&lt;br&gt;+61 3 9242 4543</td>
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<td>Celeste Funds Management</td>
<td>Andreas Stephens&lt;br&gt;<a href="mailto:andreas@celestefunds.com.au">andreas@celestefunds.com.au</a>&lt;br&gt;www.celestefunds.com.au&lt;br&gt;+61 2 9216 1860</td>
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<tr>
<td>Colonial First State Global Asset Management</td>
<td>Pablo Berrutti&lt;br&gt;<a href="mailto:pablo.berrutti@colonialfirststate.com.au">pablo.berrutti@colonialfirststate.com.au</a>&lt;br&gt;www.cfsgam.com.au&lt;br&gt;+61 2 9303 0433</td>
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<tr>
<td>Cromwel Funds Management</td>
<td>Josh Garratt&lt;br&gt;<a href="mailto:josh.garratt@cromwell.com.au">josh.garratt@cromwell.com.au</a>&lt;br&gt;www.cromwell.com.au&lt;br&gt;+61 8 8223 7877</td>
</tr>
<tr>
<td>Dalton Nicol Reid</td>
<td>Mark Sedawie&lt;br&gt;<a href="mailto:mark.sedawie@dnr.com.au">mark.sedawie@dnr.com.au</a>&lt;br&gt;www.daltonnicolreid.com.au&lt;br&gt;+61 7 3004 0607</td>
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<tr>
<td>Ellerston Capital</td>
<td>Michael Besley&lt;br&gt;<a href="mailto:mbesley@ellerstoncapital.com">mbesley@ellerstoncapital.com</a>&lt;br&gt;www.ellerstoncapital.com&lt;br&gt;+61 2 9282 8897</td>
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<td>Belinda Drew&lt;br&gt;<a href="mailto:bdrew@foresters.org.au">bdrew@foresters.org.au</a>&lt;br&gt;www.foresters.org.au&lt;br&gt;+61 7 3257 3166</td>
</tr>
<tr>
<td>Highland Good Steward Management</td>
<td>Bill Mills&lt;br&gt;<a href="mailto:bmills@highlandgsm.com">bmills@highlandgsm.com</a>&lt;br&gt;www.highlandgsm.com/&lt;br&gt;+1 205 933 8664</td>
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<tr>
<td>Hunter Hall Investment Management</td>
<td>Brooke Logan&lt;br&gt;<a href="mailto:blogan@hunterhall.com.au">blogan@hunterhall.com.au</a>&lt;br&gt;www.hunterhall.com.au&lt;br&gt;+61 2 8224 0300</td>
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<tr>
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<tr>
<td>Lend Lease</td>
<td>Michael Richardson&lt;br&gt;<a href="mailto:michael.richardson@lendlease.com.au">michael.richardson@lendlease.com.au</a>&lt;br&gt;www.lendlease.com&lt;br&gt;+61 2 9237 5761</td>
</tr>
<tr>
<td>New Zealand Methodist Trust Association</td>
<td>Greg Wright&lt;br&gt;<a href="mailto:gregw@methodist.org.nz">gregw@methodist.org.nz</a>&lt;br&gt;www.methodist.org.nz&lt;br&gt;+64 3 366 6049</td>
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<tr>
<td>New Forests</td>
<td>MaryKate Hanlon&lt;br&gt;<a href="mailto:mhanlon@newforests.com.au">mhanlon@newforests.com.au</a>&lt;br&gt;www.newforests.com.au&lt;br&gt;+61 2 9406 4100</td>
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<td>Northward Capital</td>
<td>Wanda Jaworski&lt;br&gt;<a href="mailto:wjaworski@northwardcapital.com">wjaworski@northwardcapital.com</a>&lt;br&gt;www.northwardcapital.com&lt;br&gt;+61 2 8088 4433</td>
</tr>
</tbody>
</table>
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