Responsible Investment Association Australasia

Financial Adviser Guide to Responsible Investment

Edition 3

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riaa Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand.

RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 450 members managing more than US$29 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Our membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

RIAA achieves its mission through:

- providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets;
- delivering tools for investors and consumers to better understand and navigate towards responsible investment products and advice, including running the world's first and longest running fund Certification Program, and the online consumer tool Responsible Returns;
- supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation;
- acting as a hub for our members, the broader industry and stakeholders to build capacity, knowledge and collective impact; and
- being a trusted source of information about responsible investment.

Find out more at www.responsibleinvestment.org ↗

This Financial Adviser Guide to Responsible Investment sets out to demystify responsible and ethical investment

The power of capital

When you ask people if they are happy profiting from the sale of tobacco products, the misery of problem gambling, or the manufacture of cluster munitions, a resounding majority will say 'no'. But the truth is, sitting within the superannuation and investment assets of many Australians and New Zealanders will be investments in industries that are inconsistent with the values and ethics of that particular client.

In recent years, Australians and New Zealanders have become increasingly aware that it is possible to invest in ways that align with their environmental and social ethics, without sacrificing long-term returns and while still managing a portfolio of diverse assets. Increasingly clients are seeking out a better way to invest, to generate strong returns but also avoid doing harm and contribute to real-economy outcomes.

The growth of responsible, ethical and impact investing is one of the strongest investment trends of the last two decades. You're probably seeing and hearing it from clients and potential clients, who may be asking you how they can invest to avoid fossil fuels, or to invest in the renewable energy sector, or how to exclude problematic sectors that they are not comfortable with such as gambling, tobacco, adult content, human rights or animal welfare abuses and many others.

This is an area that continues to gain momentum, with surging client demand and a deep evidence base that highlights the strong investment outcomes that responsible investors are generating.

This guide sets out to demystify responsible and ethical investment and move you up the learning curve fast, so that you are well placed to respond to the rising client requests on these issues, and can appropriately service your clients to deliver quality financial advice that is in line with their values.

Responsible investment – you can't afford not to be informed

Responsible and ethical investment has become a major part of the investment landscape across Australasia, with over a third of all investments in Australia, and over half in New Zealand, now being invested responsibly and ethically. The smartest investors in our region now understand that the most sustainable companies make the best investments.

Those companies who pollute the environment, underpay employees, breach human rights in their supply chains, or ignore community concerns, risk significant damage to their brands and their share price. Responsible investment has now proven itself to be an important element of understanding the full value of investments, underpinning strong risk-adjusted investment returns.

But more than just for performance, clients are increasingly expecting their savings to be invested in a way that does no harm, and ideally leaves the world in a better place. Whether that is through superannuation, KiwiSaver, investments or savings, Australians and New Zealanders are increasingly moving their money to ensure it is aligned with their values.

The regulation of advice is also catching up. In Australia, the FASEA Code of Ethics, which came into effect in 2020 now requires advisers to consider the broader long-term interests of their clients, and consider reducing their advice to responsible and ethical products where in the clients' best interests. Likewise in New Zealand, the new Code of Professional Conduct for Financial Advice, introduced in 2021, will require the adviser to consider the clients' views along with ensuring the advice given is suitable for the client given their needs and goals. Both codes arguably require the adviser to consider responsible and ethical investing if it is in the clients' interests.

This growing interest in responsible and ethical investment across the market has resulted in significant growth in investment products and opportunities to invest responsibly and ethically. From KiwiSaver to superannuation, from retail to wholesale, across all asset classes and investment styles, there are increasingly investment options that match your clients' own objectives, both financial and ethical.

RIAA's consumer research shows that:

9 in 10 Australians expect their superannuation and other investments to be invested responsibly and ethically

76% of New Zealanders expect their KiwiSaver funds and other investments to be invested responsibly and ethically

9 in 10 Australians believe it's important their financial adviser provides responsible or ethical options

86% of Australians believe that it is important their financial adviser asks them about their interests and values in relation to their investments

87% of Australians feel comfortable discussing their interests and values in relation to their investments with their financial adviser

→ Research from RIAA (2020), From values to riches - Charting consumer attitudes and demand for responsible investing in Australia 2020; and RIAA & Mindful Money (2020), Responsible investment New Zealand consumer study 2020

Responsible investment – now a major part of our financial markets

RIAA has been measuring the size and growth of the responsible and ethical investment markets in Australia and New Zealand since 2002 and over that time the industry has continued to grow in size, complexity and momentum.

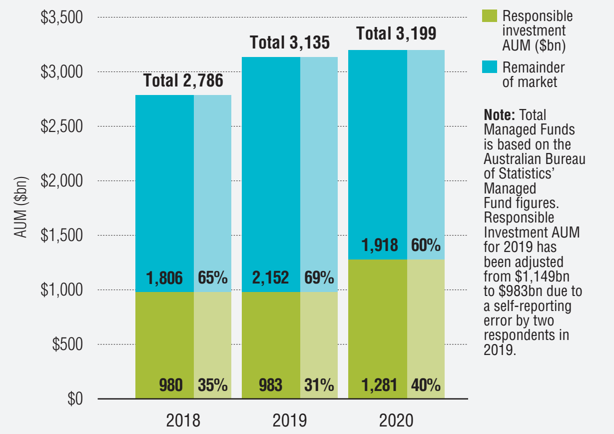
In Australia, RIAA's annual *Responsible Investment Benchmark Report 2021* found that 40% of all professionally managed investments in Australia are now managed using a leading approach to responsible investment. The report found that Responsible Investment Assets Under Management (AUM) increased by $298 billion to $1,281 billion in 2020, while the AUM managed by the remainder of the market decreased by $234 billion to $1,918 billion.

Meanwhile in Aotearoa New Zealand the responsible investment market continues to grow. Responsible Investment AUM reached a record $142 billion in 2020, representing 43% of total professionally managed investments, up from $111 billion in 2019. In 2020, responsible investments grew faster than the total market – Responsible Investment AUM grew by 28%, while Total Funds Under Management grew by just 11%.

In both markets, there has been rapid growth in responsible investment particularly since 2012, driven by two main factors:

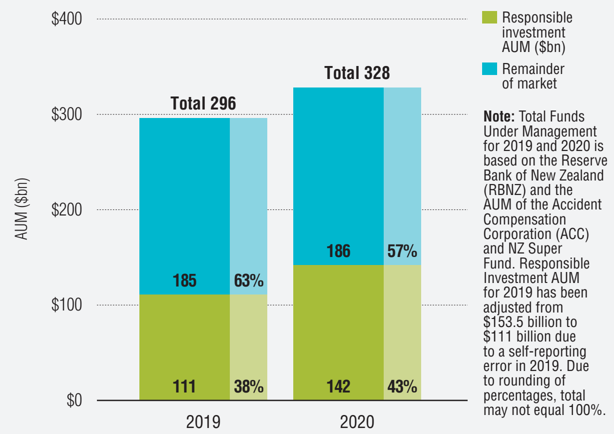
1. Client demand – client demand has surged in our region for responsible and ethical investments. From retail investors through to institutions, many more clients are seeking to ensure their investments are aligned with their own missions and values.
2. Strong investment outcomes – more sustainable companies have demonstrated that they make better investments, with a strong evidence base demonstrating that responsible investments deliver stronger risk-adjusted returns.

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



→ Graph from RIAA's Responsible Investment Benchmark Report Australia 2021

Growth in Responsible Investment AUM and Total Funds Under Management in New Zealand ($ billions)



→ Graph from RIAA's Responsible Investment Benchmark Report Aotearoa New Zealand 2021

Who are responsible investors?

Responsible investors recognise that all businesses, and therefore all investments, have an impact on people and the planet, in a positive or negative way. Responsible investors seek to minimise the negative effects generated by business and promote positive impacts.

All kinds of investors can be responsible investors, whether they are individuals choosing where to put their savings or superannuation, a trustee of a trust or foundation, or an institutional investor such as a super fund, fund manager, bank or asset manager.

Investors engage in responsible investing for a range of reasons including to:

- Manage downside and upside risk
- Achieve strong financial returns in the short- and long-term
- Give back to society, or start 'doing good'
- Align investments with their own or their clients' personal values and ethics
- Satisfy a belief that investing in sustainable enterprises and assets ultimately delivers a healthier economy, society and environment for current and future generations

Unscrambling the jargon – responsible, ethical or impact?

Responsible investment, also known as sustainable or ethical investment, is the umbrella term used to refer to diverse approaches to investing which factor in people, society and the environment, along with financial performance, when making and managing investments.

Historically, ‘ethical investing’ has referred to the concept of investing alongside a defined set of values, beliefs or morals, for example Islamic investments avoiding businesses involved in alcohol production and distribution. Meanwhile ‘responsible investment’ has tended more to focus on managing risk by being informed by the environmental, social and governance (ESG) performance of investments. Accordingly, many large mainstream investment institutions in Australia and New Zealand consider themselves responsible investors, but not ethical investors. However this distinction is increasingly less relevant as the field matures and as ‘ethical’ investors integrate consideration of ESG factors into investment decision making, and institutional investors increasingly embrace their role in helping shape the world we live in through the allocation of capital.

From impact investing to ESG integration to negative screening, there are many different approaches for engaging in responsible investment, and investors often use a combination of approaches including those listed below and within RIAA’s responsible investment spectrum:

- ESG integration
- Negative or exclusionary screening
- Positive/best-in-class screening
- Norms-based screening
- Corporate engagement and shareholder action
- Sustainability-themed investing
- Impact investing

RIAA’s responsible investment spectrum

APPROACH	TRADITIONAL INVESTMENT	RESPONSIBLE & ETHICAL INVESTMENT							PHILANTHROPY
		ESG Integration	Exclusionary/ negative screening	Norms-based screening	Corporate engagement and shareholder action	Positive / best-in-class screening	Sustainability-themed investing	Impact investing	
METHOD	Providing limited or no regard for environmental, social, governance and ethical factors in investment decision making	Explicitly including ESG risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources	Excluding certain sectors, companies, countries or issuers based on activities considered not investable due principally to unacceptable downside risk or values mis-alignment	Screening of companies and issuers that do not meet minimum standards of business practice based on international norms and conventions; can include screening for involvement in controversies	Executing shareholder rights and fulfilling fiduciary duties to signal desired corporate behaviours - includes corporate engagement and filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines	Intentionally tilting a proportion of a portfolio towards solutions; or targeting companies or industries assessed to have better ESG performance relative to benchmarks or peers	Specifically targeting investment themes e.g. sustainable agriculture, green property, 'low carbon', Paris or SDG-aligned	Investing to achieve positive social and environmental impacts - requires measuring and reporting against these, demonstrating the intentionality of investor and underlying asset/ investee and (ideally) the investor contribution	Using grants to target positive social and environmental outcomes with no direct financial return

INTENTION

- Avoids harm
- Benefits stakeholders
- Contributes to solutions

FEATURES AND OUTCOMES

- Delivers competitive financial returns
- Manages ESG risks
- Contributes to better system stability and economic sustainability
- Pursues opportunities and creates real-economy outcomes

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

There is no one best approach to responsible investing – it's about seeking to understand your clients' needs and providing responsible investing advice that best matches their needs.

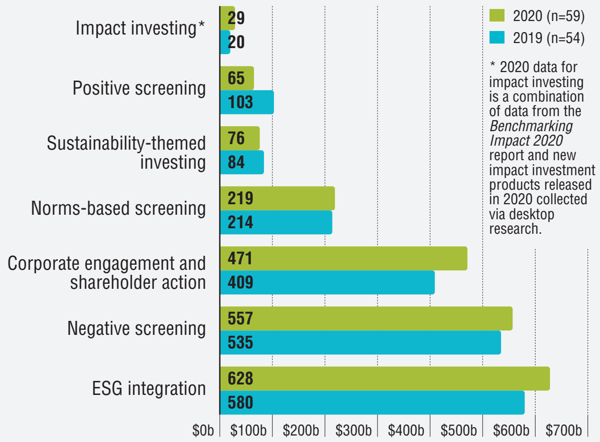
Each of these terms may mean something slightly different to different investors and it's not unusual for product developers to use a combination of strategies such as negative or positive screening, best of sector and ESG integration in the one product.

For example:

- An ethical investment unit trust may well have in place negative screens, plus some positive screens, and undertake ESG integration and corporate engagement.
- A large institutional superannuation fund may have negative screens across the full portfolio (such as tobacco and controversial weapons), plus focus strongly on ESG integration and corporate engagement, but also have some sustainability-themed allocations in their direct investments to industries such as renewable energy and green property.
- An impact investment fund that invests in companies focused on the delivery of positive outcomes may engage closely with individual companies around optimising positive impacts and reducing negative impacts.

In 2020 the responsible investment approaches that most influenced the final construction of responsible investor portfolios across both Australia and New Zealand were negative screening, ESG integration and corporate engagement. Australia saw a slight drop in positive screening, likely due to an improved classification of this approach as ESG integration by investment managers[1]. In New Zealand every approach except impact investing saw an increase[2].

Total AUM covered by responsible investment approaches of survey respondents



→ Graph from RIAA's Responsible Investment Benchmark Report Australia 2021

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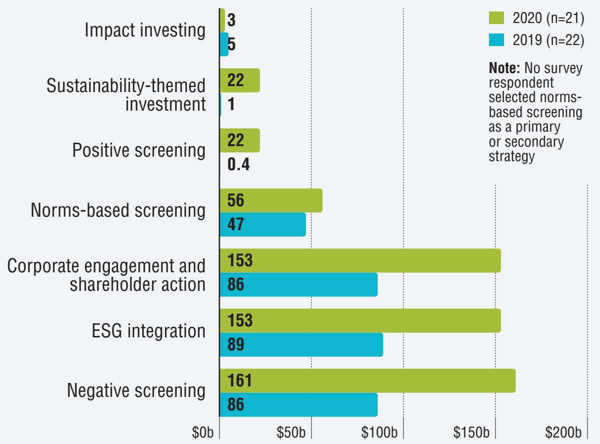

→ Graph from RIAA's Responsible Investment Benchmark Report Aotearoa New Zealand 2021

1 RIAA (2021), Responsible Investment Benchmark Report Australia 2021
2 RIAA (2021), Responsible Investment Benchmark Report Aotearoa New Zealand 2021
3 RIAA (2020), Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020
4 RIAA (2020), Responsible Investment Benchmark Report New Zealand 2020

Impact investing – the market for investments that target and measure positive social and environmental impact continues to grow

Impact investing is a specific responsible investing strategy referring to investments made with the intention to target positive, measurable social and environmental impact alongside a financial return.

Mirroring global trends, the impact investment market is experiencing exponential growth in Australia[3], more than tripling between 2017 and 2019 to AU$19.9 billion. It is delivering strong financial returns while also positively impacting the lives of tens of thousands of people, such as through jobs, education, health services, and benefiting our environment. Australian investors indicate they would like to increase their allocation towards impact investments more than fivefold to AU$100 billion over the next five years.

In New Zealand, impact investing activity is also on a steep rise, growing over 13 times from NZ$358 million in 2018 to NZ$4.74 billion in 2019[4]. Impact investments have, for example, facilitated recycling carbon waste into valuable fuels and chemicals; provided families access to rent-to-own affordable housing; and developed AI for special-needs schools.

The case for responsible investing

Responsible investors are motivated by a range and often a combination of factors including the desire to:

- maximise returns by incorporating sustainability risks and opportunities into investment decisions;
- align investment choices with personal, moral or organisational values;
- achieve sustainability outcomes; and
- take advantage of investment opportunities presented by the new, 21st century economy.

Growth is being driven by:

- a new generation (young and old) of investors who are aligning their investment values with personal values;
- the strong performance of ethical and responsible funds on average; and
- belated recognition that ethical investing reduces portfolio risk.

RISING CONSUMER DEMAND

RIAA research conducted in 2020[5] highlighted overwhelming consumer demand for ethical and responsible investment. 86% of Australians said they expect their superannuation or other investments, and 87% of Australians expect the money in their bank accounts to be invested responsibly and ethically.

Findings from RIAA research in 2020 in New Zealand[6] were consistent: the overwhelming majority of New Zealanders (76%) expect their KiwiSaver and other investments to be invested responsibly and ethically.

In an important signal to the investment, banking and wealth management sectors, three quarters of Australians said they would consider switching their super or other investments to another provider if their current fund engaged in activities inconsistent with their values, and two thirds will consider making ethical or responsible investments in the next 1 to 5 years.

Australian-based Gen Zs and Millennials are leading the charge as the most likely groups to consider investing in ethical companies, funds, or superannuation funds (77% and 73% respectively) and are the most likely to have been prompted to think about their investments after recent weather conditions in Australia including the 'black summer' bushfires (78% and 69% respectively).

Interestingly, 53% of Australians say they would be motivated to invest and save more money if they knew their savings or investments made a positive difference in the world.

SUPERIOR INVESTMENT PERFORMANCE THROUGH RESPONSIBLE INVESTMENT

In addition to rising consumer expectations, the reason most of the finance sector is now considering a responsible and ethical investment approach is quite simply that it makes good investment sense.

The conclusion of the investment industry is that more sustainable companies make better investments, with 40% of all professionally managed assets in Australia now managed using a leading approach to responsible investment[7], and 43% in New Zealand[8].

The evidence has steadily mounted to support the conclusion that responsible investing can deliver stronger risk-adjusted returns for investors. RIAA's Responsible Investment Benchmark study reports annually on the performance of responsible investment funds compared with their benchmarks.

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

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

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

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

*Data provided by survey respondents

**Data provided by Morningstar direct™

→ **Graph from RIAA's Responsible Investment Benchmark Report Australia 2021**

In Australia, the most recent research reported that despite economic setbacks in 2020, responsible investment funds outperformed both the international share and multi-sector growth funds in 2020, performed on-par with the Australia Fund Equity Large Blend, but underperformed compared to the S&P/ASX 300 over three and five years (see graph on previous page).

In New Zealand in 2020, average performance of responsible investment funds was higher or similar to the performance of the S&P/NZX50 on all time horizons, while in the multi-sector growth fund category, the responsible investment average was on-par or slightly below Morningstar's NZ Multi-sector Growth category.

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

New Zealand share funds	1 Year	3 Years	5 Years	10 Years
Responsible investment fund average - Aus/NZ share funds*	**18.5%**	**16.2%**	**15.6%**	**15.8%**
S&P/NZX50**	13.9%	15.9%	15.7%	14.7%

International share funds	1 Year	3 Years	5 Years	10 Years
Responsible investment fund average - International share funds**	**6.6%**	**8.2%**	**9.0%**	**8.5%**

Multi-sector growth funds	1 Year	3 Years	5 Years	10 Years
Responsible investment fund average - Multi-sector growth funds*	**8.3%**	**8.0%**	**7.8%**	**8.0%**
Morningstar category: NZ Multi-sector Growth**	10.1%	8.8%	9.4%	8.9%

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

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

*Data provided by survey respondents

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→ **Graph from RIAA's Responsible Investment Benchmark Report Aotearoa New Zealand 2021**

5 RIAA (2020), From values to riches - Charting consumer attitudes and demand for responsible investing in Australia 2020

6 RIAA & Mindful Money (2020), Responsible investment New Zealand consumer study 2020

7 RIAA (2021), Responsible Investment Benchmark Report Australia 2021

8 RIAA (2021), Responsible Investment Benchmark Report Aotearoa New Zealand 2021

Why responsible investing is good for people and the planet

Chris Iggo, AXA IM Chief Investment Officer, Core Investments

Investment managers are increasing their focus on environmental, social and governance (ESG) issues and playing a critical role in the transition to a low carbon future.

As the focus on ESG standards becomes increasingly important for investors, the case for sustainable investing has never been stronger. According to Chris Iggo, AXA IM Chief Investment Officer, Core investments, a good example is a business that is a heavy carbon emitter – increasingly it will be penalised for those carbon emissions either through taxation or regulation to the point where it will become less profitable and therefore the business will be unsustainable.

While there are a number of ESG risks investors need to think about, it is also creating opportunities for investors to support companies that are contributing to a sustainable future.

“An example would be a renewable energy company, which is helping shift the economy to a low carbon world,” said Mr Iggo.

While some institutional investors such as endowment, charitable and pension funds have long incorporated non-financial considerations into their investment policies, responsible investing is now becoming far more mainstream.

“People do want to invest in assets that are good for people and the planet, but there is also a sense that the world is moving this way and therefore some companies are going to be punished for not doing the right thing, which will increase their cost of capital and make it harder to generate a good economic return,” he said.

While ESG concerns are wide-ranging, the issue that is drawing the most attention is climate change and the potential cost of not reducing carbon emissions. A number of countries have committed to achieve net zero carbon emissions by 2050, and those government commitments mean they are likely to pressure businesses to reduce carbon emissions while implementing policies to transition to a low carbon economy.

“Not only do governments have the power to impose regulations and taxes to help achieve that, they also have the fiscal power to subsidise new technologies and encourage the energy transition,” Mr Iggo said. “It’s also very measurable – we can look at a company and measure its carbon footprint today and we can assess how that’s going to look going forward based on the plans that company has to transform itself.”

Against that backdrop, investment managers can also play a critical role in helping the world transition to a low carbon future. For starters, fund managers can measure the carbon footprint of all the companies that particular fund invests in, allowing managers to adjust their portfolios’ carbon footprints accordingly.

“Asset managers can play a more venture capital role by investing in companies that are developing new technologies such as electronic vehicle batteries.”

Investors have a role to play in engaging with businesses and marshalling them in the right direction on sustainability issues.

The growth in sustainable investment also means that asset managers have to weigh ESG considerations such as climate, inequality and biodiversity alongside more traditional investment metrics, such as a company’s financial statement and balance sheet.

“It’s a necessary process to go through to establish the value of a corporate asset, because if you ignore all that then suddenly that asset could get devalued through some kind of fine or increased tax burden or whatever it might be, and if you’re not aware of those risks through a detailed study of the business, then as an investor you’re going to underperform.”

Any concerns that investors might have that they are forfeiting potential returns in favour of more sustainable but less profitable investments is being contradicted by an increasing body of research that shows that incorporation of ESG factors can lead to better investment performance.

“That trade off just doesn’t exist,” said Mr Iggo. “Think about a sector such as the auto sector. Some car companies are much further advanced in developing new electronic vehicles for example, so you can still have the same allocation to autos but within that you can pick the best-in-class companies. They’re likely to be the ones that have done more in terms of changing their business model, and that means they’re more profitable and the return to investors will be better as a result.”

Today RIAA has over 220 certified products available across most investment styles and asset classes

Getting started

How should a financial adviser best deliver responsible and ethical investment advice to their clients?

Here's our 4 step process to getting started.

STEP 1 DO YOUR RESEARCH

It's essential that you have information on ethical and ESG issues when you start to engage your clients in these conversations. Pleasingly, this information is becoming increasingly available and embedded in the everyday infrastructure of financial advisers.

- Platforms increasingly are including ESG fund ratings, or stock level ESG data (e.g. BT's Panorama, Hub24).
- Fund research houses are including sustainability and carbon emissions data in their fund research (e.g. Morningstar, Lonsec).
- ESG data is available on investment terminals (e.g. Bloomberg, Thomson Reuters).
- Online financial websites are starting to provide stock level ESG data (e.g. Yahoo Finance).
- Both free and subscription-based portfolio analysis tools exist (e.g. 2 Degrees Investing Initiative has a carbon analysis tool – and it's free).

Responsible Investment Certification Program

RIAA operates the world's longest running Responsible Investment Certification Program, providing confidence that a product or provider is delivering on its responsible investment promise and meeting the Australian and New Zealand Standard for responsible investing. To really understand that you have quality responsible and ethical investment products, you should ensure your APL contains RIAA certified products that have been verified and meet stringent requirements.

You can search for all RIAA certified investment products via our online tool www.responsiblereturns.com.au. ↗ These products can be searched and filtered by investment type, asset class, geography, exclusions and inclusions.

responsible returns

CERTIFIED RESPONSIBLE INVESTMENT ®

CERTIFIED BY RIAA

For more detailed information, there are subscription-based research houses who provide a variety of services, such as data on key exclusions, ESG ratings of companies, portfolio analysis tools, as well as voting advisory. These include companies such as MSCI, Sustainalytics, ISS ESG, Regnan, Corporate Monitor, CGI Glass Lewis and Refinitiv.

Sell side brokers also increasingly have ESG analysts producing high quality analysis of companies and their ESG issues and risks.

Given the diversity of approaches to responsible and ethical investment, it is critical that you conduct research into specific investment products to understand the various approaches they take. There are key areas to watch for, such as:

- What industries are excluded?
- How are these industries specifically defined by that manager? For example, they exclude weapons but precisely what weapons are excluded? Hand guns, landmines, cluster munitions, weapons launch systems?
- Are industries entirely excluded, or only those companies generating a majority of their revenue from those particularly excluded activities? Often funds will have a materiality threshold in place, such that for example, a company is only excluded for uranium mining if they generate over 10% of their revenues from uranium.
- If industries are included, is it because they are delivering positive impact or are merely the 'best-in-class'?
- Do the underlying holdings of a fund reflect the investment philosophy of the fund?

It's critical that you study the available funds to understand these differences. Not all funds are created equal.

STEP 2 DEVELOP YOUR APPROVED PRODUCT LIST

Next you'll need to see what investment products you have available to you. Your APL may already have a range of ethical investment funds across different asset classes (often called SRI funds, ethical funds or sustainable funds).

If not, have a look at the available mainstream fund managers – many may have certain negative screens in place but not report it up front – common exclusions that are increasingly found in mainstream investment funds are tobacco and weapons.

Beyond managed funds, you may well have access to the growing range of ethical and sustainable themed Exchange Traded Funds or Listed Investment Companies.

If you are part of a large dealer group or wealth management firm, reach out to your Head of Research and seek their guidance as to what products are available.

If there are no products available, it's time to speak to your dealer group and encourage them to consider updating their APL to allow access to an ever growing number of responsible and ethical funds. A decade ago, there may have been a limited range of investment products available. Today, RIAA has identified more than 220 products available across investment styles and asset classes, and certified them as Responsible Investment Products. See step 4.

STEP 3 ASK THE RIGHT QUESTIONS

Many advisers will immediately say they don't get asked the question about ethical investing by many of their clients, but have you proactively asked the question of your clients?

Most clients don't go to their financial adviser thinking about their values, ethics and passions, and often don't think to raise such issues with you.

But as an adviser who is required to know your client (under the New Zealand Code of Professional Conduct for Financial Advice Services) and to act in their best interests (ASIC's Regulatory Guide 175: Licensing: Financial product advisers – Conduct and disclosure) can you really be claiming to do this without asking a full and comprehensive set of questions, including seeking out any sectors that your clients would not be comfortable investing in?

Ask yourself if your client would be comfortable knowing they held shares in a munitions company, a poker machine manufacturer, a thermal coal miner, or a company known to have violated human rights. Run a test with a sample of your clients to check their comfort levels with certain industries.

Every fact find questionnaire should ask clients about any 'no go' industries that they would not feel comfortable investing in, and taking it to the next step, should also ask about industries they would like to have some exposure to.

Example questions to ask your client:

Your investments will be chosen using research to achieve the best financial outcome. Do you also want environmental, social, ethical or governance factors taken into account?

Do you want to exclude sectors or activities which have a major impact on the environment and society such as tobacco, armaments, harmful animal testing or gambling?

Do you want to specifically seek out opportunities that have positive social and environmental outcomes as well as good financial returns, for example renewable energy?

Do you want to invest in all sectors across the investment universe, prioritising those companies in each sector which have the best track record on environmental, social, ethical and governance issues? This approach may include sectors such as tobacco, armaments and gambling.

STEP 4 KEEP UP TO DATE

With the majority of Aussie and New Zealand clients expecting their investments to be managed in a way that is consistent with their values, there is a massive risk that an adviser is caught without the right knowledge and expertise and loses a client, so staying up to date is critical.

More and more issues are arising that clients want to address in their portfolios and they will expect you to be well versed to help them navigate this territory.

Climate change and fossil fuels are examples of the complexities – some will want to divest of fossil fuels, but where does this line get drawn? Pure-play coal companies, metallurgical coal miners, coal generators (black and brown coal), and mining services companies? What about transport companies that freight coal, coal seam gas, oil and conventional gas, electricity generators, or diversified energy generators who may have large investments in renewables, but also in coal? You will increasingly find yourself needing to have the answers.

If you wish to stay up to date with responsible investing research, events and products, you could:

Become a member of RIAA – we act as a platform for timely and relevant ESG and ethical information to keep our members up to date on the issues that matter, and a connected hub, delivering dozens of events, webinars, conferences and working group meetings every year.

Utilise RIAA's member resources such as our Responsible Investment Fact Find, Adviser Guide to the Client Interview Process and fact sheets on the responsible investment issues that matter.

Subscribe to RIAA's free Window newsletter and attend some of our events such as our annual conferences in Australia and New Zealand.

Undertake responsible investment online training through our training partners to establish a solid foundation to understanding responsible investment.

Visit RIAA's website to keep up to date with leading market research, including RIAA's impact research, super studies, and responsible investment benchmark reports across New Zealand and Australia.

responsible returns

Use Responsible Returns to search for RIAA certified financial products and Kiwisaver/superfund options.

To properly differentiate yourself in this growth market, consider becoming a RIAA Certified Financial Adviser, to demonstrate external validation and give the assurance that you have capabilities, skills and products to deliver responsible and ethical investment advice.

Resources

RIAA RESOURCES

RIAA BENCHMARK REPORTS

Responsible Investment Benchmark Report Australia 2021 ↗

Responsible Investment Benchmark Report New Zealand 2021 ↗

Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020 ↗

RIAA CONSUMER RESEARCH

From Values to Riches – Charting consumer attitudes and demand for responsible investing in Australia 2020 ↗

Responsible Investment New Zealand Consumer Study 2020 ↗

OTHER RIAA RESEARCH

Responsible Investment Super Study 2019 ↗

Impact Insights Report 2019, Aotearoa, New Zealand ↗

RIAA FACT SHEETS AND GUIDES

Introduction to responsible investment ↗

Responsible investing and financial performance ↗

How to avoid greenwashing* ↗

Introduction to corporate engagement & shareholder action* ↗

COVID-19 and the performance of responsible investments ↗

Fossil fuels and responsible investment * ↗

Responsible Investment Fact Find* ↗

Adviser Guide: Client Interview Process* ↗

FASEA Code of Ethics and responsible investing* ↗

Introduction to ESG integration* ↗

Introduction to impact management and measurement ↗

**Member-only resources*

RESPONSIBLE INVESTMENT OUTPERFORMANCE

AXA Investment Managers (2020), *ESG and financial returns: the academic perspective* ↗

BlackRock (2020), *Sustainable Investing: Resilience amid Uncertainty* ↗

Cheema-Fox, A., LaPerla, B., Serafeim, G., & Wang, H., (2020), *Corporate Resilience and Response during COVID-19*, Harvard Business School Working Paper, No. 20-108, April 2020 ↗

Morningstar (2020), *How does European Sustainable Funds' Performance Measure Up?* ↗

Morgan Stanley Institute for Sustainable Investing (2019), *Sustainable Reality: Sustainable Reality: Analyzing Risk and Return of Sustainable Funds* ↗

Bank of America Merrill Lynch (2017), *Equity Strategy Focus Point: ESG Part II: a deeper dive* ↗

Australian Centre for Financial Studies (2017), *A Review of Socially Responsible Investing in Australia* ↗

Nuveen TIAA Investments (2017), *Responsible Investing: Delivering competitive performance* ↗

Sakis, K., Pinney, C. & Serafeim. G. (Harvard Business School) (2016), *ESG Integration in Investment Management: Myths and Realities*, Journal of Applied Corporate Finance 28, no. 2 (Spring 2016): 10–16 ↗

Friede, G., Busch, T. & Bassen, A. (Deutsche Asset & Wealth Management and Hamburg University) (2015) *ESG and financial performance: aggregated evidence from more than 2000 empirical studies*, Journal of Sustainable Finance & Investment, 5:4, 210-233 ↗

BUILDING YOUR APPROVED PRODUCT LIST

USE RESPONSIBLE RETURNS

Visit *RIAA's online tool* ↗, powered by RIAA certified financial products and KiwiSaver/superfund options. Filter products by product type, investment approach, inclusions, exclusions, geography and asset class, to identify products right for your clients.

KEEPING UP TO DATE

JOIN RIAA

By joining RIAA, you join the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand.

Read more about membership benefits and *join RIAA* ↗.

LEARN MORE ABOUT RIAA'S CERTIFICATION PROGRAM

Speak knowledgably about the rules and requirements of RIAA's *Responsible Investment Certification Program* ↗ underpinning the certified funds on the *Responsible Returns* ↗ online tool.

FIND AN ADVISER

By joining RIAA you'll be listed on the *Find a Financial Adviser* ↗ site.

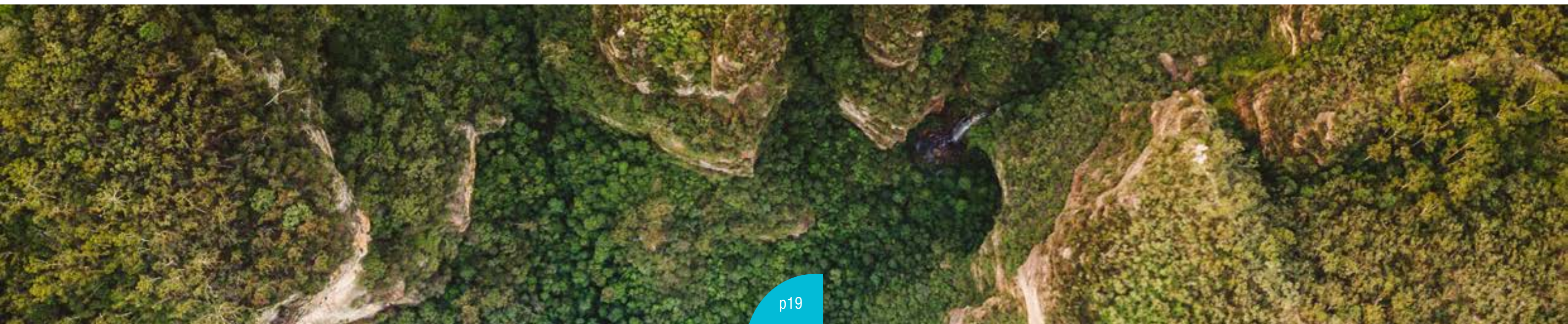
Going the step further to becoming a *Certified Financial Adviser* ↗, helps clients navigate to service providers that they can trust to provide financial advice that meets all of their responsible investing needs.

RI EDUCATION

Participating in the *PRI Academy* ↗ or *Invest with Ethics* ↗ gives you a solid foundation to understand responsible investment. RIAA members receive discounted access.

Disclaimer

The information in this report is general in nature and does not constitute financial advice. The report is intended to provide an overview of the current state of the responsible investment industry, as defined by the Responsible Investment Association Australasia. Any advice in this publication is of a general nature only and has not been tailored to your personal circumstances. Please seek personal advice prior to acting on this information. Past performance does not guarantee future results, and no responsibility can be accepted for those who act on the contents of this report without obtaining specific advice from a financial adviser. RIAA does not endorse or recommend any particular firm or fund manager to the public. Before making a decision to acquire a financial product, you should obtain and read a Product Disclosure Statement (PDS) relating to that product.



Responsible Investment Association Australasia