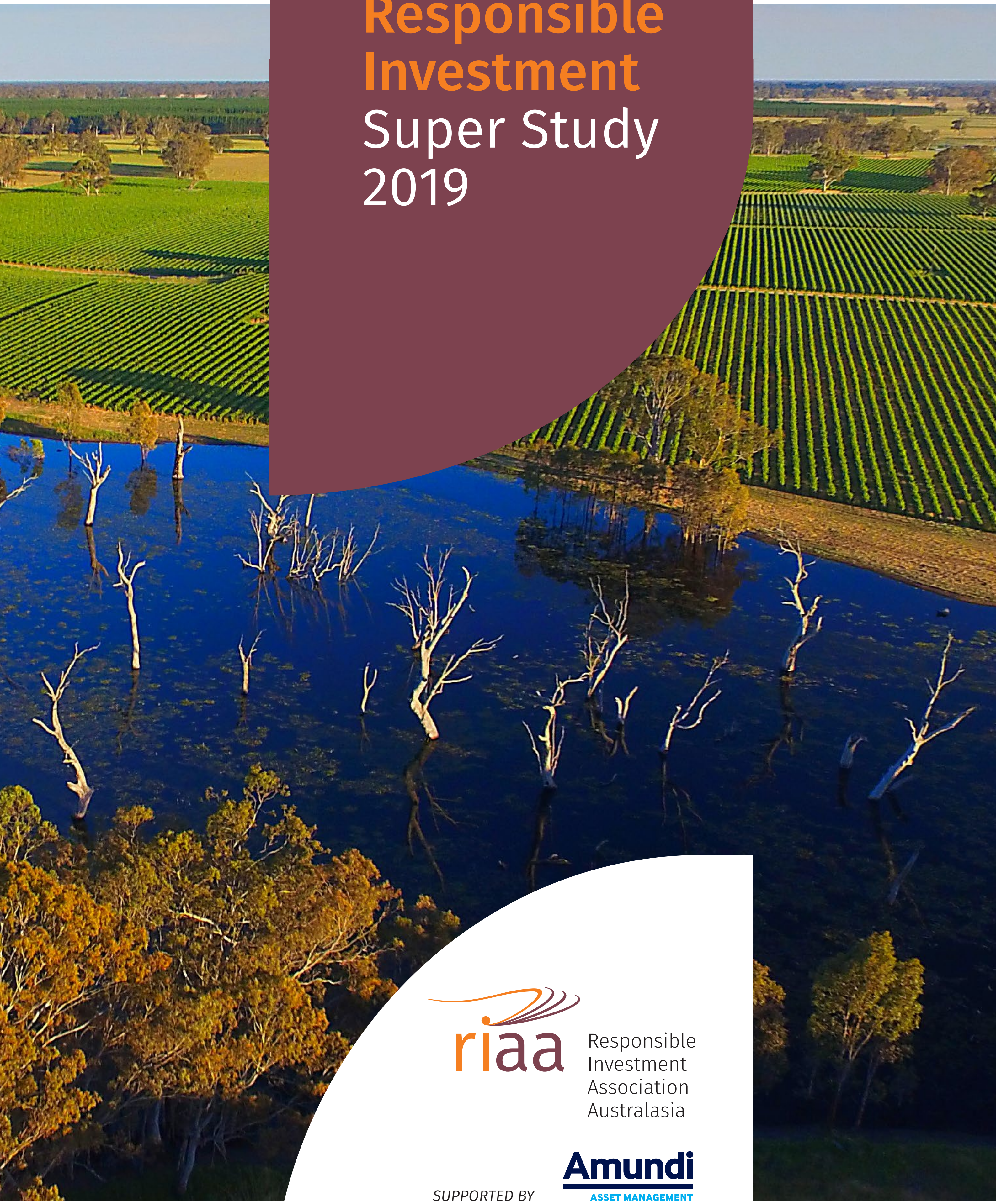
Responsible Investment Super Study 2019



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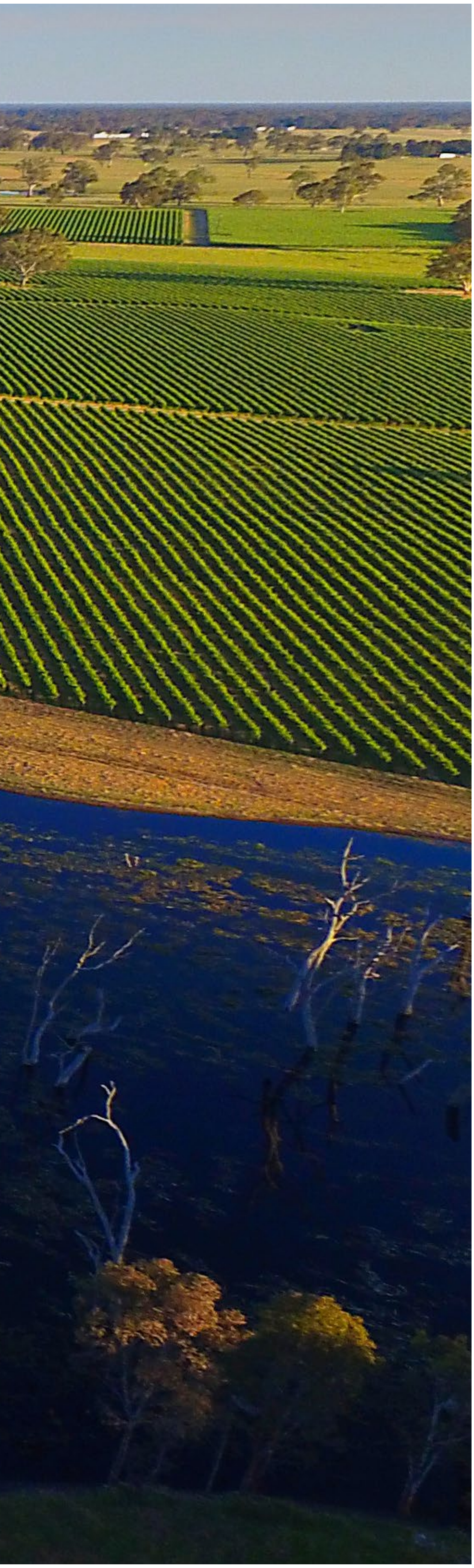

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Contents

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Amundi is Europe's largest asset manager by assets under management and ranks in the top ten[1] globally. It manages €1.487 trillion[2] of assets across six main investment hubs.[3] Amundi offers its clients in Europe, Asia-Pacific, the Middle East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Clients also have access to a complete set of services and tools. Headquartered in Paris, Amundi was listed in November 2015.

Thanks to its unique research capabilities and the skills of close to 4,500 team members and market experts based in 37 countries, Amundi provides retail, institutional and corporate clients with innovative investment strategies and solutions tailored to their needs, targeted outcomes and risk profiles.

Amundi
ASSET MANAGEMENT

1 Source: 'Top 400 Asset Managers', *IPE*, published in June 2019 and based on AUM as at end of December 2018.
2 Amundi figures as of 30 June 2019.
3 Investment hubs: Boston, Dublin, London, Milan, Paris and Tokyo.

About this report

THE 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 260 members managing more than $9 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.

RIAA is the foremost body in Australia working to grow the up-take and deepen the impact of RI. Within this context, we seek to provide more clarity and definition around the constituent parts of super funds' responsible investing approaches to enhance the performance and sustainability of the superannuation sector as a whole. By benchmarking leading practice, we help our members and the industry more broadly to show progress towards meeting the changing expectations of supervisors on managing material ESG risk and opportunity.

THE RI SUPER STUDY

The *Responsible Investment Super Study 2019*[4] builds on research first published in 2016 to map the broad array of responsible investment (RI) approaches used by Australia's largest super funds and other large asset owners,[5] providing insights to changes in practice between July 2016 and June 2019. In doing so, this project's longitudinal research focus seeks to articulate the evolution of RI among super funds to highlight the leading practices in the market and drive continual improvement.

The 2019 study covers the largest 50 superannuation funds in Australia regulated by the Australian Prudential Regulation Authority (APRA), as well as several significant asset owners in our region including the two sovereign wealth funds in Australia and New Zealand. These 57[6] funds, in total, comprise an estimated $1.75 trillion in assets under management (AUM) as at 30 June 2019.

The RI Super Study is designed to help:

- **super funds** better understand the practical components of leading practice in responsible investment; and
- **consumers** understand the broad array of RI approaches and strategies in place.

ACKNOWLEDGEMENTS

RIAA heartily appreciates the support of Amundi Asset Management, which has enabled us to resource this research project.

We are very appreciative of the funds that responded to our request for information, contributed data and information, and offered feedback, which provided the basis for this research and report. These funds are listed in Appendix 2.

This report has been researched and authored by Rebecca Thompson, Nicholas Coles, Nicolette Boele and Nithya Iyer, with data and data processes provided by APRA, Refinitiv, ISS ESG, RateCity, MarketMeter and the 30 funds that provided their additional data.

4 Formerly titled the *Super Fund Responsible Investment Benchmark Report.*
5 The term 'super fund' is used as the all-inclusive phrase in this report.
6 See Appendix 2 for a full list of superannuation funds considered in this report. In total, we considered 58 funds, however, BT Funds Management and Westpac Securities Administration Limited submitted a combined response for their retail superannuation funds, reducing the associated data points in this research to 57 funds.

Executive summary

CONTEXT AND BACKGROUND

Responsible investment (RI) continues its upward trajectory into the mainstream with just under half of all professionally managed assets in Australia now employing RI strategies, as detailed in RIAA's *Responsible Investment Benchmark Report 2019*.[7]

We are witnessing a strong take-up by super funds and other large asset owners of a responsible approach to managing retirement savings, largely driven by three factors:

1. an ever-greater acceptance that environmental, social and governance (ESG) factors are critical to consider as part of investment practice, as they are increasingly impacting on valuations and investment returns;
2. a growing interest by Australians in whether their retirement savings are being invested in a responsible manner, with surging consumer awareness around issues and themes relating to social, environmental, governance and ethical issues; and
3. an increasing focus on these ESG issues by finance sector regulators that are clearly articulating the financial relevance of these issues in investment decision-making, including climate change risk.

If the superannuation industry is to realise its potential for delivering long-term retirement outcomes, it needs to be fuelling a productive, prosperous and healthy future for Australians, embedding ESG considerations alongside traditional financial factors, avoiding contributing to harmful activities and backing the building of tomorrow's businesses, industries and communities.

But to get there, Australian super funds need to commit to strong RI governance and accountability and invest only in companies and assets that genuinely deliver long-term, risk-adjusted performance outcomes. They also need to be courageous and skilful stewards, learning when and how to engage with companies and sectors in which they are invested.

Today, when consumers are demonstrating heightened interest in the way their super is being invested, and as super funds are deepening and refining their RI strategies, this third report in this research series begins to show an evolution of RI for Australia's largest super funds.

The 2019 research covers a total estimated $1.75 trillion in AUM. The funds included in this research manage 91% of all APRA-regulated super fund assets and, excluding NZ Super Fund, represent 60% of total Australian superannuation assets of $2.87 trillion as at 30 June 2019.[8]

KEY FINDINGS

1. **Super funds comprehensively applying RI practices outperform their peers**

   Analysis of MySuper[9] performance data reveals super funds that employ RI strategies across their entire fund have financially outperformed their non-RI peers over five-, three- and one-year time frames. The outperformance is even more apparent when the 2019 leading RI super funds are compared against the balance of the MySuper benchmark, with the outperformance in the order of 100bps (basis points) over each time period.

2. **Internal resourcing to deliver on RI has quadrupled since 2016**

   Fifty-one percent of super funds are employing one or more full-time employees with significant responsibility for RI. RI employee numbers have doubled since 2018 and quadrupled since 2016, symbolising a significant strengthening of RI commitments within super funds.

3. **Climate risk is systematically considered by more boards, but climate-related financial disclosures are nascent:**
   - **Climate risk is becoming a standing item on board agendas**
     The number of funds systematically considering climate change at board meetings has nearly doubled from 2018 to 10, representing 18% of the research universe.
   - ***Boards are starting to adopt the Task Force on Climate-related Financial Disclosures (TCFD) in their reporting***
     Eight funds referenced TCFD in their current or upcoming reporting and/or assessment processes, but only two had reported against TCFD at November 2019.

4. **Stewardship commitments are embedded in super funds' operations, however, disclosure on activities remains low:**
   - ***Stewardship codes provide a framework for funds, with 39% of the research universe signatory to one of two codes***
     Eight super funds are full members of the Financial Services Council and consequently adhere to its stewardship code, while 14 super funds are signatories of the Australian Council of Superannuation Investors' stewardship code.

7 RIAA's Responsible Investment Benchmark Report 2019 https://responsibleinvestment.org/wp-content/uploads/2019/07/RIAA-RI-Benchmark-Report-Australia-2019-2.pdf

8 APRA superannuation statistics for July 2019, relased 5 September 2019. https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-july-2019

9 MySuper is a low-cost, default superannuation investment option with a regulated set of features introduced in 2011 as part of the Federal Government's 'Stronger Super' reforms.

– ***Company engagement is increasing, but half do not disclose engagement activity or outcomes***
Almost half the super funds (49%) have formal engagement policies and processes in place, with most of those funds involved in direct company engagement (44% of the sample). However, an even greater proportion of super funds engage with companies on a collaborative basis, with 67% of funds involved in this manner. These percentages are broadly in line with 2018, but in the case of direct engagement, the outcome represents a 14% increase since 2016. When it comes to disclosing these engagements, less than half (18 funds of the 38 involved in direct and/or collaborative engagements) publish engagement reports.

5. **Most super funds rely on external managers to help implement their RI responsibilities, but few managers impose voting policies in line with the super fund's investment beliefs**
Seventy-seven percent of super funds identify external managers as having responsibility for RI to some degree, up from 70% in 2018. Approximately half (53%) consider external investment managers as either wholly or largely responsible for the ESG information provided to the fund and a similar proportion (47%) of the super funds discuss minimum RI expectations with external managers. However, when it comes to voting policies, just 26% task investment managers with executing voting policies in alignment with the super fund's investment beliefs and strategy; the vast majority choosing to implement their voting policies across their whole portfolio by conducting proxy voting themselves or via external proxy voting advisers.

6. **Fund-wide-exclusions are now applied by over 60% of super funds**
Negative/exclusionary screening has traditionally been an RI strategy applied to specific responsible investment options, particularly ethical investment options. However, in 2019, 61% of super funds implemented at least one negative screen across the whole of the fund. This percentage is in line with 2018 findings, but up from 34% in 2016. The most popular fund-wide exclusions continue to be tobacco and armaments including cluster munitions, nuclear weapons and other classifications under controversial weapons. Fossil fuels exclusions move into third place.

7. **The setting of quantifiable performance targets to ground the implementation of RI policies remains in its infancy**
Just 25% of super funds have performance targets for their RI strategy, unchanged from 2018. These targets vary from reducing carbon intensity and ensuring voting of a certain percentage of shares, to utilising the Principles of Responsible Investment reporting as a standard for measuring performance. The absence of target setting may in part explain the gap between strong super fund RI commitment and a weaker performance record in implementation.

8. **With the rise in consumer expectations for RI and commitments to RI, more super funds are reporting on their RI activities**
Over the three periods covered by the RI Super Study, there has been disclosure improvement across the board, with marked improvements in annual reporting on RI (72% of funds in 2019 versus 44% in 2016), disclosure of external fund managers (89% in 2019 versus 44% in 2016) and engagement disclosure (32% in 2019 versus 12% in 2016). That said, full equity holdings disclosure remains low, with just 12% of super funds publishing their holdings, perhaps awaiting the enactment of the Superannuation Legislation Amendment (Transparency Measures) Bill.

LEADING RESPONSIBLE INVESTMENT SUPER FUNDS

With a view to articulating leading practice in RI for super funds, the funds were assessed across five pillars that comprise RIAA's Framework of Good Responsible Investment Governance and along a scale – limited, basic, broad and comprehensive – indicating the quality and scope of disclosures.

Each year the leading funds comprise the top 25% of the research universe. This means from year to year, funds may move onto or off the leader board.

In 2019, 14 of the 57 funds consistently articulate and demonstrate comprehensive RI approaches across the Framework.

FIGURE 1 **RI Super Study leader board**

Fund Name	Fund category
Australian Ethical	Retail
AustralianSuper	Industry
CareSuper	Industry
Cbus	Industry
Christian Super	Industry
First State Super	Public/non-regulated
Future Fund	Public/non-regulated*
Future Super	Retail
HESTA	Industry
Local Government Super	Public/non-regulated
NZ Super Fund	Public/non-regulated*
Unisuper	Industry
VicSuper	Public/non-regulated
Vision Super	Public/non-regulated

* Sovereign wealth fund categorised as a public/non-regulated fund for the purposes of this research
^ Arranged in alphabetical order

An overview of superannuation in 2019

We are witnessing a strong up-take of responsible approaches to managing retirement savings by super funds and other large asset owners. Increasingly, our largest institutional investors are considering environmental, social, governance and ethical issues as a core part of their investment decision-making. This is resulting in a community of asset owners that are more actively engaging, investing and divesting on the basis of issues traditionally considered 'non-financial'. These issues are now recognised as 'extra-financial' issues, which are essential to understand in order to deliver strong investment outcomes for our beneficiaries.

This shift towards responsible investment (RI) by super funds and other asset owners has been largely driven by three factors:

1. an ever-greater acceptance that environmental, social and governance (ESG) factors are critical to investment decisions given their impact on valuations and returns;
2. a growing interest from Australians in ensuring their retirement savings are being invested in a responsible manner, with heightened consumer interest around ESG issues; and
3. more recently, an increasing focus on these ESG issues by finance sector regulators that are clearly articulating the financial relevance of these issues in investment decision-making, including climate change risk.

Regarding the third of these points, the following discussion outlines some of the current activities that have contributed to the increasing momentum for leading RI super funds to deliver strategies aligned with members' best interests; better manage investment portfolios that observe ESG factors; enhance engagement with consumers through better disclosures; and target financial inclusion and literacy programs.

In October 2018, the Australian Government's **Productivity Commission** delivered its final recommendations on improving the efficiency and competitiveness of Australia's superannuation system.[10] The findings in this report show to what extent super funds have addressed the shortcomings highlighted by the Commission, including:

- exploring ways that funds directly engage members to understand client needs and preferences to evidence they are 'acting in the members' best interests';
- illustrating how funds are expressing their trustee obligations to manage the risks and opportunities posed by the global challenges of our day to deliver investments in members' interests now and for when they retire; and
- providing the industry and consumers with better fund disclosures, including for RI performance.

In March 2019, the **Australian Prudential Regulation Authority** (APRA) provided direction about the expectations of trustee boards in considering climate risk given these are "foreseeable and actionable now".[11] APRA stated that these risks must be "assessed and addressed alongside more traditional balance sheet and operational risks" [12] and that failure to act now will come at a cost due to factors such as "extreme weather, more frequent droughts and higher sea levels".[13]

APRA also surveyed its largest regulated registrable superannuation entity (RSE) licensees, authorised deposit-taking institutions (ADIs) and general insurers to inform its view of how climate risks are being viewed by these players. The paper containing this view was published as part of APRA's widely promoted public discourse on its enhanced supervision activities regarding expectations of trustee boards in assessing climate change risks.

APRA is leading by action through its membership of the peak standards-setting body on pension supervisory issues, the **International Organisation of Pension Fund Supervisors** (IOPS). In October 2019, the group issued supervisory guidelines on the integration of ESG factors in the investment and risk management of pension funds.[14]

The IOPS guidance comes on the heel of several international policy developments setting signals and frameworks that enable the pension fund sector to contribute more systematically and in a coordinated way towards global financial stability through the pursuit of global goals. These include but are not limited to the:

- **European Union's *Action Plan on Sustainable Finance*,** with the plan's recommendations delivering working groups on a taxonomy for environmentally sustainable activities, green bond standards and low-carbon benchmarks;
- **United Kingdom's *Green Finance Strategy***, as well as a revised ***UK Stewardship Code*** explicitly calling out ESG factors and better disclosures such as pension funds reporting consistent with the TCFD recommendations;
- **Canadian Expert Panel on Sustainable Finance's** final report to government; and
- **New Zealand Sustainable Finance Forum** through the Aotearoa Circle's interim report, outlining its vision as it works to produce a roadmap for action on how to shift New Zealand to a sustainable financial system.

10 Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness, Productivity Commission Inquiry Report, No. 91, 21 December*, Australian Government, Canberra, 2018.

11 Australian Prudential Regulation Authority, *Information Paper: Climate change: Awareness to action*, Australian Government, 20 March 2019, p. 4, viewed November 2019, <https://www.apra.gov.au/sites/default/files/climate_change_awareness_to_action_march_2019.pdf>

12 Australian Prudential Regulation Authority, APRA Chair Wayne Byres – Speech to the Risk Management Association Australia, CRO Board Dinner, Monday 26 August 2019, viewed November 2019, <https://www.apra.gov.au/news-and-publications/apra-chair-wayne-byres-speech-to-risk-management-association-australia-cro>.

13 Australian Prudential Regulation Authority, APRA Executive Board Member, Geoff Summerhayes – Speech to the International Insurance Society Global Insurance Forum, Friday 21 June 2019, viewed November 2019, <https://www.apra.gov.au/news-and-publications/apra-executive-board-member-geoff-summerhayes-speech-to-international>.

14 International Organisation of Pension Fund Supervisors (IOPS), *IOPS Supervisory Guidelines on the Integration of ESG Factors in the Investment and Risk Management of Pension Funds*, IOPS, Paris, 2019, viewed November 2019, <http://www.iopsweb.org/IOPS-Supervisory-guidelines-integration-ESG-factors.pdf>.

And, closer to home, the:

- **Australian Accounting Standards Board** and the **Auditing and Assurance Standards Board's** jointly issued bulletin presenting guidance around financial disclosures of climate change related risks, noting that this guidance is consistent with international **Accountants Standards Board** best practice interpretation of materiality;
- **Australian Sustainable Finance Initiative,** Australia's own process to develop a roadmap that includes the role of superannuation providers in delivering the ***Sustainable Development Goals***, ***Paris Agreement*** and ***Sendai Framework for Disaster Risk Reduction***; and
- passing of the ***Modern Slavery Act 2018,*** seeking to improve company due diligence around identifying, assessing and responding to modern slavery incidences in operations and supply chains.

From policy to action, since July 2018 the super fund sector has initiated and/or participated in the following:

- ***the UN Christchurch Call*** – a rally of community, companies, super funds, governments and online service providers to eliminate terrorist and violent extremist content online and to prevent the abuse of the internet;
- **a surge in shareholder resolutions** being submitted and supported, including 29.6% of BHP shareholders voting in favour of a resolution calling for the company's suspension of membership of industry associations whose advocacy is inconsistent with the Paris Agreement;
- ***Climate Action 100+***[15] – one of the world's largest investor-led initiatives engaging with the world's largest greenhouse gas emitters to improve their climate performance and ensure transparent disclosure of emissions; and
- update to the world's first and longest-running 'true-to-label' initiative, ***RIAA's Responsible Investment Certification Program***, which seeks to find further measures to manage the downside risk of greenwashing to super funds and other providers of RI products into the Australian and New Zealand markets.

Despite the tailwinds for responsible investing, a blight on the Australian scorecard is the systematic underperformance of Australian super funds in terms of full holdings disclosure. The findings in this year's report suggest there has been no material improvement for Australia which in 2017 was in equal last position for **Organisation for Economic Co-operation and Development** (OECD) countries in terms of transparency around financial products.[16] This may be in part due to the continued delay to enact the ***Superannuation Legislation Amendment (Transparency Measures) Bill*** as super funds wait to see what reporting formats will be required.

Through the course of this report, RIAA highlights findings that illustrate the performance of the research universe that align with some of the Productivity Commission's recommendations and the areas of interest highlighted by APRA as relevant to its enhanced supervision focus around the assessment of extra-financial risk.

As the findings in this report show, super funds apply responsible investment strategies such as integration of ESG factors, exclusion of detrimental industries and activities, and engagement of company executive and boards so that they can more accurately price and manage long-term risk, allocate capital to reflect the best interest of clients and – overall – deliver better member outcomes.

The findings show that responsible investing in 2019 is par for the course for leading super funds trustee boards, and irrespective of the category – public, retail, corporate or industry – default super products of funds applying responsible investing strategies, such as company engagement, are on average, out-performing those that do not.

15 Climate Action 100+, 'Global Investors Driving Business Transition', Climate Action 100+, 2019, viewed November 2019, <http://www.climateaction100.org/>.

16 Morningstar, *Global Fund Investor Experience Report*, 3 October 2017, p. 16.

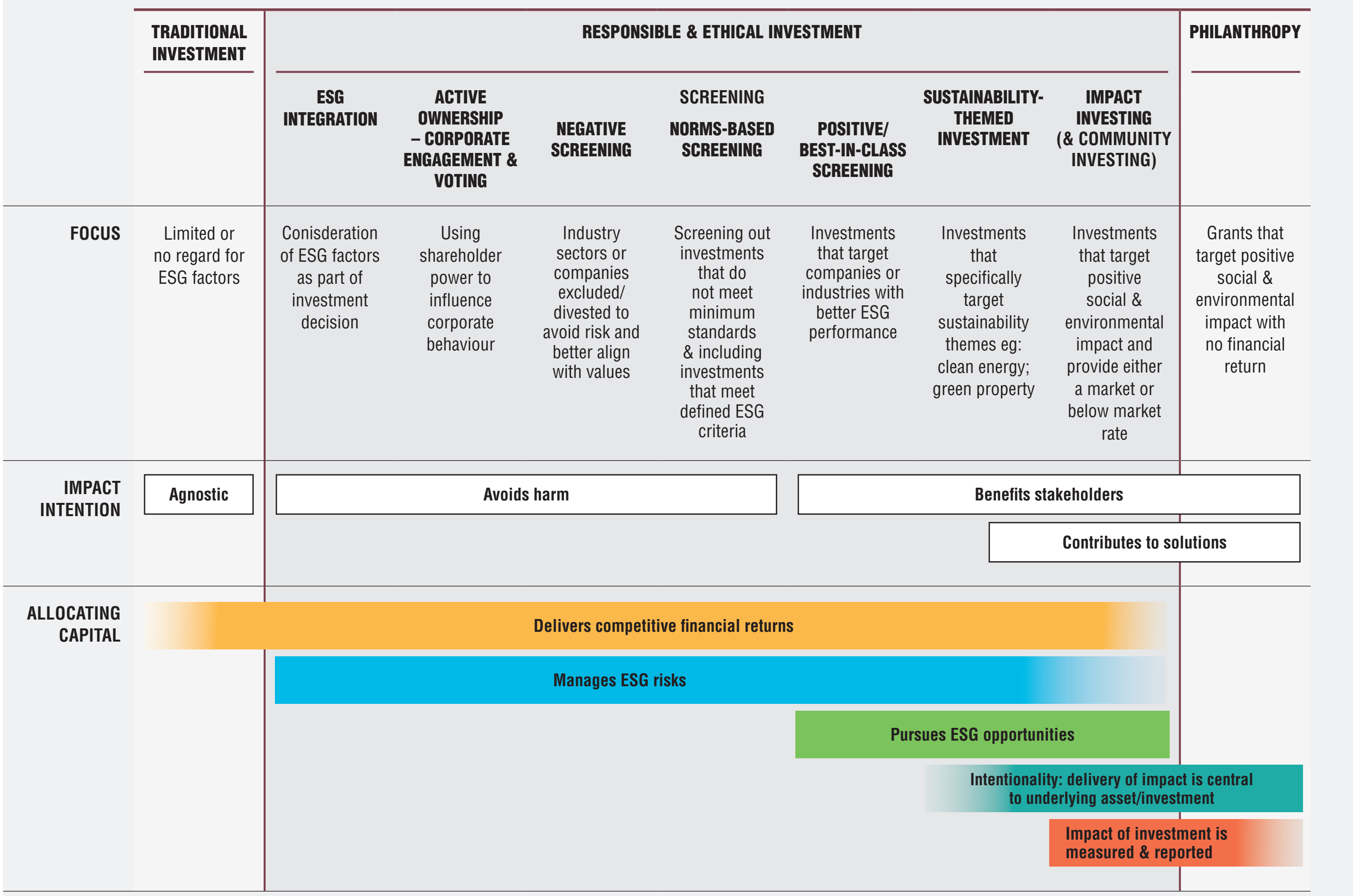
Research methodology

The research methodology and assessment framework are modelled from similar initiatives globally, specifically the Dutch responsible investment pension fund survey issued annually since 2006 by the Dutch Sustainable Investment Organisation.

For consistency across global definitions of responsible investment practice, we have reviewed the language and assessment approach and aligned in parts to other global frameworks including the *PRI Reporting Framework 2019 Overview and Guidance* and the Global Sustainable Investment Alliance's (GSIA) set of seven strategies for responsible investment. The GSIA strategies have been nuanced for the Australian market and summarised below and in RIAA's responsible investment spectrum in Figure 2.

1. ESG integration
2. Active ownership – corporate engagement and voting
3. Negative/exclusionary screening
4. Norms-based screening
5. Positive/best-in-class screening
6. Sustainability-themed investing
7. Impact investing and community investing

FIGURE 2 **RIAA's responsible investment spectrum**



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

ASSESSMENT FRAMEWORK

RIAA's **Framework of Good Responsible Investment Governance** (the framework) for super funds has been developed in consultation with RIAA super fund members and comprises five pillars:

1. **Governance and accountability**
   Board-level buy-in to RI supported by formal accountability processes
2. **Responsible investment commitment**
   Extent and breadth of RI approach and coverage aligned with investment and RI beliefs
3. **Responsible investment implementation**
   Widely used quality systems for delivering RI consistent with commitments to RI approaches
4. **Measurement and outcomes**
   Systems and metrics to track and manage RI performance internally and externally; ways for measuring success
5. **Transparency and responsiveness**
   Disclosures that build member confidence and broader stakeholder trust in the super fund's governance of RI

RIAA built this model to show how RI may fit with a fund's broader investment beliefs and the process that supports its implementation, through measurement, reporting and review. The five pillars of the framework describe the elements of good governance for RI by super funds and, if used well, guide super funds on how to comprehensively and effectively implement RI strategies consistent with their investment beliefs and informed by their stakeholders. The framework, put simply, is a management system that helps articulate commitment and the process that supports its implementation through measurement, reporting and review.

Noting the many styles of RI – from ethical approaches to those more focused on stewardship responsibilities – the framework is agnostic to the style of RI undertaken by a super fund, inviting funds to describe their own way of approaching RI and demonstrating how this is consistent with action under the five pillars of good governance. This is key to the value of this framework: that it allows super funds to reflect different RI approaches appropriate to the fund's category and clients.

Data collection and analysis

The data in this report is derived from a combination of primary and secondary research. Firstly, RIAA undertook desktop research on each of the super funds' public information. We sought additional input from funds to verify the data we sourced in the desktop research and to enhance our understanding of how a super fund implements RI throughout its fund. We were especially keen to ensure that we collected information relating to the quality of implementation of RI by way of evidence of integration processes across the fund, rather than proxy considerations in the form of high-level published statements and/or formal policies.

In assessing each of the 57 funds on their RI disclosures against the framework, we adopted and applied a scaling system. The scale (limited, basic, broad, comprehensive) describes the scope and quality of RI data in disclosures. RIAA considered all fund data for each aspect of the five pillars before categorising each fund's results along the scale.

Two main updates were applied to the process of scaling in 2019:

1. funds were also assessed against a number of 'threshold factors' representing leading practice expectations globally, for example full holdings disclosure and systematic engagement of clients to shape investment beliefs and/or investment strategies;and.
2. the five pillar leading practice features were assigned scores to assist in more reliable, comparable assessments year-on-year.

Leading super funds comprise the top 25% of the sample and can comprehensively describe their approach to RI and demonstrate how the implementation of this approach meets the best interests of their clients and/or other key stakeholders.

See separate Supplementary Appendices Report for the information requested of participants under each of the RI pillars and super funds' RI options by RI approach.

Reporting boundary

This report primarily covers the period 1 June 2017 to 31 December 2018. There are some exceptions to this, chiefly data sourced from participants' websites and third-party AUM and performance data discovered in 2019. Data sourced from Principles for Responsible Investment (PRI) transparency reports published in 2019 primarily covers the financial year ending on 30 June 2018.[17]

Financial figures are in Australian dollars (AUD).

Data sources

Much of the data included in this research comes from publicly available sources such as corporate websites (e.g. policies, guidelines and annual reports); PRI transparency reports; RIAA's Responsible Investment Certification Assessment Program; and other publicly available information including news and media.

Data was also collected from super funds by way of a detailed information request issued between August and September 2019. We collected this data to help us more deeply understand internal governance processes related to the implementation, measurement and outcomes of respective responsible investment strategies.

Research universe

There are three main inputs to the research universe:

1. APRA's list of Australia's largest super funds as regulated and reported on 21 December 2018 – 50 registrable superannuation entities responsible for the largest total assets under management (AUM);
2. select non-APRA regulated but sizable and significant asset owners in Australia that have opted in such as **ESSSuper**, **TCorp** and the **Future Fund** (together accounting for $271.7 billion as at 30 June 2019); and
3. RIAA member super funds that fall outside the two categories above and that have opted in to this research (this includes **NZ Super Fund**, **Australian Ethical**, **Future Super** and **Christian Super**).

17 Some data was private in 2019, in which case we used data from the previous year.

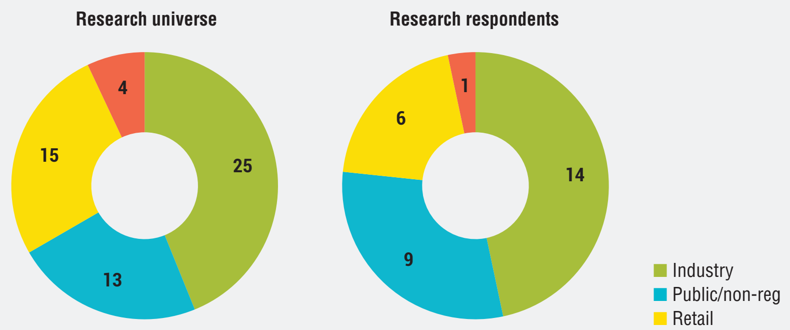
Additionally, we applied the following treatments to guide the creation of the universe:

- If funds appeared in the largest 50 list, had the same RSE, and RIAA received notice from that RSE that the overall approach to RI was largely consistent across the separate funds, we rolled-up these funds and considered them as a single fund (e.g. **Nulis** includes **MLC** and **PremiumChoice Retirement Service**).
- If an RSE managed multiple funds in the largest 50 list but under materially different responsible investment strategies, we treated the funds as separate listings as part of this research (e.g. **Colonial First State Investments Limited** has two listings, one for **Colonial First State FirstChoice** and one for **Commonwealth Essential Super**).
- We considered 58 funds in total; however, **BT Funds Management** and **Westpac Securities Administration Limited** submitted a combined response for their retail superannuation funds, reducing the associated data points in this research to 57 funds.
- The joint venture between CSF Pty Ltd (**Catholic Super**) and **Equipsuper** Pty Ltd is noted, however, we considered the funds separately as formal combination did not occur until October 2019.

Thirty[18] out of 57 funds provided responses and/or additional information to this research process, a similar proportion to the 55% that participated in 2018, but up from 40% in 2016. The 2019 research covers a total estimated $1.75 trillion in AUM. The funds included in this research manage 91% of all APRA-regulated super fund assets and, excluding **NZ Super Fund**, represent 60% of total Australian superannuation assets of $2.87 trillion as at 30 June 2019.

Guided by the categories used by APRA, RIAA allocated research participants into four categories of funds: industry funds, retail funds, corporate funds and public/non-regulated funds. For the purpose of most analyses, we classified the two sovereign funds, **Future Fund** and **NZ Super Fund**, as well as the state-managed fund **TCorp**, as public/non-regulated. Figure 3 shows the split between these across the research universe and the participation of funds by category.

FIGURE 3 **2019 Research universe by super fund category (57 funds in universe, 30 respondents)**



Language surrounding key stakeholders

RIAA acknowledges that all super funds have a key stakeholder group – the beneficiaries. However, different funds have different labels for this group. Retail funds tend to have 'clients' or 'customers', corporate and industry funds have 'members' and public/non-regulated funds have 'members' or 'beneficiaries'. A sovereign wealth fund such as the **Future Fund** has 'future generations of Australians'. For simplicity, in this report the term 'clients' describes this key stakeholder group for all categories.

Report structure

The following section of this report sets out our findings against each of the five pillars that comprise RIAA's assessment framework. A selection of case studies demonstrate how leading super funds within the sample are putting their commitment to RI into practice.

RIAA believes that these research findings can play an important role in furthering the capacity-building of the industry by highlighting leading practices across super funds and the asset managers and asset consultants that support them. We believe that working to develop a deeper commitment to and implementation of RI will underpin the delivery of long-term value for clients and ensure a more sustainable financial system.

18 Thirty-one funds if BT Funds Management and Westpac Securities Administration Limited are considered separately

Findings by pillar

1 Accountability and governance

Policy and strategy based on a sound understanding of client needs and expectations, and board-level buy-in to RI supported by formal accountability processes

AT A GLANCE

- **81% of super funds have some form of RI commitment in place**
- **93% of super funds report that stakeholder input informs investment beliefs**
- **The number of funds systematically considering climate change at board meetings has nearly doubled since 2018 to 10, representing 18% of the research universe**
- **39% of funds are signatories to a stewardship code**
- **51% of funds employ one or more full-time employees with significant responsibility for RI, suggesting that approximately 93 RI staff are employed by these 29 funds. This represents a four-fold increase in resources since 2016**

RI policies and accountability

This year's research finds that 46 out of 57 funds (81%) have some form of RI commitment in place – in line with 2018, but up by 11% from 2016. For 44 funds (77% of the universe) RI commitments are explicitly stated in the investment beliefs or in a standalone policy – up from 74% in 2018 and 70% in 2016.

Accountability for overseeing policies and systems for managing ESG risks and opportunities has become more visible in this third year with more funds (45 out of 57 – 79%) stating that the full board or board committees have oversight for ESG risks and opportunities, an increase of 9% from 2018 and 23% from 2016.

WHAT IS ACCOUNTABILITY AND GOVERNANCE?

Accountability refers to the demonstration of the understanding of the stakeholders to whom the fund is accountable. Governance provides the structures (processes and delegations) necessary for the strategy to be effectively implemented. A key aspect of governance is the acknowledgement of the role of key stakeholders into the fund's RI strategy vision, mission or investment beliefs.

Clients tend to be a fund's key stakeholder group, but a fund may consider others as well (e.g. broader society, future generations, the environment and government/regulators).

RESEARCH GOAL:
To assess the maturity of an organisation's accountability practices (stakeholder inclusivity and materiality issues) and whether the organisation has suitable governance structures in place to enable its RI strategy to be effectively delivered.

KEY ASPECTS USED TO ASSESS ACCOUNTABILITY AND GOVERNANCE:

The fund:

- has commitment to RI in the overall fund strategy and internal structures are in place to drive this;
- has and discloses appropriate responsibilities and accountabilities for RI;
- identifies, engages and considers stakeholders in the development and ongoing review of investment beliefs and RI strategy; and
- has incentives in place to perform duties consistent with the RI strategies and to the benefit of key stakeholders.

FIGURE 4 **RI commitment and board-level accountability in 2019**

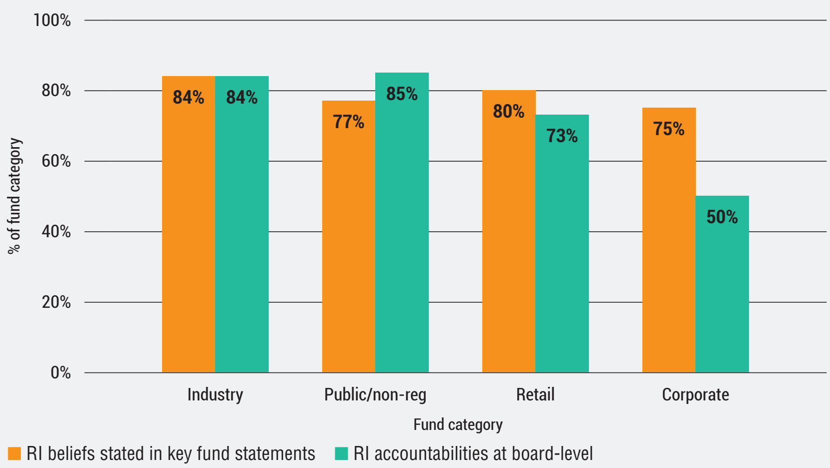


Figure 4 illustrates by fund category the proportion of super funds that demonstrate a commitment to RI with corresponding board level accountability for RI. In most instances, board-level RI accountability is a near match with the RI beliefs published in key fund statements. The exception is corporate funds. However, this picture may not be truly representative as with just four corporate funds in the sample, it may not be statistically reliable.

Accountability for climate

To help test the self-declared results on RI accountability, we asked funds whether climate risk is actively assessed at a trustee/board/guardian level. A positive response was provided by 42 out of 57 funds (74%), up from 64% in 2018.

This is encouraging progress, however, there are still a quarter of trustee boards that may not be accounting for climate risk in the face of increasing materiality, relevance and rising regulatory expectations. This omission could have both financial and regulatory implications, particularly in light of the recent explicit statements from APRA that it considers climate change to be a foreseeable, and often-times material, financial risk issue, and one that directors of institutional investment funds should consider with due care and diligence.

Four funds (**Australian Ethical, Christian Super, Future Super** and **Sunsuper**) state climate risk is a standing item on the board agenda. A further six funds (**CareSuper, Cbus, First State Super, Local Government Super, QSuper** and **Unisuper**) systematically consider climate risk during dedicated trustee sub-committee meetings (either quarterly or half-yearly) alongside reporting on adherence to policy and implementation of ESG integration plans. It is worth noting that the number of funds systematically considering climate change at board meetings has almost doubled since 2018 to 10, representing 18% of the research universe.

APRA's own research from March 2019[19] showed that of the large superannuation firms surveyed regarding their awareness about climate change, around 42% found the impacts to be material and another 42% stated that impacts are not material now but may be in the future; approximately 15% stated that they were not sure. The report goes on to state:

> *Endorsement of climate change risk management policies by the board is critical for implementation of these principles across the entity's operations.*[20]

Stakeholders identified and engaged

Central to good governance is the explicit acknowledgement of key stakeholders and the issues that matter to them.

The ***Superannuation Industry (Supervision) Act 1993*** (SIS Act) states that in determining whether the financial interests of the beneficiaries of the entity who hold a MySuper product or choice product are being promoted by the trustee, the trustee must assess whether the options, benefits and facilities offered under the product are appropriate to those beneficiaries. Also relevant is the Productivity Commission's[21] recommendation that the government should reassess the need for a Retirement Income Covenant, a code that requires super funds to consider the needs and preferences of their members.

Accordingly, data showing that funds are seeking to understand their clients so they can assess the appropriateness of their services for beneficiaries is crucial to evidence sound trustee behaviours and fund governance.

Super funds demonstrate solid accountability to stakeholders, with 93%[22] of research participants reporting that stakeholder input informs investment beliefs. Eighteen funds survey client satisfaction and interests at least annually and a further eight funds do so occasionally.

Stewardship codes

Stewardship refers to the responsibility asset owners have to exercise their ownership rights to protect and enhance long-term investment value for their beneficiaries by promoting sustainable value creation in the companies in which they invest. Effective stewardship benefits companies, asset owners, beneficiaries and the economy as a whole.

In the last couple of years, two stewardship codes have been introduced in Australia, [23] one that predominantly covers investment managers and another that caters specifically for asset owners. Within the research universe there are 22 signatories to these two codes representing 39% of super funds.

In July 2017, the **Financial Services Council** (FSC) launched Australia's first asset stewardship code for investment managers that lays out a code of practice for how fund managers should meet obligations for transparency with their governance practices. This includes rules for how they disclose their corporate voting policies, and how they attempt to engage and influence the companies they invest in on ESG issues. Compliance is mandatory for all FSC asset-manager members, which is relevant for eight super funds from the research universe. The code is largely designed for investment managers rather than asset owners, but to the extent that an FSC asset-owner member manages money in-house it is covered by the code.

In 2018, **Australian Council of Superannuation Investors** (ACSI) introduced its stewardship code and as at November 2019, 14 of the 57 super funds in the research universe (25%) were signatories.

19 Australian Prudential Regulation Authority, *Information Paper: Climate change: Awareness to action*, Australian Government, 20 March 2019, p. 4, viewed November 2019, <https://www.apra.gov.au/sites/default/files/climate_change_awareness_to_action_march_2019.pdf>

20 ibid

21 Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness, Productivity Commission Inquiry Report, No. 91, 21 December 2018, Overview*, Australian Government, Canberra, 2018, viewed November 2019, <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment-overview.pdf>.

22 TCorp, NZ Super Fund and the Future Fund are excluded from this calculation as their obligations are codified in their respective governing Acts.

23 Australian Council of Superannuation Investors (ACSI), *Australian Asset Owner Stewardship Code*, ACSI, Melbourne, May 2018, viewed November 2019, <https://www.acsi.org.au/images/stories/ACSIDocuments/Stewardship_code/AAOSC_-_Final.pdf>. Financial Services Council (FSC) (2017) Principles of Internal Governance and Asset Stewardship, Standard No.23, Sydney, viewed November 2019 https://www.fsc.org.au/resources/standards

Dedicated RI resourcing

Acknowledging that the resourcing of RI capabilities is not a direct proxy for capturing the maturity of RI in certain funds, RIAA sought to improve understanding about how different funds develop and embed RI practices.

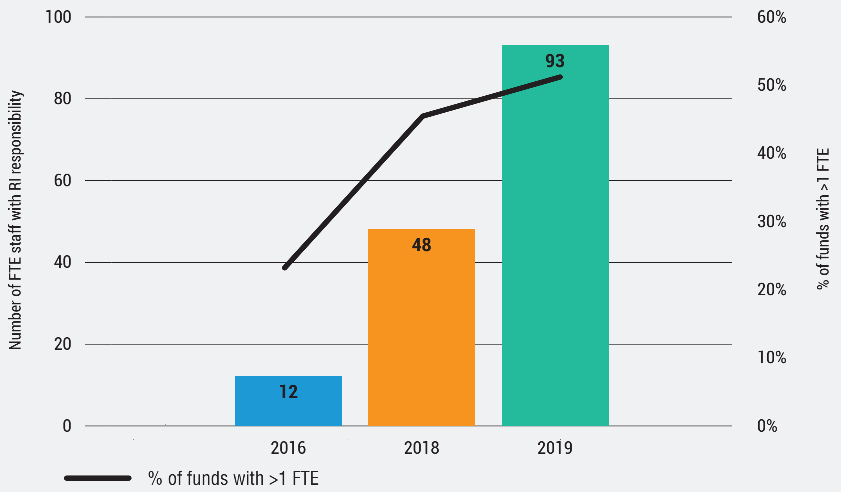
In 2019, 29 out of 57 funds (51%) employ one or more full-time equivalent (FTE) employees with significant responsibility for RI. Results suggest that approximately 93 RI staff are employed by these 29 funds. This represents a near doubling of RI resources since the 2018 report and an almost four-fold increase in resources since 2016, as shown in Figure 5.

Retail funds report more FTE staff with RI responsibilities than any other fund type, with 67% reporting at least one FTE staff member dedicated to this area. Public/non-regulated funds run a close second with 62% having at least one FTE staff member with RI responsibilities, a significant increase from 29% in 2016, but down from 78% in 2018, due partially to the inclusion of an additional fund (with less than one FTE RI staff member) in the category this year. Forty-four percent of industry funds disclose having at least one FTE staff with significant RI responsibilities, representing a 14% increase in RI staffing for industry funds since 2016. There was no allocation of dedicated staffing resources to RI among corporate funds.

Six funds – **Australian Ethical, AustralianSuper, First State Super**, **Macquarie**, **Mercer Super Trust** and **Total Risk** – self-reported that they employ five or more FTE staff who spend over 50% of their time on RI. A further 12 funds – **BT Superannuation, Catholic Super, Cbus, Christian Super, Commonwealth Superannuation Corp, Future Fund, Future Super, HESTA, Local Government Super, NZ Super Fund, TCorp** and **UniSuper** – have two or more equivalent staff members with more than 50% of their time focused on RI.

Some funds indicate that responsibility for RI is integrated into each of the specialist asset class roles, i.e. each asset class specialist is expected to know the RI issues for that asset class. Funds also indicate that they have RI committees for issue-specific investment decision-making, such as climate risk committees. These are consolidated at a board level and across sub-committees, with key RI staff embedded into the process. For some funds, responsibility for RI management is now integrated across many staff so these figures may not fully capture the staff capacity for RI in the largest Australian super funds.

FIGURE 5 **Dedicated RI resourcing (at least 1 FTE) over RI Super Study time period**



Despite the trend of insourcing specialist RI staff, many funds also note that RI is outsourced to asset consultants and investment managers which, in many cases, have dedicated RI teams. This is not represented in these statistics.

In most cases, the role of specialist RI staff – as opposed to a staff member with some RI responsibility – is to participate in manager selection and review meetings, to influence manager decisions and to coordinate company engagement and proxy voting. In some cases, these roles are also tasked with ensuring adherence to the fund's ethical charter or RI policy. For funds with direct investments, specialists are also tasked with finding appropriate thematic research and controversies research to complement the RI processes.

Leading super funds – accountability and governance

There are nine super funds that are leaders in accountability and governance. The clear difference between the leaders and the group that very closely followed is that the leaders (excluding one) proactively consider ESG and/or climate risk at each board meeting (i.e. is a standing item on the board agenda, or risk committee agendas). The next group (not listed here) also considered ESG/climate risk but only "at least annually". Given the increasing guidance and scrutiny of supervisors such as APRA requiring super fund trustee boards to take a broader view of risk, funds that scaled as compressive or broad for this pillar in 2019 also performed well under the RI Implementation pillar.

Leading super funds – accountability and governance

Fund name	Fund category
Australian Ethical	Retail
AustralianSuper	Industry
CareSuper	Industry
Cbus	Industry
Christian Super	Industry
First State Super	Public/non-regulated
Future Super	Retail
Local Government Super	Public/non-regulated
VicSuper	Public/non-regulated

^ Arranged in alphabetical order

2 Responsible investment commitment

Extent and breadth of RI approach and coverage aligned with investment and RI beliefs

AT A GLANCE

- **72% of funds integrate ESG factors into financial analysis and 60% engage in active ownership on a fund-wide basis as either a primary or secondary strategy**
- **ESG integration as a fund-wide primary or secondary strategy has grown by 17% since 2018**
- **86% of funds have adopted an RI approach across at least one asset class**
- **Half of the research universe has a formal engagement policy, yet 67% participate in collaborative engagements**
- **61% of funds have a least one negative screen across the whole of the fund, up from 34% in 2016 but only marginally from 2018**
- **Recognition of and adherence to controversial weapons conventions has surged with 12 funds citing the *Cluster Munitions Convention* (up from eight in 2018), and nine citing the *Ottawa Treaty on Landmines* (trebling from three in 2018)**
- **Nine funds specifically noted that SDGs are, or were soon to be, referenced in relation to the fund's RI targets and measurement processes**

WHAT IS RI COMMITMENT?

RI commitment relates to the fund's statements and activities around the promulgation of responsible investing both within the fund and within its relevant market.

Statements and activities include the making of public statements (by way of a policy and underlying guidelines) to formalise a fund's RI beliefs and informing stakeholders to what they are committed. RI beliefs ordinarily contained in policies include ESG themes, key approaches for implementation (e.g. ESG integration, positive/best-in-sector screening) as well as a statement about its coverage (over certain asset classes, or the whole of the fund). Policies are formal documents endorsed by executives at the highest level of the fund.

RI commitment also includes activities such as engaging and communicating with staff and clients on issues related to RI as well as industry activities such as investor initiatives, memberships and involvement in industry associations.

RESEARCH GOAL:

To identify the nature and coverage of a fund's RI commitments (e.g. RI beliefs as captured in policies, and through collaborations) aligned to investment beliefs, and the governance aspects supporting the fund's approaches to delivering on these commitments.

KEY ASPECTS USED TO ASSESS RI COMMITMENT:

The fund:

- has a publicly stated commitment to responsible investment endorsed at the highest level of the organisation (policy and/or guidelines). Elements of the policy that ensure that it can be put into action include ambitious but specific and achievable targets and KPIs;
- has full coverage of RI policy over the total portfolio and asset classes;
- has defined commitments to RI approaches, e.g. for active ownership and stewardship practices, a process for corporate engagement and voting are in place;
- has expressions of RI commitment such as through memberships of collaborative investor initiative/s; and
- if applicable, the fund offers consumers choice with the addition of responsible, sustainable or ethical investment options.

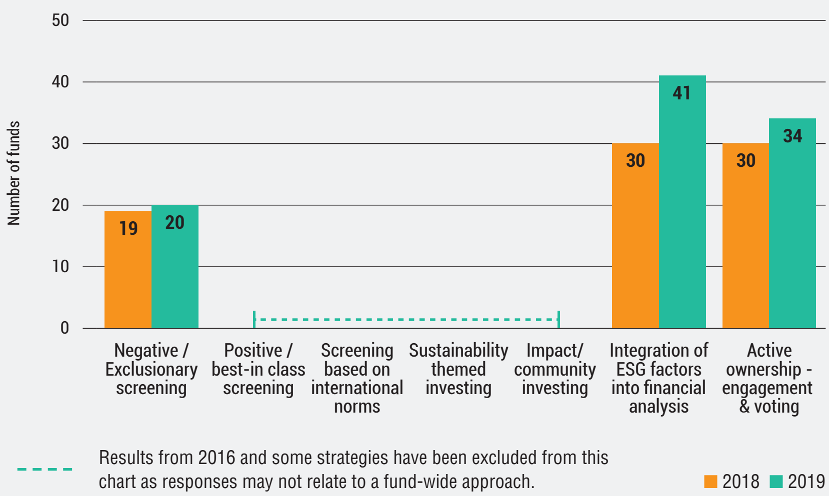
RI approaches

We reviewed the RI approaches, assets covered by RI approaches and other forms of committed action towards RI objectives of super funds to identify the styles of RI and gauge the extent of funds' commitment to those styles.

Typically, funds link the RI approaches they implement to their RI beliefs and commitments, e.g. a fund whose beliefs are around avoiding harm and/or investing in a better future for members would most likely include negative/exclusionary screening in its RI approach, whereas a fund whose primary beliefs are around universal ownership would most likely employ ESG integration, corporate engagement and voting as key RI approaches.

Figure 6 demonstrates the popularity of ESG integration and active ownership among the largest Australian super funds, with 72% of the research universe integrating ESG factors into financial analysis and 60% engaging in active ownership on a fund-wide basis as either a primary or secondary strategy. Negative screening is also employed on a fund-wide basis with many funds nominating at least one fund-wide exclusion. However, when the distinction is made as to whether the approach is a primary or secondary strategy, fewer funds (20) nominated exclusionary screening as a strategy. The aforementioned strategies are employed to varying degrees by the four super fund categories, however, sustainability-themed investing and positive/best-in-class screening were only employed by a couple of industry and retail super funds on a fund-wide basis.

FIGURE 6 **Change in fund-wide primary and secondary strategies employed by super funds**



The absence of impact/community investing from the picture and the relatively small proportion of funds applying sustainability-themed investment strategies on a whole-of-fund basis is likely related to funds' approach to managing multiple risks across various dimensions and time frames. The **Commonwealth Superannuation Corporation** whose fund does not employ these strategies noted that "our material investments must be grounded in a deep understanding of the businesses in which we invest and their genuine efforts for improvement across all factors of production inclusive of financial, natural, organisational and human capital, rather than in specific top-down thematics."

When looking at year-on-year changes, the adoption of ESG integration as a fund-wide strategy has grown by 17% since 2018, taking into account the additional four funds in 2019's research universe. Active ownership and negative screening grew in terms of absolute fund numbers year-on-year, but not in excess of the expansion of the research universe.

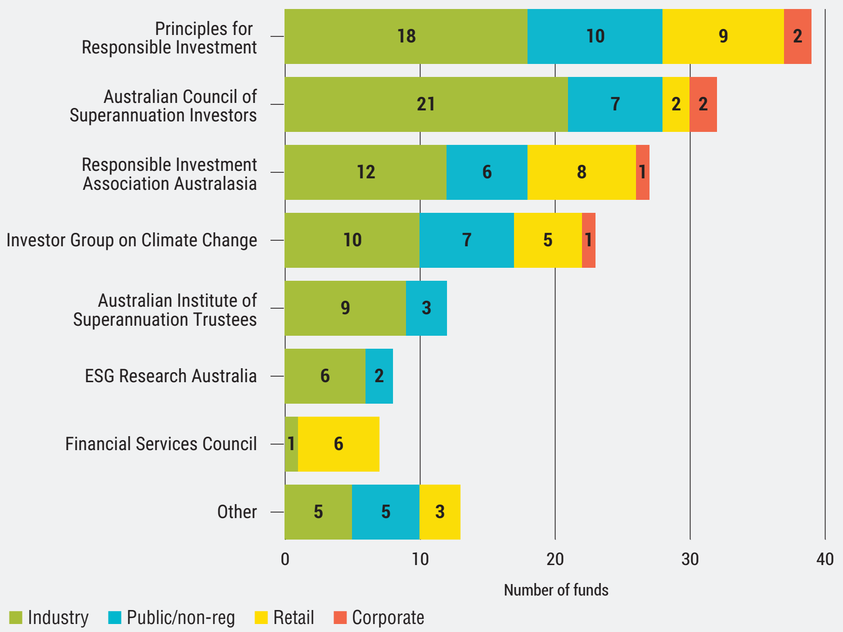
The proportion of super funds employing RI strategies across particular asset classes is more significant than on a fund-wide basis with 49 out of 57 funds (86%) adopting an RI approach across at least one asset class. ESG integration was the top strategy employed across every asset class, while sustainability-themed investing was popular across property, infrastructure and private equity. Impact and community investing, while not used widely, was employed in fixed income, property and infrastructure.

ESG integration

Not surprisingly, ESG integration continued to rise in prominence as a preferred RI approach among super funds given the large volume of evidence that more sustainable companies (those that manage ESG risks and opportunities) make for better investments. The ESG-conscious companies tend to have stronger all-round performance, helping to attract and retain talent, achieve better credit risk ratings, access cheaper finance and new markets, and find favour with regulators and supervisors.

ESG integration is often employed as the primary RI strategy, with active ownership usually accompanying it as a secondary strategy – one that includes corporate engagement and voting (refer to the Responsible Investment Benchmark Report 2019).[24] The execution of ESG integration is examined in more detail in the 'RI implementation' section.

FIGURE 7 Fund membership or participation in a collaborative organisation in 2019



Active ownership – corporate engagement policies and participation

The phrase 'engage to change' became a catchcry throughout 2019. It was formed in recognition that the ability to influence corporate behaviour is afforded through shareholder rights (ownership), as well as a response to an ever-increasing interest from clients and civil society groups to divest from companies principally engaged in activities considered persistently harmful to people or the planet. The measurement and reporting of this approach to RI features in this year's results.

Half of the research universe (28 out of 57 funds) have a formal engagement policy or process in place, up marginally on 45% in 2018. However, that figure understates the proportion of funds that are engaging with companies, with 38 out of 57 funds (67%) indicating involvement in collaborative corporate engagements, an increase from 64% of funds in 2018 and 52% of funds in 2016.

Figure 7 shows the popularity of membership-based organisations and/or service providers that facilitate participation in collaborative company engagement. Thirty-six funds noted their participation in collaborative company engagements through the PRI and 32 funds through ACSI. RIAA and the Investor Group on Climate Change (IGCC) are the third and fourth most cited groups with 27 and 23 funds respectively. The 'other' category included service providers such as Regnan and Hermes.

Active ownership – voting policies and shareholder resolutions

Exercising voting rights is a means by which asset owners can express their views regarding a company's strategy, leadership, remuneration, mergers and acquisitions and its ESG practices and disclosure.

There are numerous approaches super funds can take to exercise voting rights, including:

- undertaking all voting activities, applying their own voting policy or a third party's voting policy;
- delegating voting to their investment managers to undertake all or some voting activities, applying their voting policy or a third-party service provider's policy (26% of super funds task investment managers with executing voting policies in alignment with the super fund's investment beliefs and strategy);
- outsourcing voting activities to a third-party service provider; and
- a combination of approaches, depending on how the investments are held, resourcing capabilities and the materiality of holdings.

That said, there are instances where it may not be practicable for super funds to vote its shares in every circumstance, for instance, when their international equities

24 Responsible Investment Benchmark Report 2019 https://responsibleinvestment.org/wp-content/uploads/2019/07/RIAA-RI-Benchmark-Report-Australia-2019-2.pdf

portfolio is managed by large index/quant funds with many thousands of clients and without the capacity to enact individual client voting instructions. This year, 10 funds in the research universe indicated that 6% to 20% of their international equities are in passive or enhanced-passive managed funds.

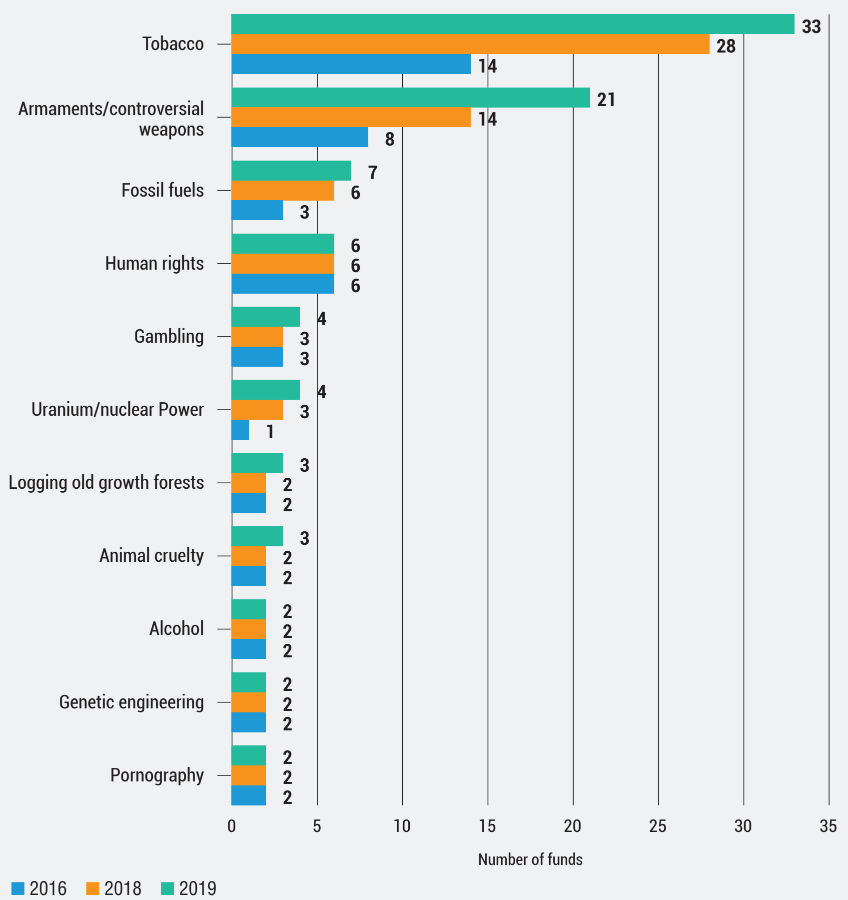
Closer to home with respect to domestic equities, a super fund has greater capacity to vote its shares in line with its investment beliefs and voting policies, particularly when it manages those equities in-house. The trend to in-house investment management among super funds is evident in this year's research, with nine of the 57 funds (16%) managing more than 20% of their AUM in-house.

Shareholder resolutions were a feature of the 2019 annual general meeting (AGM) season, with some super funds joining forces with non-governmental organisations (NGOs) to co-file resolutions. AGL, Origin Energy, BHP, Coles and Qantas were among those that faced shareholder resolutions covering a range of ESG issues including the human rights of asylum seekers, the protection of workers from labour abuses, fracking in the Northern Territory, and the membership of industry associations whose advocacy is inconsistent with the Paris Agreement. Notably, **LUCRF Super** lent its weight to co-file a resolution regarding supplier accreditation and compliance, worker-led grievance procedures and peer-led labour rights education in order to protect fresh food supply chain workers from modern slavery and labour abuses at the Coles AGM (12.8% of shareholders supported the resolution); and **Vision Super** exerted pressure on BHP when it co-filed a resolution proposing that the company suspend its membership of industry associations whose advocacy is at odds with the goals of the Paris Agreement (29.6% of shareholders supported the resolution at the Australian AGM).

Negative/exclusionary screening

Negative/exclusionary screening has traditionally been an RI strategy applied by values or ethical investors, or applied to responsible investment options that set out to appeal to a client niche; however, in 2019, this RI strategy is more inclusively applied across whole funds.

FIGURE 8 **Fund-wide negative screens by number of funds: 2016–2019**



Thirty-five of 57 funds (61%) have a least one negative screen across the whole of the fund, up from 34% in 2016, but only marginally from 2018. Eighty-five percent of public/non-regulated funds, 75% of corporate funds and 68% of industry funds are committed to a whole-of-fund screen. Retail funds are clearly demarcated from this group at only 27%.

Figure 8 shows that tobacco and armaments (including cluster munitions, nuclear weapons and other classifications under controversial weapons) are the most frequently cited whole-of-fund exclusions, implemented across 33 and 21 funds respectively. Armaments exclusions are up 42% on 2018 and 120% on 2016 in absolute terms. Our research data doesn't allow us to explain the nuance in the style of armaments excluded – however, empirical evidence suggests that a small number of funds have sought to exclude all civilian weapons, not just controversial ones, across their entire fund.

The exclusion of fossil fuels (seven funds, up from six in 2018) moves into third place, pushing screening for human rights abuses (six funds in line with 2018) into fourth place, however, definitions and thresholds for these exclusions vary. For example, a few funds have excluded direct and most, or all, indirect exposure to fossil fuel investments across their fund, while others screen for new and/or material exposure to thermal coal activities such as mining, distribution and power generation.

RI commitment to international norms

This year's results show that more funds than ever are using international conventions and guidelines to inform RI policies and strategies. This could be due to a growing concern around domestic policy uncertainty in relation to climate change and the absence of a national action plan on human rights. Or it could be that an increased awareness, sophistication and confidence has enabled funds to formalise already operationalised commitments through the expression of support for international norms and conventions.

The PRI's *RI Reporting Framework 2019 Overview and Guidance* remains the most frequently cited international reporting guideline, used by 32 out of 57 funds (56%). However, in 2019 there was a surge in super funds referring to weapons conventions such as the *Cluster Munitions Convention*, cited by 12 funds (only eight in 2018), and the *Ottawa Treaty on Landmines,* which trebled in reference from three funds in 2018 to nine funds in 2019.

The *UN Framework Convention on Climate Change/Paris Accord* was cited by 11 funds, up from seven or an increase of over 50% since last year, the greatest year-on-year growth of all the categories. Figure 9 shows the adoption by super funds of various international guidelines and conventions.

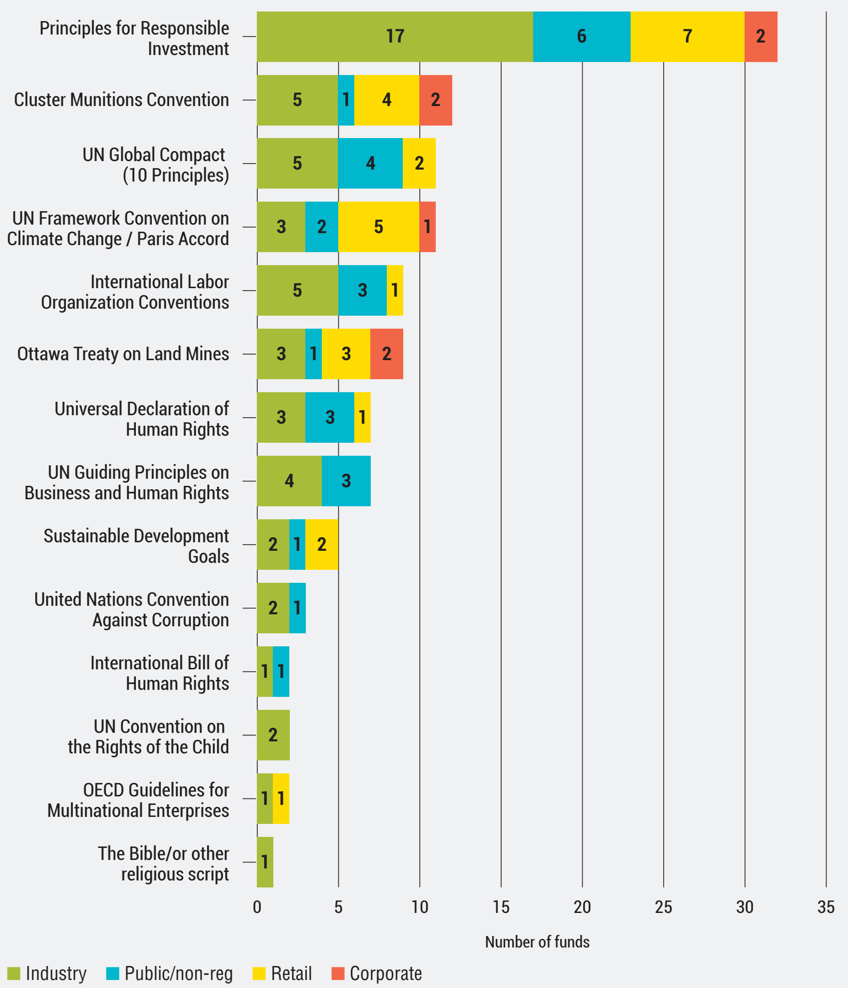
Sustainability-themed and impact/community investing

While sustainability-themed and impact investing are not generally employed as strategies on a fund-wide basis, 18 out of 57 funds (31%) separately disclose allocations to sustainability-themed and/or impact investing as part of a larger investment strategy used across specific asset classes. Combined, these 18 funds report allocating $17.1 billion to these strategies. Some examples of how these funds are investing for impact are outlined in the case study: investing for impact.

Sustainable Development Goals

As can be seen in Figure 9, only five funds referenced the Sustainable Development Goals (SDGs) as a formal part of their RI strategy, however, nine funds specifically noted that SDGs are, or were soon to be, referenced in relation to the fund's RI targets and measurement processes. Funds discussed RI strategies in relation to SDGs across several activities including:

FIGURE 9 International norms, conventions and guidelines by fund category 2019



CASE STUDY: INVESTING FOR IMPACT

Christian Super's impact investment portfolio represents 10% of its AUM and has a focus on renewable energy, sustainability, alleviating disadvantage in Australia, empowering livelihoods, financial inclusion, education, spiritual impact and healthcare.

Commonwealth Bank Group Super has an investment in a European waste-to-energy infrastructure plant and several co-generation and biomass generation facilities in Australia. It also recently invested in a healthcare property fund, which includes social property.

First State Super's impact investments are a key element of its broader RI approach. The fund's positive impact investment program looks to invest in solutions that not only satisfy First State Super's ESG approach and align to the SDGs, but also proactively seek to address societal and/or environmental challenges, whilst generating a market rate of return.

Current themes include:

- Job creation, innovation and small business growth
- Affordability and access to basic services, e.g. healthcare, retirement living
- The transition to a low carbon economy
- Regional development
- Other social initiatives

Hostplus has invested in venture capital backed businesses which are building the next generation of healthcare companies in areas such as cardiac resynchronisation, DNA testing, Parkinson's disease management and peanut allergy vaccines, as well as other areas such as water treatment systems, autonomous taxis, satellite mapping for food productivity, and cheaper and more sustainable energy sources.

Local Government Super seeks investment opportunities that have a tangible positive impact, and a proportion of its investments actively address long-term environmental and social risks. Examples include renewable energy generation such as solar and wind farms, sustainable agriculture, hospitals, schools and companies that clearly display sustainable business practices.

Maritime Super is invested in a community infrastructure fund seeking opportunities in social housing.

VicSuper's portfolio includes low carbon equities investments, fossil fuel screened investments, renewable energy, hybrid transport, greener property, timber and sustainable agriculture. The investments span equities, fixed interest, property, infrastructure, timber and agriculture and contribute to the following SDGs:

- Zero Hunger
- Affordable and Clean Energy
- Industry, Innovation and Infrastructure
- Sustainable Cities and Communities
- Responsible Consumption and Production
- Climate Action

- **VicSuper** now tracks SDG-alignment as a metric for equities performance monitoring;
- **Local Government Super** measures specific SDGs in unlisted assets to assess social objectives of investment;
- **Australian Ethical** uses a range of objectives in company and portfolio assessment, which includes measuring revenue from company activities that contributes towards certain SDGs;
- **AustralianSuper** is working towards engaging with companies on the basis of their possible contributions to prioritised SDGs;
- **Commonwealth Superannuation Corporation's** investment strategy is based on an expansive view of risk and the active management of its members' ownership rights as an asset. The fund employs a principles-based approach that respects the SDGs as global aspirations for a better world with fewer common risks;
- **NGS Super's** separate disclosure on its contribution to SDGs and its aim to incorporate this data in a future sustainability report; and
- **HESTA, UniSuper and Cbus** specifically noted that SDGs were a key focus of advocacy activities and submissions.

Ethical/responsible investment options

With the aim of providing clients choice, many funds also offer responsible, sustainable or ethical investment options.

Thirty-two out of 57 funds (56%) now offer a total of 88 dedicated RI options (compared to 25 funds offering 75 options in 2018). Sixty-two of the 88 RI options offered (72%) have obtained RIAA certification. Included in the group are the default and/or balanced options of **Christian Super, Australian Ethical, Future Super** and **Local Government Super** that have each obtained whole-of-fund certification by RIAA for their responsible investment strategies and disclosures.

Proportional to the fund types in the universe, retail funds offer the largest variety of RI options per fund (on average, 4.6 RI options for each retail fund against an average of 2.8 RI options across the respondent universe). It is worth noting that retail funds otherwise show the least inclination to implement RI strategies at a fund-wide level. Conversely, industry funds tend towards fewer RI options (1.9 RI options per industry fund), but consistently integrate RI at a fund-wide level, and public/non-regulated funds (excluding **Local Government Super,** which has all options as certified RI options) tend to offer only one or two options with a specific RI strategy.

These findings are consistent with the fund–client relationship that underlies the RI offering of each type of fund. An industry fund is more likely, by its operating model, to have a greater alignment with client views than a corporate or retail fund, perhaps enhancing the appropriateness of being able to implement fund-wide RI strategies that resonate with the majority of clientele. Similarly, corporate and retail funds aim to provide a large range of offerings for a more diverse client base, and hence the operating model relies more heavily on offering an array of choice and alternatives, rather than demonstrating whole-of-fund alignment with specific client values on RI.

Commitment to more sustainable financial markets

This year, 34 out of 57 super funds (60%) self-declared active involvement in advocating for more responsible financial markets, with the majority citing collaborative initiatives as the approach taken. For example, representatives from **Cbus**, **First State Super**, **BT Financial Group**, **VicSuper**, **T-Corp**, **HESTA**, **AustralianSuper**, **UniSuper**, **Australian Ethical**, **Future Super**, **Media Super** and others are participating in the Australian Sustainable Finance and Initiative.

Leading super funds – RI commitment

There are 11 super funds that are leaders in RI commitment. The clear difference between the leaders and the group that very closely followed, is that the leaders (excluding one) have investment and/or RI policy targets specific to RI (e.g. percentage of AUM to be fully ESG integrated, portfolio decarbonisation targets i.e. to <350ppm). Given this year's finding that there is a considerable performance gap between RI commitment and RI implementation, these leaders can demonstrate that the setting of targets enables measurement and supports clearer performance assessment and reporting. Funds that set specific commitments also did well in the measurement and outcomes pillar. RI targets are discussed in more detail in Pillar 4 findings.

It is worth noting that some funds that didn't set specific targets still managed to report a swag of impressive activity related to RI. However, without targets being set, it's not possible to measure and assess whether these funds are delivering to strategy set by the CEO and supported by the Board.

Leading super funds – RI commitment

Fund name	Fund category
AMP Superannuation	Retail
Australian Ethical	Retail
CareSuper	Industry
First State Super	Public/non-regulated
Future Fund	Public/non-regulated*
Future Super	Retail
Mercer Super Trust	Retail
NZ Super Fund	Public/non-regulated*
TWU Super	Industry
VicSuper	Public/non-regulated
Vision Super	Public/non-regulated

* Sovereign wealth fund categorised as a public/non-regulated fund for the purposes of this research
^ Arranged in alphabetical order

3 Responsible investment implementation

Formal processes that operationalise the responsible investment policy effectively and consistently across the fund and value chain

AT A GLANCE

- **Only 39% of funds report that RI influences strategic asset allocation**
- **47% of funds indicate that responsibility for RI implementation is incorporated into manager Investment Management Agreements**
- **65% of funds employ asset consultants with RI expertise, up from 55% in 2018**
- **26% of funds task investment managers with executing voting policies in alignment with their investment beliefs and strategy**
- **Three funds voted independently of board and proxy voting advisers on at least 10% of occasions**
- **60% of super funds indicate they conduct formal internal reviews to ensure that their RI policy is in alignment with the fund's overall strategies and investment beliefs**
- **72% of the 88 RI options in the sample are RIAA certified and are therefore tested as trading 'true to label'**

WHAT IS RI IMPLEMENTATION?

RI Implementation considers the operationalisation of the responsible investment policy and beliefs.

RESEARCH GOAL:
To assess whether the responsible investment beliefs are operationalised effectively across the fund and consistently with the RI policy and strategy.

Understanding RI implementation is less about what the fund has committed to in terms of RI and more about how the fund goes about doing it. Strong RI implementation starts with the fund's investment beliefs (which may or may not sit within the investment policy approved by the board and disclosed publicly) and follows an explicit process, both internally and with key external stakeholders, such as fund managers and asset consultants, to deliver investment strategies that are consistent with the fund's investment beliefs.

For example, if the investment belief is 'we aim to be active owners', then the evidence provided on the process involved in delivering successful active ownership behaviours (such as company engagements, proxy voting policies and disclosures) should be prioritised as a significant aspect of successful implementation, particularly where it has been emphasised over other RI approaches.

KEY ASPECTS USED TO ASSESS RI IMPLEMENTATION:

The fund:

- can provide confidence that RI strategies are implemented through relevant channels;
- can demonstrate systematic process for RI implementation (e.g. such as how decisions are made within the organisation and between its external service providers);
- provides confidence that these processes are applied consistently and effectively (e.g. external research providers, third-party verification, industry certification, evidence of continual professional development by key personnel);
- has mechanisms for reporting internally against the policy implementation;
- has clear and formal processes in place for selecting, managing and monitoring of underlying managers consistent with the fund's RI expectations;
- clearly sets RI expectations in relevant documents for and discussions with managers of underlying assets;
- can show how RI strategies are applied across material asset classes within the fund (or expressed as a percentage of AUM covered); and
- has clear processes for delivering RI approaches (e.g. ESG integration, sustainability-themed) across the fund's various asset classes.

Given that a true picture of a fund's implementation is not possible without an extensive assurance process, which is outside the scope of this research, RIAA has relied on the self-declared approaches and performances to fulfil the assessment of RI implementation.

ESG integration and manager management

Australia's largest super funds have formal processes in place for selecting, managing and monitoring the RI performance of underlying managers to ensure their fund commitments to RI are being implemented, where relevant, by their external agents. There appears to be a move towards insourcing RI and ESG capabilities, including ESG data analysis, by the largest super funds.

RI influence on asset allocation

From a 'top-down' RI perspective, i.e. super funds taking into account ESG factors at a portfolio construction level, 22 out of the 57 funds (39%) report that RI influences strategic asset allocation. This represents a slight increase over the 36% of funds that considered RI principles in their strategic asset allocation in 2018.

Some of the funds that construct their fund portfolios with regard to RI are:

- **ESSSuper** – climate change modelling is included annually as part of the fund's investment strategy reviews;
- **Mercer Super Trust** – themes that may affect investment decisions in regard to systemic risks such as climate change and energy and resource constraints may form part of long-term asset allocation or sector-level decisions where deemed beneficial for portfolio risk and return expectations;
- **REST** – climate change risks are factored into the fund's investment strategy and decision-making process, including asset allocation and strategy reviews, as well as in the selection and review of its investment managers; and
- **Vision Super** – research on ESG matters across all major asset classes is conducted by the fund in conjunction with its asset consultant on an annual basis, which in turn informs the portfolio construction advice delivered to Vision Super. As part of this advice, the potential impacts of climate change on investment portfolio, outcomes under different but plausible climate transition scenarios are considered.

Investment manager management processes

Twenty-seven out of 57 (47%) funds indicated that responsibility for RI implementation is incorporated into Investment Management Agreements (IMAs), an increase from 38% in 2018 and 34% in 2016. These funds disclosed a range of performance considerations they built into IMAs. Encouragingly, all of the funds that include RI performance considerations in IMAs indicated formal and periodic processes to evaluate managers on delivering against the defined RI considerations.

Asset consultants and RI

Thirty-seven out of 57 funds (65%) employ asset consultants with RI expertise, up from 55% in 2018. Of these, 27 funds use asset consultants to provide assessments on the ESG capabilities of managers, as well as for ESG research and advice on specific issues. These super funds are focused on RI outcomes with the majority (21 out of 27) having formal processes in place for asset consultants to report on RI outcomes, up from 17 in 2018, and the remaining six funds having informal processes.

External managers – responsibility for and expectations in RI

Increasingly, super funds are expecting their external managers to be responsible for the ESG information provided to the fund. Forty-four out of 57 funds (77%) identify that external managers are responsible for RI to some degree, up from 70% in 2018. Thirty funds (53%) consider external investment managers as either wholly (13) or largely (17) responsible for the ESG information provided to the fund. A further 14 funds identify that investment managers are partially responsible for RI.

RI qualities factored into investment manager selection processes

Twenty-seven out of 57 funds (47%) discuss minimum responsible investment expectations with external managers, with 22 funds explicitly requiring ESG reporting as part of standard IMAs with external investment managers.

When it comes to voting policies, just 15 out of 57 funds (26%) task investment managers with executing voting policies in alignment with the fund's investment beliefs and strategy. The vast majority choose to implement their voting policies across their whole portfolio by conducting proxy voting themselves or via external proxy voting advisers. Figure 10 shows the relative importance of various RI qualities factored into the manager selection process for listed equity and fixed income by super fund category.

Evidence of quality data sources to enhance RI decision-making

Super funds are using increasingly sophisticated and exacting processes to ensure that ESG integration is based on robust sources of information. In 2016, 18 out of 50 funds (36%) were able to identify how reliable ESG information was sought. This grew to 31 out of 53 funds (58%) in 2018 and 37 out of 57 funds (65%) in 2019.

External manager ESG information is the key source of ensuring robust ESG integration (all 37 funds), followed by the use of accredited company ESG ratings/scorecards or databases (31 funds) and sourcing or commissioning comprehensive ESG research (32 funds). These results show consistent improvement against 2018 findings.

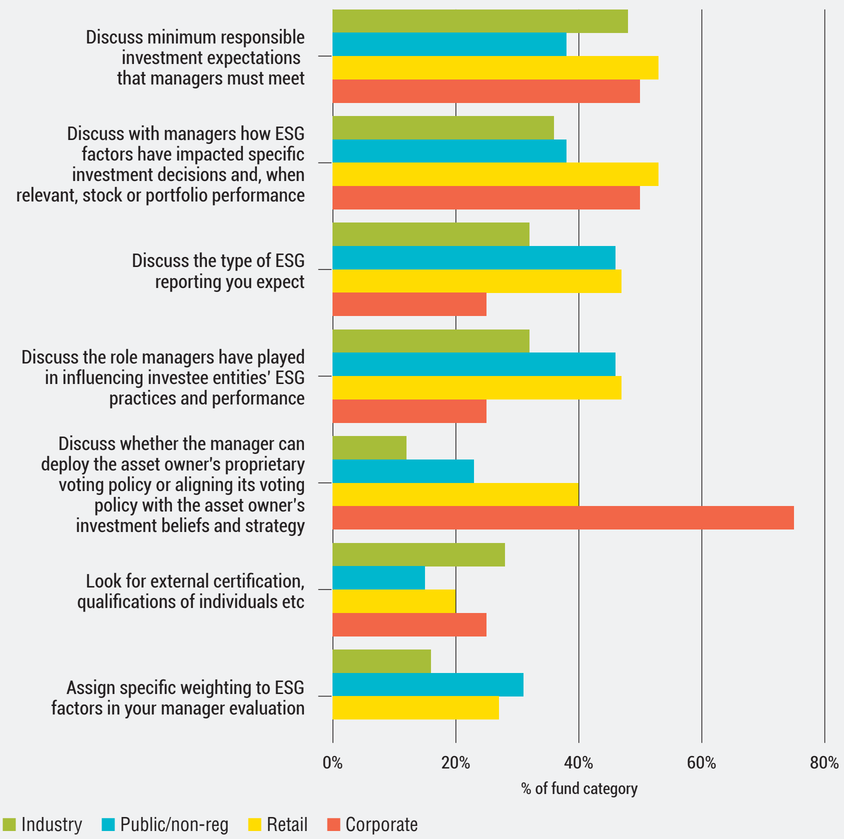
CASE STUDY: HOW ESG FACTORS ARE CONSIDERED

LOCAL GOVERNMENT SUPER (LGS)

LGS regularly reviews ESG factors to ensure they are being appropriately managed by its fund managers. This is done via annual reviews of all asset classes, when it on-boards managers and when it removes managers. LGS also correlates this with performance for all managers on an annual basis. It conducts six-monthly ESG and carbon audits of its listed equity managers and is committed to report in line with the TCFD.

Where appropriate, LGS engages directly with company senior management and board members to identify ESG factors (or risks) that need to be managed. ESG factors inform LGS's decision on companies to exclude under its 'high ESG risk' negative screen. The fund uses a combination of MSCI ESG ratings and internal analysis to determine if a company is exposed to high ESG risk and therefore should be excluded. A number of its external fund managers also follow a similar methodology using MSCI/Sustainalytics/other ESG research providers.

FIGURE 10 **RI qualities factored into manager selection process by fund category in 2019**



Active ownership – corporate engagement

Overall, a greater number of funds disclose formal engagement policies and activities in 2019 than in 2018. This year, 28 out of 57 funds (49%) have formal engagement policies and processes in place, with 25 out of 57 funds (44%) undertaking direct engagement activities, up marginally from 43% in 2018, but up significantly from 30% of funds in 2016. Thirty eight out of 57 funds (67%) reported involvement in collaborative corporate engagement in 2019, a marginal increase over the 64% in 2018, but a significant increase from 52% in 2016.

Climate Action 100+ is one of the world's largest investor-led engagement initiatives, with more than 370 investor signatories accounting for more than $35 trillion in AUM. It seeks to engage with the world's largest greenhouse gas emitters to improve their climate performance and ensure transparent disclosure of emissions.

Australian-domiciled super funds participate in the initiative principally through their membership of the PRI or the IGCC. Funds such as **Australian Ethical**, **CareSuper**, **Christian Super**, **NZ Super Fund**, **Statewide Super** and **Vision Super** lend their weight through their membership to the initiative, while other members of the initiative, including **AustralianSuper** (a global steering committee and founding member of the initiative), **BT Superannuation**, **Cbus**, **First State Super**, **HESTA**, **Local Government Super**, **MTAA**, **QSuper**, **UniSuper** and **VicSuper**, undertake their own direct engagements as part of this collaboration.

Some notable outcomes of Climate Action 100+ engagements, are that Glencore, the world's largest exporter of thermal coal, agreed to cap coal production to current levels of about 145 million tonnes per year, and Rio Tinto has exited from mining coal, published a TCFD report, and committed to an asset-by-asset review to set emissions reduction targets.

CASE STUDY: DIRECT ENGAGEMENT BECOMES COLLABORATIVE

FIRST STATE SUPER ENGAGEMENT WITH ORIGIN ENERGY

Origin Energy is an ASX-listed integrated energy company involved in power generation, natural gas production and energy retailing.

First State Super first engaged with Origin Energy in late 2015 to discuss transparency and disclosure issues in relation to climate change, stranded asset risk, accounting policies and board composition. Follow up meetings on the same topics took place in the intervening years, and in 2019 the Fund engaged with Origin to understand their approach to climate change and their strategy in a changing energy industry. This discussion was extended to a Climate Action 100+ Roundtable for asset owners and investors hosted at First State Super and included Origin's heads of future energy and capital markets as well as scenario modelling analysts.

First State Super now has more comfort with Origin's approach to climate change and how it is integrated into their strategy for example, the path to achieving the renewables target and investment in technology to enable a transition to a lower carbon economy. A discussion with experts within Origin responsible for the detailed climate scenario analysis, increased the fund's confidence that Origin is committed to their decarbonisation strategy to exit coal-fired generation by 2032 and capital allocation in line with the Climate Action 100+ objectives.

The Fund sees a positive outcome from the engagement as the recent release to market of a strengthened climate scenario aligned with 1.5 degrees to test the sustainability of Origin's assets.

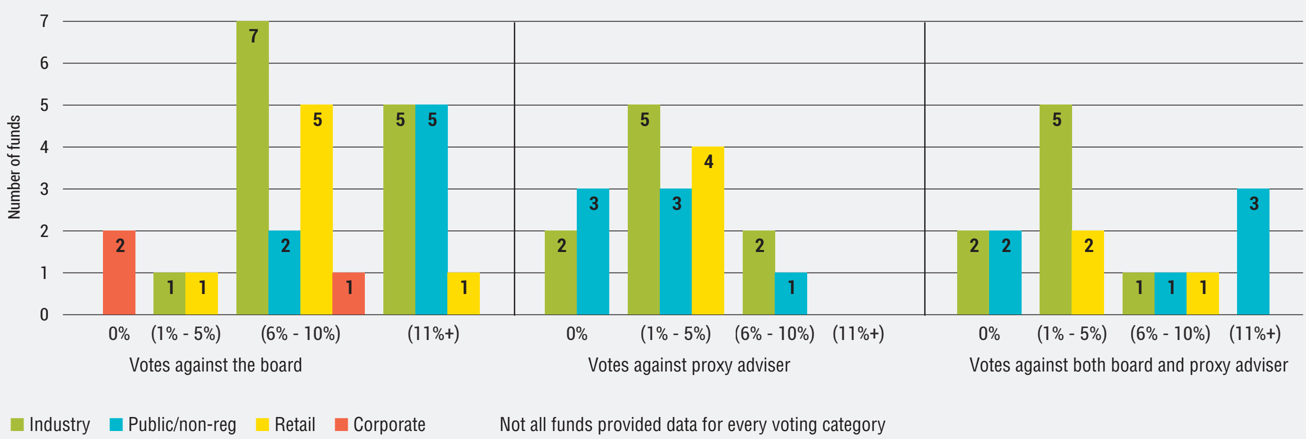
Active ownership – voting

In 2019, funds were asked to provide data around votes cast against boards, proxy voting advisers, and both boards *and* proxy voting advisers. This information was sought to more fully understand the scope and depth of stewardship in practice, working off the assumption that funds which resource their active ownership commitments and implement their stewardship principles will likely vote against recommendations at least some of the time.

Of the 30 funds providing responses to how they voted in 2018-19, two funds voted with the company board and five funds voted with their proxy voting adviser on every occasion. In contrast to this, three funds voted independently of board and proxy voting advisers on at least 10% of occasions (**Local Government Super, NZ Super Fund** and **Vision Super**). Figure 11 shows how votes were cast by fund category in 2018-19.

As interest in voting decisions by fund members and other stakeholders grows, particularly for shareholder resolutions, the expectation on the oversight of voting decisions by board and investment committees is increasing.

FIGURE 11 **Votes cast against boards and proxy advisers by fund category**



In May 2019, the Australasian Centre for Corporate Responsibility (ACCR) published *Vote Like You Mean It*, which provided a report on and commentary of the proxy voting records of Australia's largest super funds in 2018 on 260 shareholder proposals on ESG issues in Australia and abroad.[25]

Among the key findings are:

- just three funds supported more than 75% of the shareholder proposals on ESG issues that they voted on globally in 2018: **Local Government Super**, **Vision Super** and **Cbus**;
- a further six funds supported more than 50% of the shareholder proposals on ESG issues that they voted on globally in 2018: **AustralianSuper**, **VicSuper**, **UniSuper**, **HESTA**, **Mercer Super Trust** and **Tasplan Super**; and
- just eight funds supported 50% or more of the climate-related shareholder proposals that they voted on in 2018.

Screened, sustainability themed and impact investing

ESG data is at the heart of the implementation of screening, sustainability-themed and impact investing, with super funds relying on external providers of this data to a large extent. In the case of screening, data providers such as MSCI, Sustainalytics and ISS ESG provide regular research on company controversies as well as full exclusions lists or screened indices, which helps make investment decisions for internal investment teams implementing negative screens. For sustainability-themed investing, (e.g. green buildings and infrastructure), there is also a reliance on third-party verifications such as the Global Real Estate Sustainability Benchmark (GRESB) for internal teams to develop their investable universe alongside traditional financial analysis to select, retain and realise assets. Consistent, measurable and comparable data is more difficult to source for individual impact investment projects (which tend to lack the scale of other investment opportunities), so unless the super fund has a well-resourced internal RI investment team, it may elect to invest into established impact funds.

Role of formal review in implementation

Alignment of fund with overall strategy and investment beliefs

Thirty-four out of 57 funds (60%) indicate they conduct formal internal reviews to ensure that their RI policy is in alignment with the fund's overall strategies and investment beliefs. This is up from 57% in 2018 and 38% in 2016, suggesting a greater consolidation of RI implementation across the sample.

Figure 12 suggests that public/non-regulated funds demonstrate a greater maturity in their implementation of RI at an internal governance level than other fund categories, with 77% conducting formal reviews of RI, well above the peer group. These findings are broadly consistent with 2018, save for the improvement in retail funds from 42% to 60%.

Potential significance of ESG factors

Twenty-three out of 57 funds (40%) note systematic reviews of the potential significance of ESG factors by internal investment teams. This includes 62% of public/non-regulated funds, 47% of retail funds and 32% of industry funds. A further seven funds disclose that these reviews occur occasionally, while 12 (predominantly industry funds) indicated that this is the responsibility of external managers.

As with formal reviews of RI policy against investment beliefs, public/non-regulated funds lead their peers when it comes to internal reviews of ESG factors in 2019 (Figure 13 versus Figure 12).

Comparing 2019 results with 2018, while public/non-regulated funds remain strong performers, it is the retail funds that have sharpened their focus on both RI policy alignment with fund strategy and the consideration of ESG factors on investments.

25 ACCR (2019) Vote Like You Mean It: a study of the proxy voting records of Australia's largest super funds in 2019, May Viewed November 2019 https://accr.org.au/wp-content/uploads/ACCR-Vote-Like-You-Mean-It-2019-FINAL.pdf

FIGURE 12 **Formal review of RI by fund category**

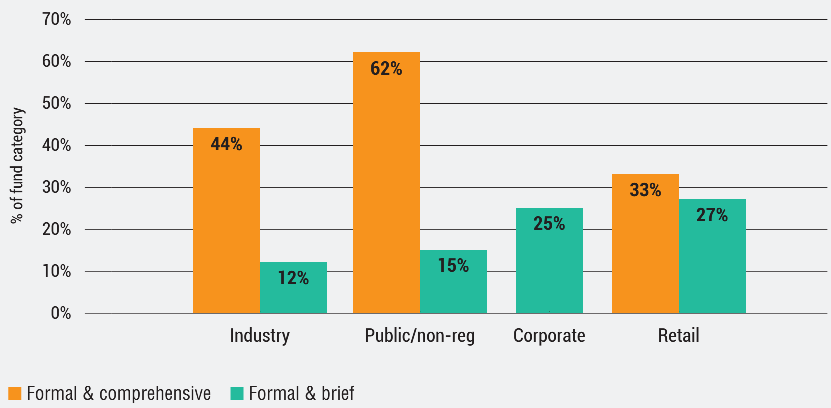
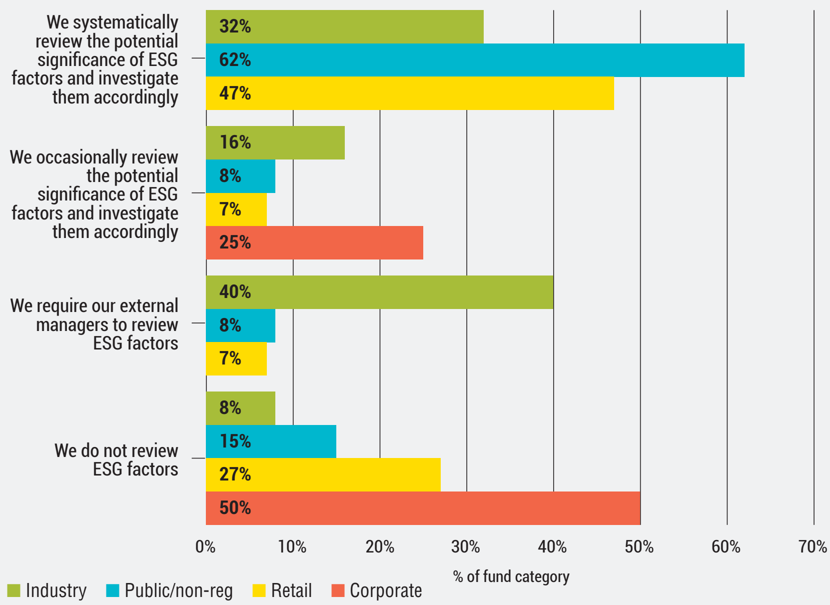


FIGURE 13 **Review of ESG factors by internal teams**



Leading super funds – RI implementation

There are 13 super funds that are leaders in RI implementation. The clear difference between the leaders and the group that very closely followed is that the leaders formally and periodically evaluated their investment managers on their performance in delivering on RI considerations.

Several questions for this pillar related to the management of manager performance. Some funds included on this list only do direct investing; scores were adjusted to account for the varying investment models.

Whilst not a deciding feature for inclusion in this pillar's leaders group, it is interesting to note that nine out of the 13 leading funds have an allocation to impact investing (69% of leaders), and only 20% of the non-leaders for this pillar have an allocation to impact.

Leading super funds – RI implementation

Fund name	Fund category
Australian Ethical	Retail
AustralianSuper	Industry
BT Superannuation	Retail
CareSuper	Industry
Cbus	Industry
Christian Super	Industry
First State Super	Public/non-regulated
Future Fund	Public/non-regulated*
HESTA	Industry
Local Government Super	Public/non-regulated
NZ Super Fund	Public/non-regulated*
VicSuper	Public/non-regulated
Vision Super	Public/non-regulated

* Sovereign wealth fund categorised as a public/non-regulated fund for the purposes of this research

^ Arranged in alphabetical order

4 Measurement and outcomes

Measurement of outcomes for RI policy implementation, including impacts broader than direct financial results and returns

WHAT IS MEASUREMENT AND OUTCOMES?

Measurement and outcomes refers to the practice of tracking progress on RI implementation against a defined target or set of success measures, and the outcomes of investment practices on environmental, social, governance and ethical issues.

RESEARCH GOAL:
There are growing expectations from clients and other stakeholders on funds to report on the outcomes of responsible investment strategies. This pillar looks at the ways any funds are starting to measure their outcomes and assess any proxies for measuring the impacts and outcomes of responsible and ethical investment activities beyond financial performance.

This is a new and emerging area for responsible investment. This area ties in closely with transparency and reporting, however, it seeks to see what approaches are currently being used by funds to measure and therefore clearly discuss the outcomes of their responsible investment practices.

KEY ASPECTS USED TO ASSESS RI MEASUREMENT AND OUTCOMES:

The fund:

- defines indicators (or proxies) and/or sets targets to measure the performance of its RI activities and outcomes;
- has processes to measure RI strategies against fund beliefs or stakeholder interests demonstrated;
- has a method to measure fund success in RI implementation;
- uses external organisations such as research houses to help with the measurement of performance and outcomes; and
- puts itself forward for external review and assessment.

AT A GLANCE

- **One quarter of super funds set specific RI targets against which to track and report RI performance**
- **25 funds (44%) are involved in direct corporate engagement and all monitor the actions of the company after the engagement, but only 16 of those funds produce an engagement report**
- **Nearly half the super funds require their asset consultants to provide reporting on RI outcomes when it comes to manager review and performance**
- **Nearly half the super funds put themselves forward for formal assessment of their RI performance**
- **MySuper performance data reveals super funds comprehensively applying RI practices across their entire fund have outperformed their mainstream peers over five-, three- and one-year time frames**
- **2019 leading RI super funds MySuper products outperformed peers by about 100bps (basis points) over each time period**

Targets for RI commitments

RIAA asked funds whether their investment and/or RI policy includes specific RI targets such as the percentage of AUM to be fully ESG integrated, portfolio decarbonisation targets (such as meeting <350 parts per million) or targets related to voting all listed company resolutions. There were 11 funds that made public commitments to specific RI targets in their RI policy, and 15 out of 57 funds (26%) that set either public or internal targets for the performance of their RI strategy outcomes. This suggests that the balance, approximately three quarters of super funds either do not measure, or do not disclose methodology by which the effectiveness of their RI strategy is measured and assessed.

While there has been an increase of eight funds setting RI targets since the 2016 report, which evidences some growth in super funds measuring and tracking RI in some way, the use of targets continues to be a major area of weakness in the administration of RI strategy across the sample. Considering the proliferation of ESG data and analytics tools, coupled with the increased resources committed to RI as demonstrated by the staffing and service providers enlisted by many funds, it is unclear why this has not been an area of greater priority.

For those funds that did set targets in their RI strategy, decarbonisation and emissions reduction was a key focus. These funds include:

- **Australian Ethical** – targets zero portfolio emissions by 2050;
- **Future Super** – commits to 100% divestment of fossil fuels and other harmful industries such as armaments, tobacco and gambling. In addition, its Renewables Plus option has the target allocation of 20% investment in impact investments contributing to the transition to a renewable economy;
- **NZ Super** – by 2020, to reduce the carbon emission intensity of the fund by at least 20%; and reduce the fossil fuel reserves of the fund by at least 40%;
- **Cbus** – set targets at the asset allocation level with net zero emissions by 2030 for property and infrastructure as well as 1% investment allocation to climate solutions;
- **Vision Super** – targets a carbon-neutral portfolio by 2050 and has begun divestment work from thermal coal, tar sands and tobacco manufacturers on a revenue metric. This will include divesting from companies involved in mining/extraction, transportation and consumption of coal, oil and gas. In addition, IFM Investors manages a Low Carbon Australian indexed equity mandate for Vision Super, where the target level of carbon abatement is 12.5%.

Targets, by their very nature, require progress against them to be measured. Measuring the social and environmental outcomes of investments is challenging, and the investment may not necessarily be made in relation to an RI target. Notwithstanding, the following funds have invested a combined $4 billion where social and environmental outcomes are formally measured. These include the following:

- **CareSuper** invests in sustainable listed equites as well as in green buildings, sustainable forestry and social infrastructure across property, infrastructure and private equity asset classes;
- **Commonwealth Bank Group Super** measures energy/water/carbon intensity along with recycling performance across its core retail property portfolio;
- **HESTA's** international equities low-carbon fund has a carbon footprint at least 50% below the carbon footprint of the relevant benchmark;
- **Local Government Super's** unlisted assets such as property, renewables and social infrastructure explicitly measure ESG outcomes;
- **Mercer Super's Socially Responsible Growth option** has an allocation to themed funds which focus on providing solutions to sustainability challenges, broadly aligned with SDG themes.

Tracking corporate engagement outcomes

With respect to corporate engagement activity, there is a very broad spectrum of tracking performance and measuring outcomes. This year, 25 funds (44%) reported that they undertake direct engagement with companies, with all of them monitoring company actions taken after the engagement to varying degrees. When it comes to collaborative engagements, nearly a quarter of the 38 funds involved do not appear to individually track post-engagement company activities, perhaps because constituent funds rely on the collaboration vehicles to do the tracking and reporting of outcomes.

Measuring, recording and reporting on the outcomes of engagement is yet to become standard across the industry with only 16 out of the 25 funds (64%) that engage directly with companies keeping reliable data on those engagements in the form of corporate engagement reports. Most (14) of these funds also include data from engagements conducted by investment managers or external providers in their engagement report.

Requirements for external consultants and managers

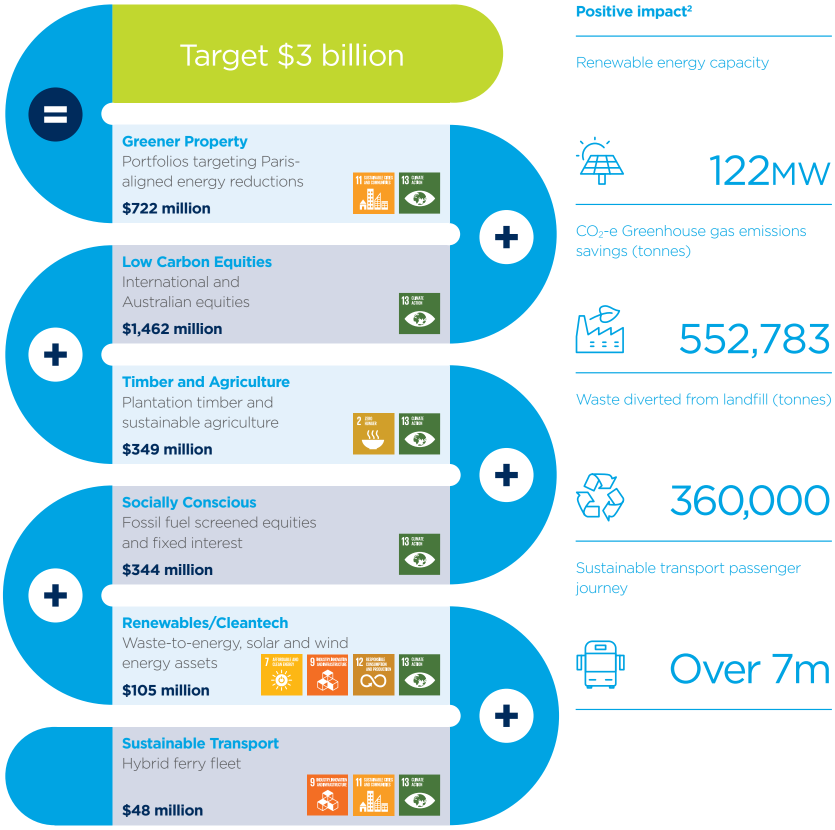
Increasingly, super funds are requiring their asset consultants to provide reporting on RI outcomes when it comes to manager review and performance, with nearly half the super funds in the sample (27 funds) disclosing this practice. Of these, 21 funds formally require asset consultants to report on RI outcomes and the remaining six funds receive reports on an informal basis.

With regard to whether external managers are evaluated on their performance in delivering on RI considerations, the same 21 funds that require asset consultant reports also formally evaluate their investment managers' performance in delivering on RI considerations. A further 13 funds reported that a less formal investment manager assessment was undertaken.

Nearly half of the sample (32 funds) put themselves forward for external review and assessment of their RI performance (note that the large majority of response to this question related to reporting and assessment provided by the PRI) with three of those funds taking the extra measure of engaging an independent assurance provider who provides a report to management.

CASE STUDY: SETTING AND MEETING TARGETS

VICSUPER



Positive impacts have been calculated to reflect VicSuper's share of investments using information supplied by investment managers and asset operators. This is the first year that these outcomes have been reported and there is necessarily a level of estimation and assumptions required. Notwithstanding, all data has been reported on a best endeavours basis.

Source: *VicSuper Annual Report 2019*, p. 42.

Challenges to measurement

Research participants were asked to nominate some of the challenges they experienced when measuring RI outcomes. There was no shortage of responses, but they can be categorised into five key areas:

- ***Inconsistent data and methodologies***
  Several super funds nominated the lack of availability, consistency and reliability of RI data as a challenge. When it came to assess the RI performance of external investment managers, funds found it difficult to determine a standard set of outcome/performance measures for investment managers, particularly when they employ different processes to integrate ESG and use different metrics when reporting on that integration. Funds also noted that appropriate consideration of ESG factors relies heavily on imperfect information and involves qualitative/judgement-based assessments, which is challenging to measure and report on.
- ***Cost and resourcing***
  Some respondents cited resourcing constraints as a key challenge to measurement. "Without a dedicated ESG staff member, the Fund does not have the internal resources to measure performance against RI/ESG targets, except at a very basic level. Additionally, accessing the necessary data for some measures (e.g. ESG risk scores or carbon footprint via external ESG data providers) has been a challenge due to the costs involved."

  "Timing and resourcing is the key challenge for the Fund in managing the measurement and integration of ESG." This included the measurement of short-medium term investment performance against long-term horizon of ESG factors.

- ***Engagement measurement and disclosure***
  Two of the largest funds in the research universe cited corporate engagement as a challenge to measure and report on. One noted it is difficult to discern its specific impact in the final outcomes of corporate engagements in the context of broader collaborative initiatives, while another referenced the difficulty in publicly disclosing much of its engagement work due to its confidential nature.

- ***Impact measurement and management***
  Three funds specifically referenced impact investment strategies as being the most difficult to find consistent methodologies to measure, manage and report on the impact generated by the investment. One fund notes it is looking for "ways in which we can meaningfully measure social or environmental performance in the impact and sustainability-themed investment portfolio – not simply anecdotal measures".

Metrics used to measure RI performance

While there are challenges to the measurement of RI performance, super fund participants nominated the following metrics employed to measure and report on RI outcomes:

- ESG ratings
  - MSCI ratings (equities)
  - Mercer ratings (equities)
  - Sustainalytics (equities)
  - Trucost (equities)
  - GRESB ratings (real assets)
  - National Australian Built Environment Rating System ratings (real assets);
- compliance with ethical exclusions (such as tobacco free portfolios);
- climate change data
  - weighted average carbon intensity metric application
  - tonnes of carbon dioxide equivalent abated by investment strategy
  - CO^2 tonnes per \$1M revenue
  - energy efficiency
  - climate change resilience
  - kilowatt hours generated by renewable investments
  - extent of alignment of energy investments with a 1.5-degree pathway
  - climate change top-down scenario analysis across the fund
  - peril risk analysis across physical real assets and a plan to manage/ mitigate risks;
- Paris Agreement Capital Transaction Assessment (PACTA) tool;

CASE STUDY: MEASURING OUTCOMES

AUSTRALIAN ETHICAL

The carbon footprint for Australian Ethical's share investments is a third of that of the market (emissions intensity 34% of blended benchmark as at 31 December 2017, as assessed by Trucost, and approximately 30% of blended benchmark as at 31 December 2018, as assessed using MSCI carbon intensity data).

The 'sustainable impact revenue' earned by companies Australian Ethical invests in is over three times the impact of the blended benchmark as at 31 December 2017 and 2018, assessed using MSCI ESG research data on revenue from social impact solutions and environmental impact solutions.

The fund's energy sector investments are aligned with a well below 2-degree path (assessed using the PACTA climate analysis tool).

- SDG metrics
  - 'sustainable impact revenue' earned by companies invested in, i.e. revenue from activities contributing towards certain SDGs
  - SDG alignment;
- corporate and government engagement outcomes;
- voting outcomes – missed, split, for/ against management;
- Impact Management Project methodology and framework for measuring contribution to impact;
- intention to set targets using the Science Based Targets Initiative (SBTi) methodology for financial institutions;
- modern slavery project to assess underlying strategies and outsourced providers management of this; and
- client/member net promoter scores.

Measuring the financial performance of RI

While the setting of RI targets and measurement of RI outcomes is important, it is the financial return outcomes that most super fund clients will look to first. Analysis of the MySuper performance data reveals super funds that employ RI strategies across their entire fund or default super option have on average, outperformed their peers.

Figure 14 shows the MySuper options of super funds comprehensively applying responsible investment practices outperformed the MySuper options of non RI super funds over five-, three- and one-year time frames. The outperformance of responsible investment super funds is even more stark when performance of the RI Super Study leader board is considered against both the benchmark and the non-leaders, with outperformance of about 100bps over each time period in the case of the latter.

FIGURE 14 **Financial performance of MySuper for financial years to 30 June 2019**

Responsible Investment super funds v non-RI super funds returns			
	1-year average	3-year average	5-year average
Non-RI (20 funds)	7.31%	8.65%	7.70%
RI (34 funds)	**7.33%**	**9.06%**	**8.14%**
Benchmark average (54 funds)	7.32%	8.90%	7.98%

RI Super Study 2019 leader board v non-leaders			
	1-year average	3-year average	5-year average
Non-leader (41 funds)	7.07%	8.62%	7.74%
RI Super Study leader board (13 funds)*	**8.11%**	**9.81%**	**8.71%**
Benchmark average (54 funds)	7.32%	8.90%	7.98%

^ Sources: RateCity (https://www.ratecity.com.au/superannuation/mysuper), Refinitiv, fund websites
* Future Super data not available for time period.

RIAA collected performance data from the 30 super funds that participated in this year's *RI Super Study*. The wide variety (e.g. balanced, growth, ethical) and number of options (more than 400) offered by these funds made like-for-like performance difficult to assess, so MySuper performance data was sourced from RateCity's aggregator website and cross-referenced against both Refinitiv's performance data and each fund's website. Financial years were the time periods used as this yielded the greatest number of fund performance metrics, noting that not all funds made their results available on a financial year basis on their website, but rather on a rolling year basis. The resultant benchmark of MySuper performance comprises 54 super funds, 43 of which are in the RI Super Study universe.

In our analysis, super funds that employed responsible investment strategies across their MySuper funds were compared to those who did not. A fund was deemed to be a responsible investing fund where it employed at least two responsible investing strategies either fund-wide or across its default super product. Sometimes this would mean ESG integration and active ownership, other times negative screening and active ownership, and so on.

MySuper accounts are government regulated and characterised by lower fees and restrictions on the types of fees that can be charged, simple features and only two alternative investment options (diversified or lifecycle). These two approaches can result in different risk and return profiles, especially early and late in working life. Most MySuper funds offer a single diversified product, which is usually a 'balanced' approach with around 70% invested in higher risk growth assets and 30% in lower risk defensive assets. The risk/return profile remains at medium–high throughout the client's working life (with funds estimating on average between three to five years of negative returns over 20 years). Some MySuper accounts use a lifecycle or lifestage approach and automatically move client savings from growth investments when young to more defensive investments approaching retirement. Most retail sector MySuper funds are lifecycle, but some industry funds also use this approach. It should be noted that the MySuper benchmark compiled from the performance data of 54 funds included six lifecycle MySuper funds.

All MySuper accounts are accumulation funds and not defined benefit funds, and can be offered by retail, industry and corporate funds. Although MySuper accounts are not relevant for sovereign wealth funds, performance data for **NZ Super Fund** and the **Future Fund** was sourced directly from their websites and included for their size, relevance and data completion purposes.

Industry performance data – challenges and remedies

Collecting, synthesising and analysing superannuation data for this report was challenging, not just for the RIAA research team, but for third-party data providers as well as the participant super funds that allocated significant time, effort and resources to reviewing and completing RIAA's request for information. A central source of high quality, consistent data is essential for the superannuation industry for the purposes of benchmarking and identifying leading practice. Both the Productivity Commission and APRA have recognised this as an area for improvement with the latter announcing in November 2019 a multi-year project to upgrade the breadth, depth and quality of its superannuation data collection. APRA's Superannuation Data Transformation aims to drive better industry practices and improve member outcomes by significantly enhancing the comparability and consistency of reported data. The project will make it easier to scrutinise and reliably compare fund and product performance, especially in the choice segment of the market.

Leading super funds – measurement and outcomes

There are eight super funds that are leaders in RI measurement and outcomes. The difference between the leaders and the group that closely followed is that the majority of leaders have targets and are therefore able to measure the performance of their RI strategy outcomes against these targets. Others on this list have targets for at least one of the outcome areas, such as engagement, impact investment etc. Interesting to note is that only three of these nine leaders have their RI data and outcomes independently verified.

Leading super funds – measurement and outcomes

Fund name	Fund category
Australian Ethical	Retail
First State Super	Public/non-regulated
Future Super	Retail
Local Government Super	Public/non-regulated
LUCRF Super	Industry
NZ Super Fund	Public/non-regulated*
VicSuper	Public/non-regulated
Vision Super	Public/non-regulated

* Sovereign wealth fund categorised as a public/non-regulated fund for the purposes of this research

^ Arranged in alphabetical order

5 Transparency and responsiveness

Transparency in responsible investing reporting and stakeholder engagement with a focus on inclusivity, materiality and responsiveness

AT A GLANCE

- **Transparency of RI activities is on the rise with 72% of funds disclosing annually on their RI activities, up from 60% in 2018 and 44% in 2016**
- **While corporate engagement disclosure is up by 9% on 2018, half the funds involved in this activity do not publicly disclose outcomes by way of an engagement report**
- **Full equity holdings disclosure remains low (seven funds).**
- **Eight funds specifically discussed their current or imminent alignment of reporting with TCFD requirements**
- **Fewer than 20% of super funds in the research universe offered an online tool for comparing features and returns of RI options**

Formal reporting against RI policy and strategies

There are many aspects to transparency and responsiveness and one of the most central is reporting performance and outcomes against the RI strategy. Reporting should be relevant to and accessible for stakeholders with due consideration to the format, frequency and medium of communication, i.e. quarterly newsletters versus annual reporting.

Disclosures made by a super fund regarding investment managers, holdings, engagement and voting form part of good stewardship and accordingly these disclosures have been considered in the assessment of the transparency and responsiveness of a fund.

The ways in which this disclosure is undertaken varies greatly between funds given differing preferences in reporting to and/or engaging with clients. Over the three periods covered by the *RI Super Study*, improvements in disclosure were evident across the board from 2016 to 2019 with marked improvements in annual reporting on RI and disclosures on external fund managers and engagements as shown in Figure 15.

WHAT IS TRANSPARENCY AND RESPONSIVENESS?

Transparency is about the complete and reliable disclosure of investment practices. Responsiveness is about timely communication with relevant stakeholders in a way that is inclusive and accessible.

RESEARCH GOAL:
To assess the fund's practices on transparency in reporting and stakeholder engagement with a focus on inclusivity, materiality and responsiveness in responsible investing.

KEY ASPECTS USED TO ASSESS TRANSPARENCY AND RESPONSIVENESS:

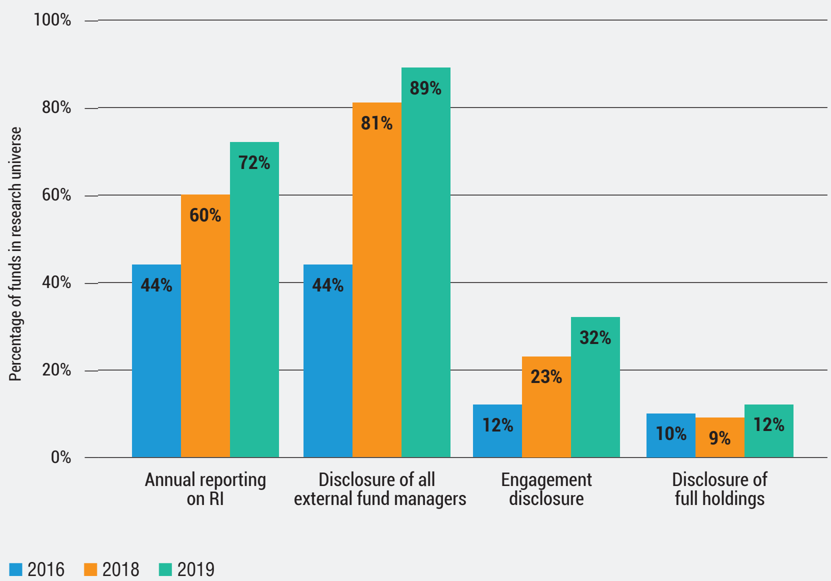
The fund:

- has a demonstrated commitment to transparency of processes and approach;
- reports on the performance and outcomes of the RI strategy;
- enables key stakeholders to have access to relevant and accessible information:
  - provides regular disclosures including underlying fund manager names, full stock holdings, fund performance
  - communicates to clients around responsible investment issues and performance
  - makes it easy for clients to identify, compare and choose responsible investing option over others; and
- regularly surveys stakeholders for their RI-related interests, satisfaction with service; this information is used internally for improved decision-making.

Proxies identified for funds demonstrating a clear commitment to transparency of approach and RI process included, but were not limited to:

- having an accessible and comprehensive set of policies, guidelines and resources on their public websites;
- clear and regular client communications including RI matters;
- publishing RI transparency reports; and
- putting themselves forward for industry and government awards for performance related to disclosures and transparency.

FIGURE 15 **RI transparency by disclosure over RI Super Study time period**



Annual reporting on RI

Annual reporting on RI has surged in the past year with 41 out of 57 funds (72%) disclosing on their RI activities on an annual basis, up from 32 funds (60%) in 2018 and 22 funds (44%) in 2016.

Funds disclose their RI activities in multiple reporting channels which are not mutually exclusive. A fund's annual report is the most popular vehicle for funds to disclose on RI with 29 funds opting for this manner of disclosure, up by a net seven funds from 2018 (allowing for the additional four funds in this year's sample). Five funds produce an integrated report, up marginally on the four funds in 2016. It is worth noting that the term 'integrated report' is interpreted by participants in a general way, and not specifically with reference to the integrated reporting initiative managed by the International Integrated Reporting Council. Eight funds now submit a standalone RI report (more than double that of 2018) and two funds disclose RI activities in their sustainability report.

Disclosure of external fund managers

Clients have greater visibility when it comes to knowing what investment managers are making investment decisions on their behalf with 89% of the universe (that make use of external managers) now disclosing all external fund managers, an increase of 8% since 2018 and 29% since 2016.

Engagement disclosures

Twenty-five out of 57 funds (44%) undertake direct company engagements yet only 16 of those keep reliable data on the activities and outcomes and disclose them by way of an engagement report. The nature of these disclosures varies, with funds often refraining from naming the companies engaged, or providing only the aggregate number of engagements undertaken and/or the themes of engagement. When collaborative engagements are considered as well (38 funds), it shows that over half of the funds that undertake engagement activities do not report on their activities publicly. This finding may reflect the perspective of some funds that engagement is not always considered an outcomes-based exercise, but one that focuses on long-term stewardship and relationship-building.

Disclosure of portfolio holdings

Only seven funds publicly disclosed full equity portfolio holdings (**AustralianSuper, Cbus, Christian Super, Australian Ethical, Local Government Super, Future Super** and **NZ Super Fund**), while 10 funds publicly disclosed at least the largest 50 holdings, and a further 17 disclosed the largest 20 holdings. The results are broadly in line with 2018 findings, with 34 out 57 funds, or 60% of the universe, providing some level of transparency around their portfolio holdings. It is possible that the balance of funds surveyed may make portfolio holdings available but only directly to clients.

The ongoing delay to the enactment of the Superannuation Legislation Amendment (Transparency Measures) Bill may be a contributing factor to low levels of disclosure of full portfolio holdings with super funds perhaps waiting to see what reporting formats will be required once legislation comes into effect.

Reporting in line with the TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) promotes the reporting of voluntary climate-related financial disclosures that are consistent, comparable, reliable, clear, efficient and provide useful decision-making information to lenders, insurers, investors and their clients.

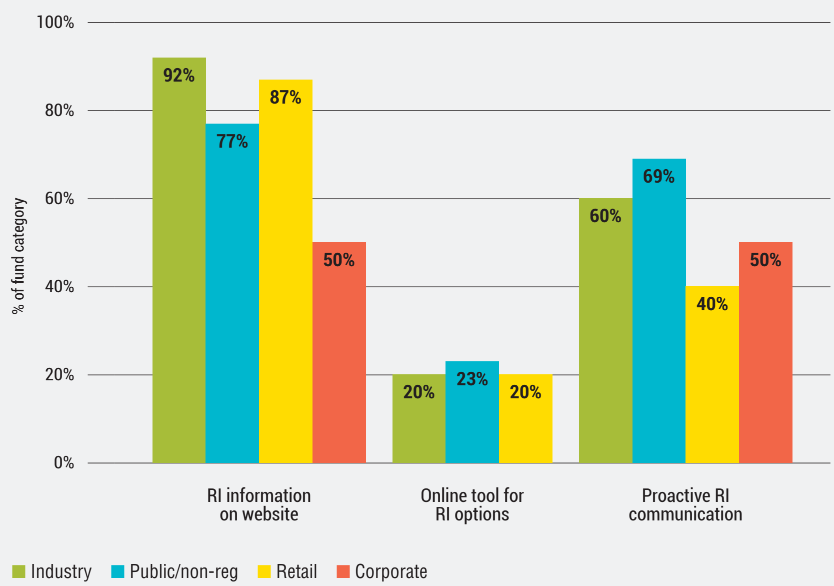
Eight funds – **LUCRF Super, Mercer Super Trust, AustralianSuper, BT Superannuation, Commonwealth Bank Group Super, Local Government Super, NGS Super** and **Vision Super** – specifically discussed their current or imminent alignment of reporting with TCFD requirements. This included qualitative explanations of either how TCFD requirements had been integrated into existing disclosure frameworks, or specific plans to do so in the subsequent period. In addition, **MTAA** noted engagement with fund managers with the aim of developing its TCFD reporting while three funds – **LUCRF Super, Local Government Super** and **Mercer Super Trust** – specified advocacy efforts centred on the TCFD.

Accessibility of information and stakeholder responsiveness

Effective transparency includes the ability to clearly and relevantly communicate disclosures to stakeholders. In a year when delivering in the best interests of clients has been front and centre of public debate in Australia, the research reveals several different ways that funds proactively inform clients and other stakeholders on their activities and performance around responsible investing.

Figure 16 shows most funds within each category provide RI information on their website. While some funds show a preference for highlighting their RI activities on primary pages plus integration throughout the website, other funds embed RI information in less visible areas of the website, making it difficult to find unless via thorough searching for key terms. This is an area where many funds can improve their overall visibility and promotion of RI.

FIGURE 16 **Accessibility of RI information in 2019**



Encouragingly, accessibility of RI information has improved across the universe since 2016. In 2019, 48 funds disclose RI information via their website, up from 37 funds in 2018 and 25 funds in 2016.

In 2019, 21 funds nominated that they promote RI to stakeholders through various communication channels. This was broadly in line with findings in 2018 (23 funds) and an improvement on the 11 funds promoting RI to stakeholders in 2016.

Industry funds, and public/non-regulated funds, which have both introduced a greater proportion of fund-wide RI strategies than either corporate or retail funds, demonstrate high levels of accessibility to information via their website and proactive RI communication with clients. However, online tools for comparing RI investment options have not been widely adopted, with circa 20% of each fund category offering them, aside from corporate funds in the sample which do not offer any online tool.

The overall improvement in accessibility of RI information is consistent with the increasing focus on RI from the general public and their desire for greater transparency from superannuation funds about the ESG impacts of their investments. That said, there is still a long way to go when it comes to the widespread offering of user-friendly online comparison tools for options – an area the Productivity Commission also singled out for redress with its recommendation that super funds should be required to publish simple and digestible dashboards for consumers to compare metrics.

CASE STUDY: SDG MAPPING DISCLOSURE

NGS Super has calculated the dollar amount invested in companies in its portfolio that map to providing products or services aligned with one or more of the SDGs.

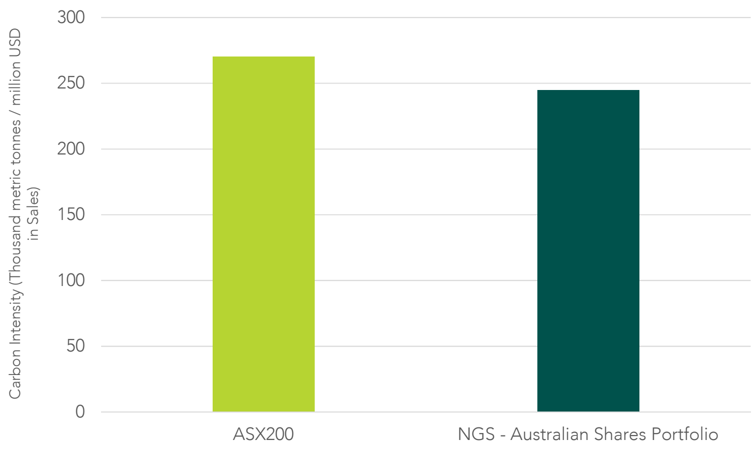
For every $1,000 invested within its portfolio:

- $166 is directed to companies that have products or services which are aligned with the SDGs;
- $30 is directed to investing in renewable energy production, green buildings and other technologies, which contributes towards combating climate change; and
- $16 is directed to gender equality.

The fund provides a balanced view by also measuring and reporting on the negative externalities associated with its investments.

It has compared its negative contribution to a blended benchmark of two indices, being 50% of the ASX200 Index and 50% of the MSCI All Country World Index (ACWI) (Blended Benchmark). When compared to the Blended Benchmark, NGS Super holds approximately half the number of investments in products and services that are misaligned to the achievement of the SDGs. Most of these misaligned investments are attributable to the coal, oil and gas sectors.

Aligned with SDG 13, NGS Super measures and reports on the greenhouse gas (GHG) intensity of its Australian shares portfolio against the ASX200, with the NGS Super Australian equity portfolio having a smaller GHG intensity figure (approximately 10% less) than the ASX200. For more information visit https://www.ngssuper.com.au/files/forms/download/sdg-policy-info-sheet.pdf



Leading super funds – transparency and responsiveness

There are nine super funds that are leaders in RI transparency and responsiveness. The difference between the leaders and the group that closely followed is that the majority of leaders provide the public with a full list of their investments, or at least their entire equity portfolio holdings.

In a market where superannuation is compulsory for workers and perfect information is the basis of a functioning capital system, providing consumers a look-through to the constituents of portfolios is critical. The advent of the Superannuation Legislation Amendment (Transparency Measures) Bill is another reason leaders in Transparency and Responsiveness already provide full holdings to clients. Each of the leaders, bar one, also make public, at least annually, their engagement with companies.

Leading super funds – transparency and responsiveness

Fund name	Fund category
Australian Ethical	Retail
AustralianSuper	Industry
Christian Super	Industry
Future Super	Retail
HESTA	Industry
Local Government Super	Public/non-regulated
NZ Super Fund	Public/non-regulated*
Unisuper	Industry
VicSuper	Public/non-regulated

* Sovereign wealth fund categorised as a public/non-regulated fund for the purposes of this research
^ Arranged in alphabetical order

Leading responsible investment super funds 2019

Part of the RI Super Study's aim is to benchmark and articulate leading practice in responsible investing by super funds in Australia. To achieve this, RIAA created a scale – limited, basic, broad and comprehensive – which describes the quality and scope of public disclosures by funds across the five pillar framework and which we published as the Assessment Framework used in the *Super Fund Responsible Investment Benchmark Report 2016*.

Each year the leading funds comprise the top 25% of the research universe. This means from year to year, funds may move onto or off the leader board. For those moving off the board this usually signals an overall improvement of the sample, rather than an reduction in performance of an individual fund; this is what has occurred in 2019 with the opt in of a high scoring fund displacing a leader from a previous year.

The 14 leading RI super funds are listed in alphabetical order in the table below.

Now in its third iteration, RIAA has dissected and identified the common aspects in RI across most of the funds. What follows is a list of the key aspects and the expected level of performance for each in order for funds to demonstrate 'leading practice' within and across the five pillars.

What sets this group aside from the rest is that they can evidence all or nearly all of the following activities or features in their responsible investment strategies and disclosures.

For governance and accountability

- The fund's investment beliefs are informed by stakeholders (beneficiaries/members/clients) either via trustees as representatives of stakeholders or via systematic and frequent direct engagement.
- The fund has at least a formal, systematic process for measuring RI in alignment with the super fund's strategy.
- Accountability for RI is at the highest level of the fund – either the trustee level or an ESG-style sub-committee or dedicated secretariat (including climate risk).
- Successful delivery of RI strategy is considered as part of the satisfactory achievement of staff roles and responsibilities (at least portfolio managers, investment committee and/or board).

For RI commitment

- The fund's RI strategies apply to a majority of the total AUM and are subject to one or more strategies (i.e. ESG integration, negative screening) across at least four asset classes.
- Specific performance targets for RI set.
- The fund participates in at least one collaborative engagement with a view to strengthening the sustainability of the finance system and the broader economy.

For RI implementation

- ESG factors are integrated into investment decision-making.
- RI strategy influences strategic asset allocation, for example allocation to impact.
- Full and systematic tracking of engagement activities and outcomes takes place.
- The fund and/or investment consultant (if relevant) undertakes a thorough assessment of external managers' ESG capabilities and processes during the manager selection and review processes; at least for managers for listed equities and/or fixed income.
- The fund has explicit external manager reporting requirements relating to RI and ESG activities and performance across all IMAs, for at least some asset classes, such as equities managers.
- The fund keeps reliable data on the outcomes of company engagements (either direct or via external providers) and reports externally on engagement outcomes.

RI Super Study leader board

Fund name	Fund category
Australian Ethical	Retail
AustralianSuper	Industry
CareSuper	Industry
Cbus	Industry
Christian Super	Industry
First State Super	Public/non-regulated
Future Fund	Public/non-regulated*
Future Super	Retail
HESTA	Industry
Local Government Super	Public/non-regulated
NZ Super Fund	Public/non-regulated*
Unisuper	Industry
VicSuper	Public/non-regulated
Vision Super	Public/non-regulated

* Sovereign wealth fund categorised as a public/non-regulated fund for the purposes of this research

^ Arranged in alphabetical order

For measurement and outcomes

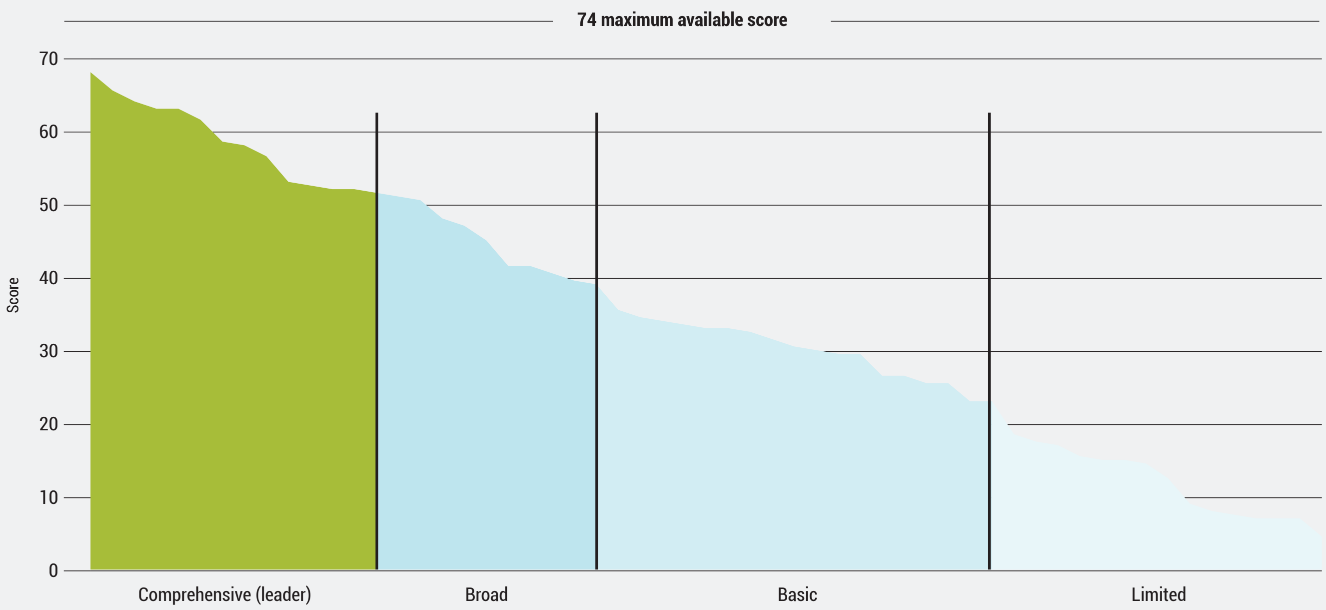
- The fund has targets in place to measure the success of RI in achieving objectives in at least highly relevant ESG areas, such as alignment with the super fund's RI policy (e.g. incidences of independent voting, successful engagement outcomes), environmental objectives (e.g. a set carbon intensity figure for the portfolio), social objectives (e.g. specific SDGs) and/or governance objectives (e.g. TCFD aligned reporting).
- RI data and claims are independently verified.

For transparency and responsiveness

- The fund regularly updates and publishes the list of external managers (where relevant) and its full underlying holdings – directly or indirectly held.
- The fund makes voting records public directly or via a proxy voting service provider.
- Stewardship (engagement and voting) activities and outcomes are reported.
- Stakeholders' responsible investing interests and service satisfaction are regularly monitored (at least annually) by way of survey, for example, to help to measure success against RI policies and strategies and meet the RI expectations of stakeholders.

Figure 17 shows the range of scores achieved across the research universe of 57 super funds, and that a handful of funds were close to inclusion on the leader board. The maximum available score was 74.

FIGURE 17 **Total scores of research universe (57 funds) based on quality and scope of RI management and disclosures**



Appendix 1: Abbreviations

ACCR	Australasian Centre for Corporate Responsibility
ACSI	Australian Council of Superannuation Investors
ADI	Authorised deposit-taking institution
AIST	Australian Institute of Superannuation Trustees
APRA	Australian Prudential Regulation Authority
AUM	Assets under management
ESG	Environmental, social and governance
ESG RA	ESG Research Australia
FSC	Financial Services Council
FTE	Full-time equivalent
GRESB	Global Real Estate Sustainability Benchmark
GSIA	Global Sustainable Investment Alliance
IGCC	Investor Group on Climate Change
IMA	Investment Management Agreement
IOPS	International Organisation of Pension Fund Supervisors
NG	Non-government organisation
PACTA	Paris Agreement Capital Transaction Assessment
PRI	Principles for Responsible Investment
RI	Responsible investment
RIAA	Responsible Investment Association Australasia
RSE	Registrable superannuation entity
SBTi	Science Based Targets Initiative
SDGs	Sustainable Development Goals
SIS Act	Superannuation Industry (Supervision) Act 1993
TCFD	Task Force on Climate-related Financial Disclosures

Appendix 2: Funds featured in the report

IN THE REPORT	REGISTRABLE SUPERANNUATION ENTITY NAME	FUND CATEGORY	RESEARCH RESPONDENT	ADDITIONAL INFORMATION
AMP Superannuation	AMP Superannuation Limited	Retail		AMP Capital PRI reports considered in analysis
ANZ Staff Super	ANZ Staff Superannuation (Australia) Pty. Limited	Corporate		
Australian Catholic Superannuation and Retirement Fund	SCS Super Pty. Limited	Industry	Yes	
Australian Ethical	Australian Ethical Superannuation Pty Ltd	Retail	Yes	Opt in
Australia Post Super	PostSuper Pty Ltd	Public/non-regulated		
AustralianSuper	AustralianSuper Pty Ltd	Industry	Yes	
BT Superannuation	BT Funds Management Limited	Retail	Yes	BT provided responses
BT Superannuation	Westpac Securities Administration Limited	Retail/ Corporate	Yes	BT provided responses - BT/ Westpac is considered as one retail fund in data
BUSSQ	BUSS (Queensland) Pty Ltd	Industry		
CareSuper	CARE Super Pty Ltd	Industry	Yes	
Cbus	United Super Pty Ltd	Industry	Yes	
Christian Super	Christian Super Pty Limited	Industry	Yes	Opt in
Commonwealth Essential Super	Colonial First State Investments Limited	Retail		
Colonial First State FirstChoice	Colonial First State Investments Limited	Retail		
Commonwealth Bank Group Super	Commonwealth Bank Officers Superannuation Corporation Pty Limited	Corporate	Yes	
Commonwealth Superannuation Corporation	Commonwealth Superannuation Corporation	Public/non-regulated	Yes	
Catholic Super	CSF Pty Ltd	Industry		
EISS Super	Energy Industries Superannuation Scheme Pty Ltd	Public/non-regulated		
Energy Super	Electricity Supply Industry Superannuation (QLD) Ltd	Industry		
Equipsuper	Equipsuper Pty Ltd	Industry	Yes	

ESSSuper	Emergency Services Superannuation Board	Public/non-regulated	Yes	Opt in
First State Super	FSS Trustee Corporation	Public/non-regulated	Yes	
Future Fund	Future Fund Board of Guardians (Future Fund Management Agency)	Public/non-regulated	Yes	Opt in
Future Super	Future Super	Retail	Yes	Opt in
HESTA	H.E.S.T. Australia Ltd.	Industry		
Hostplus	Host-Plus Pty. Limited	Industry		
IOOF	I.O.O.F Investment Management Limited	Retail		
Legal Super	Legal Super Pty Ltd	Industry		
Local Government Super	LGSS Pty Limited	Public/non-regulated	Yes	
LGIAsuper	LGIAsuper Trustee	Public/non-regulated		
LUCRF Super	L.U.C.R.F. Pty. Ltd.	Industry	Yes	
Macquarie	Macquarie Investment Management Ltd	Retail	Yes	
Maritime Super	Maritime Super Pty Limited	Industry	Yes	
Media Super	Media Super Limited	Industry		
Mercer Super Trust	Mercer Superannuation (Australia) Limited	Retail	Yes	Mercer Investments (Australia) provided responses
Mine Wealth and Wellbeing	AUSCOAL Superannuation Pty Ltd	Industry		
MTAA	Motor Trades Association of Australia Superannuation Fund Pty. Limited	Industry	Yes	
Netwealth	Netwealth Investments Limited	Retail		
Nulis (MLC)	NULIS Nominees Australia Pty Limited	Retail		NAB / MLC / Jana
NGS Super	NGS Super Pty Limited	Public/non-regulated	Yes	
NZ Super Fund	Guardians of the New Zealand Superannuation	Public/non-regulated	Yes	Opt in
OnePath	OnePath Custodians Pty Limited	Retail		
Perpetual	Perpetual Superannuation Limited	Retail	Yes	Perpetual Investments provided responses
Prime Super	Prime Super Pty Ltd	Industry		
Qantas Super	Qantas Superannuation Limited	Corporate		
QSuper	Board of Trustees of the State Public Sector Superannuation Scheme	Public/non-regulated		
REST	Retail Employees Superannuation Pty. Limited	Industry	Yes	
Statewide Super	Statewide Superannuation Pty Ltd	Industry	Yes	

Suncorp Super	Suncorp Portfolio Services Limited	Retail		
Sunsuper	Sunsuper Pty. Ltd	Industry		
Tasplan	Tasplan Pty Ltd	Industry		
TCorp	TCorp	Public/non-regulated	Yes	Opt in
Telstra Super	Telstra Super Pty Ltd	Corporate		
Total Risk	Total Risk Management Pty Limited	Retail		Russell Investments
TWU Super	T W U Nominees Pty Ltd	Industry	Yes	
UniSuper	UniSuper Ltd	Public/non-regulated	Yes	
VicSuper	Vicsuper Pty Ltd	Public/non-regulated	Yes	
Vision Super	Vision Super Pty Ltd	Public/non-regulated	Yes	

Disclaimer

The information contained in this report has been prepared based on material gathered via a desktop research of publicly available information and through an information request to funds in the survey sample (see methodology). The report is intended to provide an overview of RI approaches adopted and being implemented by the largest Australian super funds. The Responsible Investment Association Australasia also scales funds' data found in disclosures, relative to an assessment framework defined by RIAA.

The information in this report is general in nature and does not constitute financial advice. 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, fund manager or super fund to the public.

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