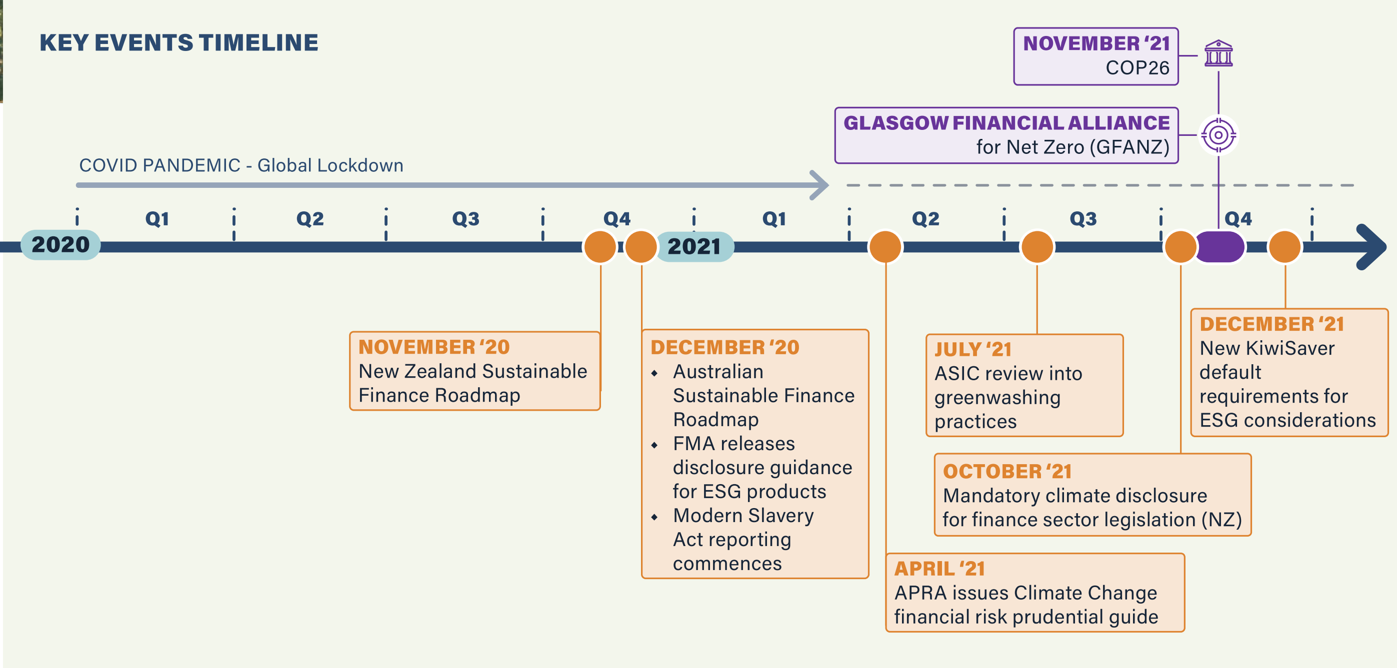
# AUSTRALIA AND NEW ZEALAND




## 10 Year Reflections

The last decade saw unprecedented growth in the responsible investment markets of Australia and New Zealand. Responsible investment practices cover close to half of all managed funds occurring across a period where responsible investment has moved from a purely industry-led, opt-in initiative, to one that is based in a regulated and compliance-based environment. As a result, responsible investment today is firmly embedded in the financial sector standards and regulations, and this is expected to continue.

We saw the emergence of three main approaches to responsible investing: ESG integration, negative screening and corporate engagement and shareholder action. In more recent years, we also saw diversification emerge as a hallmark of responsible investing. Diversification manifests as a broadening of the range of responsible investment approaches used by fund managers as well as the types of fund managers engaged in responsible investing (from smaller, boutique or specialist firms to large super funds), and in terms of the range of responsible investment or sustainable finance products launched.

The two nations took vastly different approaches to responsible investment. In New Zealand, regulation was a key driver, while in Australia, in the absence of regulatory pressure until more recently, industry-led initiatives dominated (see timeline).

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The number of fund managers and asset owners engaged in responsible investment grew steadily, prompting RIAA to introduce a new methodology in 2019. This methodology was designed to raise the bar on the assessment of asset managers and asset owners claiming to be engaged in responsible investing, reflecting the ever-higher standards now expected of investors. A scorecard was developed to assess the responsible investment practices of fund managers, and determine which managers demonstrated leading practice and would contribute to reported responsible investment AUM. Overall, standards have evolved and improved over the last decade; constituting a maturation of responsible investment industry which is increasingly becoming mainstream in the financial services industry.

## 10 Year Forward Look

The momentum of the last two years will continue as we move into a period where a significant regulatory agenda rolls out, covering disclosures frameworks, taxonomy developments, and strengthened standards to prevent greenwashing. Increased transparency, facilitated by standardisation of ESG disclosure, and improved ESG data capabilities are expected to improve responsible investment practices in our region over the next decade. We expect to see increased disclosure of climate and nature-related financial risks as corporates and fund managers begin to report in alignment with the TCFD, the ISSB, and eventually TNFD. Climate-related financial risk disclosure is already mandated for large financial institutions in New Zealand, and Australia is expected to follow suit from mid-2024. We also anticipate that the emergence of sustainability standards (e.g. ISSB) and regional taxonomies will lead to more and improved disclosure of stewardship and impact outcomes.

Domestic regulators will continue to monitor compliance, target greenwashing and act on fund managers' responsible investment claims. It is likely that Australia and New Zealand will see further actions to prevent greenwashing, including ESG product labelling standards that may include some regulatory intervention, as regulators and law makers around the world move in this direction. Drawing on 15 years' experience operating RIAA's Certification Program, we know there are strong labelling norms in the local market. We anticipate that these norms will continue to be built on, in collaboration with government and regulators. Overall, we expect that the entire managed fund industries of Australia and New Zealand will be covered by at least one, but potentially all three main responsible investment approaches: ESG integration, corporate engagement and shareholder action, or negative screening.

The next stage of the shift to mainstreaming responsible investment will be increased capital flows towards sustainable assets and companies, aligned to Paris Agreement commitments. In this vein, we continue to urge our members to both disclose their impact and focus on supporting real world sustainable outcomes.

### Policy & Regulatory Drivers

Regulatory and government activity around responsible investment is playing an ever greater role in accelerating responsible investment in the Australasian markets. Both the Australian and New Zealand regulators have issued guidance on avoiding greenwashing when promoting ESG or sustainable financial products. Securities regulators have also emphasised the need for management of climate risks. New Zealand was an early mover in mandating climate disclosures for corporations and financial entities, while in Australia, a long-awaited requirement for pension funds (superannuation funds) to disclose portfolio holdings has come into force. The New Zealand government introduced requirements for default pension schemes (KiwiSaver schemes) to exclude fossil fuel investments from their funds, and that pensions schemes must have responsible investment policies in place. The ever-increasing focus on greenwashing has had a significant impact on funds looking to be clearer and more precise in their product marketing and legal documents.

Stewardship activities of investors across the region are increasing and becoming more targeted, and we are also seeing increased accountability within these activities. The development and launch of a New Zealand Stewardship Code in 2022 was a major step forward in the New Zealand market.

### Customer Drivers

Consumer demand for responsible investments continued to grow over 2020-21, with consumer research in both markets showing that the majority of Australians and New Zealanders expect their investments and pensions to be managed in a manner that is both responsible and ethical. Four out five Australians (or 83%) expect their bank account and their super (pension) to be invested responsibly and ethically (RIAA, 2022) and in New Zealand, 62% said it is important their investment makes a positive difference in the world (RIAA, 2022).

Demand for an independent Certification Program is also growing, with RIAA certified products totalling 218 by the end of 2021, and reaching over 350 products at time of publishing this report. Consumers and financial advisors are driving this demand as they look for third party verification that product claims are true to label.

## Market Drivers

In Australia, responsible investment assets under management crossed the one trillion mark, reaching AUD 1.3 trillion (or 40%) of total managed funds in 2020, and AUD 1.5 trillion (or 43%) in 2021, compared to just AUD 983 billion in 2019. In New Zealand, the responsible investment market also made significant gains, covering almost half (49%) of the total managed funds market or NZD 179 billion by the end of 2021.

Driving this market growth in the Australasia region is a deep market understanding that ESG issues are impacting financial markets, as shown by the significant proportion of the market that is applying ESG integration as a core responsible investment approach, alongside corporate engagement and other stewardship practices.

### Sustainable Investment Association in the region – RIAA

The Responsible Investment Association Australasia's (RIAA) mission is to promote, advocate for, and support approaches to responsible investment that align capital with achieving a healthy and sustainable society, environment and economy. RIAA advocates for strong sustainability standards that embed real world outcomes as a measure of focus, and this focus is incorporated in RIAA's policy work, research and Certification Standards. More information on the developments in the region can be found on the RIAA website, and the most recent reports on responsible investment in Australia and New Zealand. RIAA works with our 500 members representing USD 29 trillion to champion responsible investing and a sustainable financial system in Australia and New Zealand.