Responsible Investment Association Australasia

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Via email

defaultkiwisaver@mbie.govt.nz

Review of KiwiSaver default provider arrangements

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Are you requesting that any of this submission be kept confidential? No

Submission by the Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) welcomes the opportunity to make a submission to the Treasury and the Ministry of Business, Innovation and Employment (the Ministry) – *Review of KiwiSaver default provider arrangements.* Responses directly to specific consultation questions are provided from page 11 onwards.

About RIAA and our members

RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy and champions responsible investing and a sustainable financial system in Australia and New Zealand.

With over 250 members managing more than $AU9 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's membership includes super funds, fund managers, KiwiSaver providers, banks, consultants, researchers, brokers, impact investors, property managers, community trusts, foundations, faith-based groups, financial advisers and individuals. In NZ, we currently have 40 organisational members, including 13 KiwiSaver providers.

RIAA achieves its mission through:

- providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets

- delivering tools for investors and consumers to better understand and navigate towards responsible investment products and advice, including running the world's first and longest running fund Certification Program, and the online consumer tool Responsible Returns
- supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation
- acting as a hub for our members, the broader industry and stakeholders to build capacity, knowledge and collective impact
- continuing to be a trusted source of information about responsible investment.

Importantly, RIAA also runs the world's longest running responsible investment Certification Program, with 15 years of experience reviewing, assessment and auditing the practices of responsible investment as they are implemented by investment managers. RIAA has 160 investment products Certified as meeting high standards of implementation of responsible investment practices, including a total of 16 KiwiSaver products (one default and 15 others) from 4 providers.[1] In addition to this, RIAA is deeply connected to international developments in the area of standards and best practices in responsible investment, and the evidence base that is underpinning the growth and impact of the industry.

For nearly 20 years RIAA has defined, mapped and measured responsible investment in the region, and delivered annual benchmarking research defining the size and growth of the industry.

This submission draws on that experience in the local market, informed by our global networks, and provides RIAA's input to this important consultation.

Submission scope

This submission focuses primarily on chapter 6 of the discussion paper that relates to responsible investment. In the following sections of this submission, we provide context for the current state of the industry, the drivers of the uptake of responsible investment, the latest evidence that underpins performance data, as well as consumer research outcomes on the preferences of New Zealanders. In the subsequent section, we respond directly to consultation questions 19-27 that pertain to responsible investment.

Responsible Investment state of the market

Responsible investing now constitutes a major force across global financial markets.

Globally, as at 2018 there are US$30.7 trillion of assets being professionally managed under responsible investment strategies, a 34% increase since 2016.

The Australasian region is leading globally in the uptake of responsible investing, with 63% of total assets under management across Australia and New Zealand combined are using a responsible investment approach.

Europe has the largest volume of assets that are responsibly invested, with the US the second largest region, growing from US$8.7 trillion in 2016 to US$12.0 trillion at the start of 2018, an increase of 38%.

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[1] RIAA members with registered KiwiSaver products: Pathfinder, Pie Funds, AMP (via AMP Capital), ANZ Investments, Booster, Harbour, KiwiWealth, Medical Assurance Society, Mercer, Nikko Asset Management , NZ Funds, Milford, NZ Anglican Church Pension Board

From 2016-2018, the fastest growing region has been Japan, followed by Australia & New Zealand and Canada[2].

In New Zealand, the responsible investment market continues its rapid upward trajectory through to the latest data as at the end of calendar year 2018, with $188 billion in assets under management, a threefold increase over five years[3].

Assets managed in accordance with responsible investment now represent 72% of New Zealand's total NZ$261.4 billion AUM; by comparison, responsible investment funds in Australia represent just 44% of total AUM[4].

Responsible Investment strategies in New Zealand

Over the last year, we've seen responsible investment practices continue to mature as the focus shifts beyond avoiding investing in the most harmful industries, to seeking out investments that contribute positively to New Zealand communities and the planet, alongside delivering better financial outcomes.

Consideration of environmental, social, governance (ESG) and ethical factors has become the minimum standard of good investment practice across this market.

In New Zealand, the dominant responsible investment strategy is negative screening, which represents 44% of AUM, closely followed by ESG integration (*RIAA, Responsible Investment Benchmark Report New Zealand 2019).*

Controversial weapons and tobacco are the most prevalent exclusionary screens among New Zealand investment managers, both by the number of funds applying the screens and by the AUM of the funds employing the screen. However, the screens employed by investment managers are not always aligned with the issues prioritised by consumers, such as human rights.

ESG integration accounts for the largest responsible investment strategy when considered by assets under management, with $98.6 billion AUM.

Of the 25 New Zealand investment managers assessed for their approach to ESG integration, eight (32%) are applying a leading approach. This is a strong step up from the four managers included in the 2018 report, indicating a maturity and deepening of ESG practices in the New Zealand market over the past year.

The still-small numbers however, suggest that many New Zealand investment managers are yet to provide evidence of a detailed and systematic approach to their commitment to responsible investment, highlighting the need for strong assurance of the depth of implementation of responsible investment strategies. (For clarification on the various strategies of responsible investment, we have included RIAA's investment spectrum in the appendix.)

What is driving the strong uptake of responsible investment?

There are three major factors that are consistently cited as primary drivers for the growth in responsible investment:

1. evidence of strong, long-term investment performance;
2. rising consumer demand; and
3. increasing regulatory focus on investors to consider ESG issues in their mainstream investments as being consistent with fiduciary duty and sole purpose tests.

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[2] *Global Sustainable Investment Alliance 'Global Sustainable Investment Review 2018*

[3] *RIAA, Responsible Investment Benchmark Report New Zealand 2019*

[4] *RIAA, Responsible Investment Benchmark Report Australia 2019*

1. Responsible investment as a driver of strong investment performance

RIAA's *2019 Responsible Investment Benchmark Report New Zealand* found that the top reason New Zealand investment managers are taking up responsible investment is because ESG factors help to drive investment performance. This is because there is strong and growing evidence (from academic research and industry literature) that responsible investing leads to better risk adjusted returns.

This is a critical point. We have included a box below that cites the evidence of this based on academic literature, including meta analyses of studies and conclusions by key industry experts. The discussion paper is, in our view mistaken in suggesting that the performance is not clear or settled. We believe that the link between effective responsible investment policies and superior risk adjusted returns is strong and well-established.

Box 1: Performance and Responsible Investment:

The Responsible Investment industry is now mature enough that there is a strong body of evidence that has analysed this question of whether there is a performance premium or penalty for undertaking responsible investments. It our view from our ongoing review of the data that three is no strong evidence of a performance penalty and rather the weight of studies highlights the opportunity for a performance premium from implementing responsible investment approach when looking at risk adjusted returns and net of fees.

As mentioned above, this is why we now have the majority of the investment managers in NZ stating that the number one driver of growth in the market is that ESG factors impact upon performance. Equally this is a strong reason why we have regulators increasingly requiring regulated financial entities to consider ESG issues such as climate change risk in their investment risk assessments.

There are a number of ways to assess this question of performance, but we'd draw your attention to three major studies as the strongest evidence we have seen in the market.

1. A study from the Harvard Business School and published in the Journal of Applied Corporate Finance, *ESG integration in investment management – myths and realities,* sought out how and why ESG factors in responsible investment strategies were impacting portfolios, and concluded "portfolios providing material ESG metrics provided superior returns." (Sakis, Pinney, and Serafeim (Harvard Business School) *ESG Integration in Investment Management: Myths and Realities, Journal of Applied Corporate Finance* 28, no. 2 (Spring 2016): 10–16)

2. The National Australia Bank commissioned the Australian Centre for Financial Studies in June 2017 to undertake an analysis of SRI or negative screening practices across the ASX, and back tested data, concluding that "the balance of empirical evidence indicates that SRI does not come at detriment to financial returns" (Australian Centre for Financial Studies, *SRI in Australia,* June 2017)

3. Furthermore, another significant meta analyses analysed more than 2000 empirical studies concluding that the business case for ESG investing is vey well founded with the large majority of studies reporting positive findings. (Friede, Busch, and Bassen. "*ESG and financial performance: aggregated evidence from more than 2000 empirical studies.*" *Journal of Sustainable Finance & Investment* 5.4 (2015): 210–233

4. Additionally, the Responsible Investment Association Australasia has undertaken 18 years of Responsible Investment Benchmark Reports assessing the size, growth and performance of this industry across Australasia. In each report, we undertake an assessment of the average returns of responsible investment funds (primarily negative screened funds) against their benchmark and the average of all mainstream funds. In the most recent report, the research found responsible investment funds continued to outperform most mainstream Australian and international funds, with Australian equities responsible share funds having produced an average return of 6.43% over 5 years and 12.39% over 10 years. This compares with returns of 5.6% and 8.91% respectively for the S&P/ASX 300 index. Note that these returns are net of fees. (RIAA, Responsible Investment Benchmark Report Australia 2019)

It is this weight of evidence that should put to bed the myth that responsible funds necessarily result in higher costs and lower returns – as these studies show, net of fees, responsible investment funds overwhelmingly are delivering strong risk adjusted returns and are performing as well or better than mainstream equivalent funds. This makes logical sense; Companies that harm society or the environment, mis-manage ESG issues or run their business contrary to international norms and client expectations are at risk of damaging their business and their share price.

It is on this basis that the world's largest investors are committing to responsible investment, recognizing the importance that ESG factors have on financial performance. Equally, it is this risk of underperformance from ignoring these issues that is leading regulators the world over to enforce a commitment to consideration, management and reporting on how ESG factors are being considered.

For these reasons, **a failure to have in place responsible investment minimums standards for default KiwiSaver providers, adds risks to the returns of those New Zealanders in default funds.**

Chart 1 below highlights the responses from our survey of investment managers in NZ as to the key drivers of growth in responsible investment. Interestingly, 3 of the top 5 factors are demand side focussed and relate to demand from both retail and institutional investors, or alignment to investor values or a specific mission of the investing organisation. This has been confirmed by rigorous consumer research as outlined next.

2. Rising consumer demand for responsible investments

RIAA, together with Mindful Money, commissioned Colmar Brunton to undertake consumer research of 1000 New Zealanders in September 2018[5] on their preferences and views on responsible and ethical investment which provide an important evidence base for the MBIE to consider as part of this consultation. Results included:

- New Zealanders expect there to be investment options (for both KiwiSaver customers and those who have other financial investments) that align with their personal values, demonstrated by:
  - More than 7 in 10 (72%) New Zealanders expect their investments to be made responsibly & ethically

[5] Responsible Investment Association Australasia and Mindful Money, *Responsible Investment : NZ Survey 2018,* by Colmar Brunton https://responsibleinvestment.org/consumer-polling/

- 6 in 10 (62%) New Zealanders would consider moving their investments if they discovered their money was being invested in activities inconsistent with their values

- Older New Zealanders (aged over 50) are more likely than average to expect their investments to be managed responsibly and ethically, and place greater importance on avoiding industries that conflict with their values. They are also most likely to choose the KiwiSaver provider they perceive is best on sustainability
- People care about a wider range of issues than currently offered in most investments. New Zealanders' top three issues to avoid are those involving animal cruelty, human rights abuses and labour rights abuses. Avoiding sectors such as tobacco, personal firearms, adult entertainment and nuclear power are also rated as very important
- The two biggest barriers to investing responsibly are a lack of independent information and lack of time to compare all of the options (the latter especially applies for KiwiSaver)
- 7 in 10 New Zealanders (73%) are more likely to invest in a scheme that is certified to be responsible or ethical.

3. *Increasing regulatory focus on investors to consider ESG issues in their mainstream investments*

Amongst the investment and broader community there is an understanding that, in 2019, the consideration of responsible investment issues aligns with investor trustees' fiduciary duties. This is built steadily on the normative understanding, also cited by regulators, that consideration of ESG issues and client values is consistent with, and indeed necessary, to meet the duties of investors as fiduciaries. See Chart 1 below for the growth in this normative sentiment from 2017 to 2018 (Fiduciary Duties – rising from 3% to 31% of respondents).

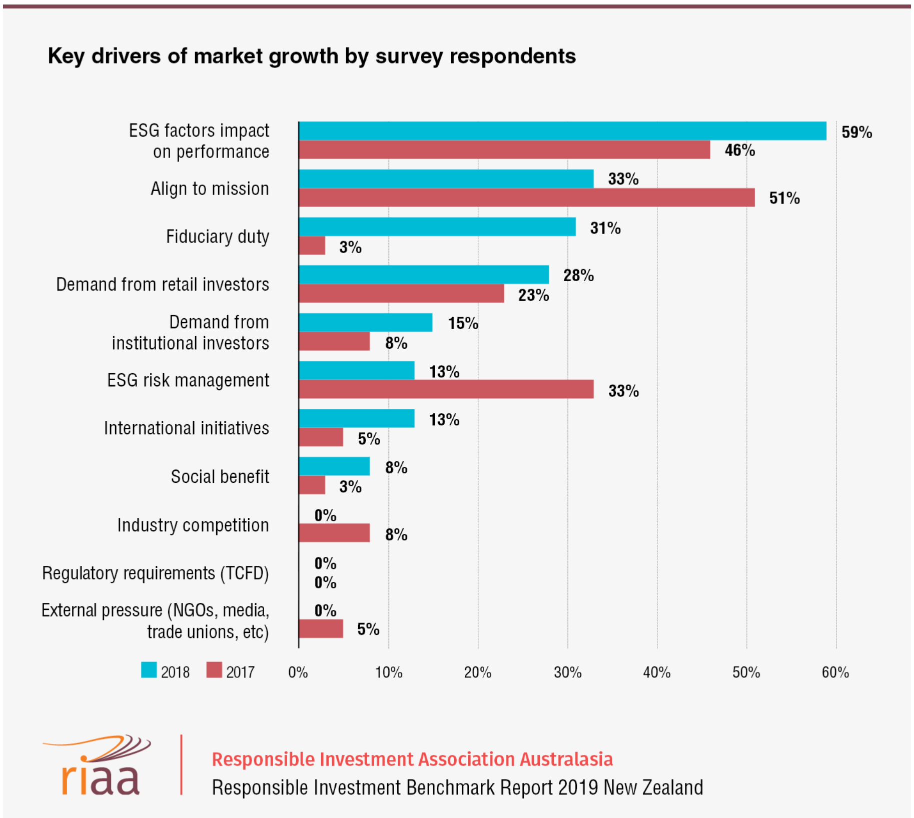

Chart 1: RIAA, Responsible Investment Benchmark Report New Zealand 2019

On this last matter we are increasingly seeing a move globally that requires investors to consider key ESG issues, importantly the consideration of climate change risks. This has been emphasised in NZ by clear statements by the Reserve Bank of NZ that it is moving to monitor the climate change risk management practices of regulated financial entities.

This regulatory driver is rapidly growing momentum in global financial markets with much work being undertaken to embed sustainability considerations into financial system regulation, under the name of sustainable finance roadmaps. The most progressed of these is the European Commission's Action Plan on Sustainable Finance. We are currently seeing the European parliament implementing recommendations that will include the requirement of financial services products to disclose consistently how they consider the sustainability and ESG in their products (see for more detail http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/635572/EPRS_BRI(2019)635572_EN.pdf).

Similar work on sustainable finance policy has moved across many major markets globally, and currently work is underway in NZ under the Sustainable Finance Forum, an initiative of the Aotearoa Circle (https://www.theaotearoacircle.nz/sustainablefinance/). The intention of this work is to embed sustainability into finance sector regulatory environment, to mobilise capital to sustainable assets that can help to deliver Paris Agreement targets, as well as to better reflect the interests and values of consumers.

The importance of responsible investment for default KiwiSaver providers:

By endorsing default KiwiSaver providers, the government is giving a strong vote of support to a select number of providers as being appropriately diligent, professional, and robust in order to protect and grow the retirement savings of New Zealanders.

As the discussion paper reports, 15% of all KiwiSaver remain in default funds, or 34% of all automatically enrolled members (s.34, page 11), and so the responsibility of these funds to meet what we know to be the expectations of New Zealanders as a compulsory criteria is heightened.

At this point in time, those expectations of New Zealanders have never been clearer as to how they consider responsible investment issues, as seen by the consumer research cited above, as well as shown very clearly by the response to the KiwiSaver exposure brought forth by media revelations of KiwiSaver holdings in nuclear weapons, landmines, cluster bombs and tobacco, in August 2016 (https://insights.nzherald.co.nz/article/kiwisaver-investments/). This event alone has shown just how strongly New Zealanders feel that their retirement savings are invested in a manner that does no harm.

In addition, as default providers that have been endorsed by the NZ government, it is wholly expected that these providers would invest in a manner that is consistent with NZ Government's own global commitments to conventions and laws. From this perspective, an approach similar to that required of the NZ government's crown financial entities, including the NZ Super Fund and the ACC, would be wholly consistent and appropriate, whereby they have in place exclusions over industries that contravene NZ law and international commitments.

In this way, it removes any debate about whose ethics should be presented in the default funds, by anchoring these requirements to NZ Law – this is a very common approach in European market, known as a norms based approach to screening.

Beyond these base level requirements for default providers, we see a flourishing KiwiSaver product offering emerging for those citizens with deeper or more specific interests and values, with products offering exclusions from fossil fuel to animal welfare and human rights, and seeking to include positive investment screens towards more sustainable companies.

Box 2: RIAA's Certification Program:

As reported earlier in our submission, consumer research has shown that New Zealanders want to know their investment products have been verified as true to label by a third party certifier. Indeed, our consumer polling showed that 7 in 10 New Zealanders (73%) are more likely to invest in a scheme that is certified to be responsible or ethical.

The Responsible Investment Association Australasia has been running the world's longest running responsible investment Certification Program that is aimed at helping investors of all kinds navigate towards investment options and financial advice that better match their investment beliefs and personal values.

RIAA's Certification Symbol provides consumers and investors with an easily-recognisable, mark of quality, indicating that a responsible investment product has been independently verified as true to label and meeting high standards of practices and disclosures.

RIAA's clear criteria, certification process and independent verification sets the goal posts for the finance industry to improve the environmental, social, governance and ethical performance and impacts of their service and products.

RIAA's Certification Symbol signifies that an Investment Product has implemented a detailed responsible investment process for all investment decisions, clearly states the responsible investment strategies applied, has been audited by an external party to verify the investment process, and has met the strict performance, standards and holdings disclosure requirements of the Program.

For the detailed Program Standards and Guidance, see our website here:

https://responsibleinvestment.org/program-overview/get-certified/

Recommendations by RIAA in response to the discussion document:

In order to meet the expectations of clients as well as to underpin strong risk adjusted returns, we believe it is essential that all default KiwiSaver providers be required to have base-level commitments to responsible investment.

Specifically, default providers should be required to have the following in place:

1. **Policy and Commitment clearly disclosed:** maintain a clear Responsible Investment Policy that states the provider's commitment to a responsible investment approach that is applied across all the KiwiSaver default products. As with other disclosures, the RI policy should be clear and provided to ensure comparability by consumers, not only within the Product Disclosure Statements (PDS) or Statement of Investment Policy and Objectives (SIPOs); RI policies should also feature alongside high-level fund information, such as on the website and in fact sheets of the default providers' products.

2. **ESG integration and stewardship:** to ensure a responsible investment strategy is effectively informing providers to be aware of the biggest ESG risks in portfolios, and underpinning strong investment performance, default providers should ensure a commitment to assessing ESG issues as well as stewardship practices of voting and engagement as part of their RI Policy. These additional elements should also be captured in all RI policies of default providers, and described together with the responsible investment policy/commitment (including within the PDSs and SIPOs of the products).

3. **Exclusions and their disclosures:** Default providers should as a minimum have in place exclusions across the most clear cut and universally accepted harmful industries, based on those industries that contravene NZ laws or international conventions that NZ has ratified. These should include mandatory exclusions that as a minimum include: nuclear explosive devices, cluster munitions, anti-personnel landmines, whaling and tobacco as well as certain weapons as recently legislated by the government. Most commonly, these disclosures of exclusions would include the names of the industries excluded, and those industry level exclusions clearly defined (ie what types weapons are excluded)

4. **Additional Exclusions:** With the NZ Government's commitment to the Paris Agreement, and the subsequent Zero Carbon Act providing the implementation pathway for NZ, it is essential that the finance sector is aligning to help NZ deliver this commitment. In this way, consistent with the recommendation above, default KiwiSaver providers should be required to have in place a portfolio-level objective for reducing carbon emission intensity at a pace that aligns with a 1.5 degree Paris target. This could be implemented by certain fossil fuel exclusions or weighting/tilting of portfolios, and it could be a requirement that the emissions exposure of the portfolio be published annually.

5. **Verification:** That it be essential that default KiwiSaver providers have a verifiable investment process underpinning their responsible investment commitments, and to ensure that the commitments, policies, disclosures and required standards are being implemented. Verification of these processes should be undertaken by a suitably qualified verifying organisation with expertise in responsible investment implementation. Our experience from

our Certification Program is that a detailed verification should be undertaken at the outset, then a biennial review and re-confirmation is adequate to ensure commitments are being delivered upon.

6. **RIAA Certification:** RIAA recommends that this verification process be undertaken by RIAA, using a bespoke version of RIAA's Certification Program whereby specific targeted standards are established for default providers and the Certification Program process applied specifically to default providers in a manner that is fit for purpose, and appropriate to the objectives of a low cost approach.

Additional areas that should be considered:

- **Financial Advisers**: as key gatekeepers to investments, financial advisers should be required to ask all of their clients about their sustainability and values based preferences as part of their discovery process when providing advice on KiwiSaver products, to ensure they have complied with knowing their clients and acting in their best interests. This would follow the model of European laws being implemented currently.
- **Government Information Sources on KiwiSaver products to include responsible investment information:** The government's primary KiwiSaver information websites managed by the Commission For Financial Capability are critical and highly effective resources for New Zealanders, however these should be updated to include easily comparable information on responsible investment approaches for KiwiSaver Funds that we know is ever more critical to informing the decisions of New Zealanders.
- **Sustainable Finance Forum:** As an additional part of this review process, the Treasury and MBIE should engage closely with the Sustainable Finance Forum process, to ensure recommendations from that process are consistent with MBIE considerations on KiwiSaver providers. That process of the SFF is drawing on deep industry knowledge and global developments.

Specific feedback to consultation questions:

19. Are there higher investment costs for responsible investing? If so, how likely are these costs to contribute to lower net returns?

Incorporating responsible investing should have a negligible impact on the cost of running a default scheme/fund. A number of factors are important to consider here – today, basic exclusionary funds are now offered in the market (including passive funds) at a low cost equivalent with non-exclusionary funds. Additionally, any further costs, by way of additional research involved in the investment decision making process, is costs that should lead to better informed investment decisions, which is why we often see responsible investment funds outperforming mainstream funds. It's important to look at performance net of fees, rather than merely fees for this reason. We argue very strongly on this point that the balance of evidence clearly refutes any argument that responsible investment results in lower net returns.
For more on the performance of responsible investment products, see Box 1 above.

20. How does responsible investment affect returns? Does it increase or decrease returns, and to what extent?

Please refer to the studies cited in the box 1 above. Again, it's the view of RIAA that the weight of evidence clearly now supports responsible investment as enhancing risk adjusted returns.

21. Should the default provider arrangements be used to achieve objectives in relation to responsible investment?

Default provider arrangements should reflect what is known as the expectations and interests of New Zealanders, which have clearly been shown to have high expectations of a responsible approach to investing that as a minimum ensures their retirement savings are invested in a way that does no harm. See Box 2 above for the consumer research that sets out the expectations of New Zealanders.

22. Would default members want their funds to be invested more responsibly? If yes, is the same true if responsible investment means potentially limiting future returns?

See response above. In addition, in regards any consumer views on trade-offs between financial returns and responsible investment, again our consumer research provided some important insights. Firstly, as we have argued throughout this submission, we do not believe the proposition that there is a trade-off, however what we do see is a *perception* of trade off as being quite prevalent amongst consumers. What our consumer research results show is that consumers have very high expectations that responsible and ethical factors are considered in their investments and KiwiSavers (72%) and also that financial returns must be a priority issue with over half (57%) stating that financial factors should be considered as more important than ESG factors. These are not inconsistent findings, but rather, in short, consumers do not want to sacrifice returns but do want their values taken into account. Pleasingly, the evidence on performance indicates that they should not have to sacrifice returns to invest consistent with their values.

23. To what extent is it a problem that default members do not have information about whether their investments are made responsibly? Would having more information make a difference to the behaviour of default members? What alternatives might there be to more/standardised information to address responsible investment concerns?

Again, RIAA's consumer research provides useful insight here, that the number one barrier is lack of independent information, whilst also that over 73% would be more likely to invest in a fund that is Certified as responsible by a third party.
Through our Certification Program, we see many investment products, and find that the disclosures are often inconsistently made, making it very hard for an average consumer to compare and contrast options, or to see simply what considerations are taking into account within their own fund. We have proposed recommendations above that we believe will go a long way to solving these barriers.

24. Do providers' current responsible investment exclusions meet what default members would expect?

A majority of the market in NZ does have in place negative screens, however with the inconsistency of disclosures, this remains challenging to know if all default providers have exclusions and whether these are the right exclusions. Again, our recommendations above go a long way to ensuring the expectations of default members are met in default products.

25. If this option is adopted, what industries or sectors should be excluded? Should the government instead adopt an international exclusion standard or certification regime? What would be the costs associated with an exclusion or certification regime?

Our recommendations above address this, but in short we believe a base level of exclusions should be incorporated by all default providers and these should be based upon the laws and conventions of the NZ government, and so cover nuclear explosive devices, anti-personnel land mines, cluster munitions, whaling, tobacco as well as certain weapons and the most exposed fossil fuel companies that are not consistent with Paris Agreement targets, or don't have a clear plan in place to align with the Paris Agreement. By basing these exclusionary requirements on NZ government commitments, this removes the subjectivity of the process.
Providers should then be required to publish clearly their exclusion criteria in a consistent manner that is easily accessible and understood, and with very clear articulation of the precise definition of the exclusion itself.
Note, that in the discussion document, it notes the PRI principles as an option for an exclusion standard – it should be noted that the PRI has no such exclusion standards. The Principles rather are about a consideration of ESG as investment risks.
Responsible investment is more than merely exclusions, and as such, an external verification by a suitably qualified certifier should be required to verify that responsible investment processes are effectively implemented.
For an estimate of pricing of such a program of certification, it would be important to set a bespoke program of verification for default providers to test this baseline. From RIAA's experience, and to properly resource this, an initial estimate of such a cost, would be based on th following process:

- Providers to complete a form that outlines the responsible investment strategy in place

- Providers would submit all the legal documents associated with the products for review (e.g. PDS, SIPO and Factsheets etc)
- RIAA would undertake a review of all the relevant documentation and compared against the standards set.
- A verification audit would then be undertaken on site (or via videoconference) to verify the processes reported have systems in place to effectively implement and monitor over time
- A verification report is written with outcomes.
- Where necessary, corrective actions are requested.
- Corrective actions are monitored
- Renewal of the certification should be undertaken as a minimum every 2 years, whereby a declaration that the responsible investment process is still in place would be required.

RIAA would be happy to undertake a costing of this process, based on the cost of our existing Certification program and provide this to The Treasury and MBIE if required.

26. If this option is adopted, what form should standard disclosure take? For example, should all providers be required to provide a statement listing all excluded companies by sector?

See recommendations above. Note that industry practices tends to list the name of the industry excluded, with that industry exclusion clearly defined (and revenue thresholds should be clearly articulated). Leading practices do include lists of companies excluded, but this is not necessary if the industry level of exclusion is done well and clearly.

27. What is your feedback on our assessment of the costs and benefits of the responsible investment options identified? Which option (or the status quo) do you prefer and why?

As outlined in our recommendations above, we believe that a combination of options 1 and 2 should be implemented. The only additional comment on the costs assumed would be to say that by setting these exclusions as an industry requirement, this would bring down the cost overall, as the larger providers of funds (such as global passive funds) would rapidly shift to establish low cost funds that incorporate these mandated exclusions. This certainly occurred after the August 2016 KiwiSaver expose, when many managers sought international passive funds with exclusions in place, the market responded with those products.

RIAA is pleased to provide this submission to the consultation by the Treasury and MBIE, and would welcome the chance to speak to our recommendations in more detail.

Yours sincerely,

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Appendix – Responsible Investment Spectrum

Responsible investment strategies and their application, based on international definitions.

RIAA'S RESPONSIBLE AND ETHICAL INVESTMENT SPECTRUM

	TRADITIONAL INVESTMENT	RESPONSIBLE & ETHICAL INVESTMENT						PHILANTHROPY
		ESG INTEGRATION (including shareholder engagement & voting)	NEGATIVE SCREENING (& norms based)	POSITIVE OR BEST-IN-CLASS SCREENING (& norms based)	THEMATIC/ SUSTAINABILITY THEMED INVESTMENTS	IMPACT INVESTING MARKET RATE	 CONCESSIONARY RATE	
FOCUS	Limited or no regard for environmental, social and governance factors	Consideration & analysis of environmental, social and governance (ESG) factors as part of investment decision making	Industry sectors or companies excluded/ divested from to avoid risk or better align with values	Investments that target companies or industries with better ESG performance	Investments that specifically target sustainability themes eg clean energy, green property	Investments that target social and environmental impact and deliver market rate financial returns	Investments that target social and environmental impact and deliver below market rate returns	Grants that target positive social and environmental impact with no financial return
IMPACT INTENTION	Agnostic	Avoids harm		Benefits stakeholders				
					Contributes to solutions			
FEATURES	Delivers competitive financial returns							
		Manages ESG risks						
				Pursues ESG opportunities				
					Intentionality: delivery of impact is central to underlying asset/investment			
					Impact of investment is measured & reported			

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