

Responsible Investment

2010



A Benchmark Report on Responsible Investment in Australia and New Zealand by the Responsible Investment Association Australasia, including the 'Cleantech in Australia Benchmark Report'

November 2010 | Research conducted by Corporate Monitor

THANK YOU TO OUR PARTNERS

Responsible Investment 2010 has been made possible with the generous support of our project partners:



Aviva Investors is proud to have been the first Australian fund manager to sign the United Nations Principles for Responsible Investment in May 2006.

We believe one of the most important factors influencing a company's returns is the way a company behaves. Our investment process analyses company behaviour, as we believe that a company whose practices are sustainable are more likely to generate better long term returns for its investors. Analysis of ESG issues helps us better understand the operating risks and opportunities each company faces, as well as their alignment with shareholder interests. We incorporate our examination of these research issues into our financial valuations and ultimately our range of portfolios.

Craig Bingham, *Chief Executive Officer, Aviva Investors Asia Pacific*



Australian Government
Austrade

The Australian Trade Commission, Austrade, is the Australian Government's trade and investment development agency. Austrade assists Australian businesses to succeed in trade and investment internationally, and attracts productive foreign direct investment into Australia. Austrade's extensive global network of offices covers more than 100 locations in over 55 countries.

The Government has identified financial services as a priority sector and Austrade has the lead role in trade and investment promotion. Responsible investment is a growing area of industry interest and expertise and Austrade is pleased to support the development of this sector to further enhance the Government's aim of making Australia a leading regional financial centre.

Gary Johnston, *Global Leader, Financial Services, Austrade*



Financial Group



Investment Management

BT Financial Group (BTFG) is the wealth management arm of the Westpac Group. Its core business is providing investment, superannuation and retirement income products, financial advice and insurance options. BT Investment Management (BTIM) is a listed funds management company and an affiliate of BTFG. BTIM employs an active investment approach across a range of strategies, utilised across a variety of products to meet the changing demands of investors.

BTIM has been managing a range of Socially Responsible Investment funds since 2000 and, together with BTFG, continued its commitment to responsible investment by becoming a signatory to the United Nations Principles for Responsible Investment in January 2007.

At BTFG and BTIM, we recognise the importance of taking a long term-view when investing and believe that a sustainable approach to investment decision making will eventually become mainstream. Sponsoring this benchmark report enables BTFG and BTIM to participate in driving the responsible investment agenda further.

Brad Cooper, *Chief Executive Officer, BTFG and Director, BTIM*



At Perpetual, we believe business sustainability creates long-term value for our many stakeholders and for the communities who rely on us to grow their wealth and upon whom we rely for our resources and income.

Business sustainability is a long-term commitment, which only works successfully by integrating economic growth, social equity and environmental management into the daily operations of a business. Even more importantly, business sustainability must make good business sense.

Perpetual is a people business. Our point of difference is our intellectual capital which we have built up over more than 125 years. We draw on our expertise, knowledge and experience to drive business sustainability by promoting best practice in the companies in which we invest and by leading debate and fostering change on issues which impact our people, our community and our environment.

Cathy Doyle, *Group Executive Equities and Distribution*

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RIAA – LEADERSHIP IN RESPONSIBLE INVESTMENT

RIAA is the leading professional membership organisation for responsible investment in Australasia and this year celebrates its tenth anniversary. RIAA's members include fund managers, super funds, financial advisers, dealer groups, researchers, information providers and asset consultants who incorporate environmental, social and governance factors into their investment and research processes.

As the industry peak body for responsible investment, RIAA's purpose is to provide education, training and professional development to further investment practices which optimise financial returns and create positive environmental, social, governance and ethical outcomes.

Choosing to belong to RIAA demonstrates your commitment to responsible investment and puts your business at the heart of the RI sector, allowing you to benefit as the industry grows and prospers. Here is our program of member benefits:

1. PROFESSIONALISE

Making it easier for you to stand out from the crowd

The PROFESSIONALISE program includes:

- Delivery of the world's first global online RI Academy and RI professional development framework, with generous discounts for RIAA members;
- Partnering with the FPA to deliver RIAA's specialist online course for financial advisers;
- Provision of regular updates and filtering the news for you through the RIAA Window newsletter;
- Access to a brand new members only website and select research reports, coming in 2011;
- Brand new financial adviser mentor program, also coming in 2011.

2. PROMOTE

Making it easier for people to choose RI – and choose you

The PROMOTE program includes:

- Member only access to the world's first and only RI Certification Program;
- A new powerpoint slideshow for you to use in your own presentations featuring benchmark figures from this report and compelling case studies from the responsible investment frontline;
- RIAA's consumer material, full of dedicated RI content and case studies that you can include in your own articles and brochures;
- Display of your logo and member contact details in our dedicated member directory.

3. NETWORK

Making it easier for you to meet the right people

The NETWORK program includes:

- Invitation to participate in RIAA's famous International Responsible Investment Conference;
- Access to brand new sector reports and specialised events, coming in 2011;
- An invitation to the AGM and complimentary end of year function;
- Access to New Zealand RI briefings.

4. LEAD

Making it easier for you to do business

The LEAD program includes:

- Publication of the region's Annual Benchmarking Report ensuring insightful and intelligent reporting of RI by the media;
- Collaboration with like-minded peak bodies to further RI goals;
- Participation in important policy discussion and developments.

GET INVOLVED WITH RIAA – YOUR INDUSTRY BODY

We encourage all members to take full advantage of the knowledge, connections and resources available through RIAA and look forward to working with you to help investors in Australia and New Zealand realise the potential of responsible investment. Please call Sarah Clawson for more details on +61 2 9025 5711.

EXECUTIVE SUMMARY

Responsible Investment 2010 is the 10th annual Benchmark Report commissioned by RIAA and the 7th report based on research carried out by Corporate Monitor. Its aim is fivefold: to update figures for the 2009-10 financial year for the various forms and segments of responsible investment in Australia and New Zealand; to present analysis of its level of growth; to show comparisons with the total managed investment market; to provide a summary of the latest reported overseas figures; and to provide information about responsible investment initiatives. We also include a separate report showing benchmarks for clean technology investment.

Responsible investment is split into core and broad components. Put simply, core responsible investment includes specifically tailored managed funds, direct share portfolios managed by financial advisers, and also microfinance or microcredit offered by community finance organisations. On the other hand, broad responsible investment is the developing practice by mainstream institutional investors to integrate environmental, social and governance (ESG) issues into their day to day financial analysis, stock selection, portfolio construction, company engagement and proxy voting processes.

Also, managed portfolios have been classified in accordance with their approach to investment screening: ethical exclusions, positive screening, best-of-sector and thematic investments.

In a period that saw a partial recovery in asset values following the global financial crisis, responsible investment in Australasia has participated in this recovery to regain its long-term growth trajectory. As share prices appreciated and positive net fund flows returned, core responsible investment grew at a slightly higher rate than the broader market. Broad responsible investment has continued to grow strongly due to the combined impact of asset appreciation and a larger number of mainstream fund managers having achieved a “good” level of ESG integration into their investment process. A continued recovery in financial markets from June 30 to the date of this report has further consolidated this reversal of fortunes and it remains to be seen whether the trajectory of recovery in asset prices will be sustained into 2011 – as doubts persist about the sustainability of economic recovery in major western economies.

RESULTS IN BRIEF – *all data is for 2010 financial year unless otherwise stated*

Core responsible investment (including managed responsible investment portfolios, community finance, green loans, responsible investment portfolios of charities and client portfolios of financial advisers) rose 13% in 2009-10 from \$16.15 billion (re-stated) to \$18.19 billion.

Managed responsible investment portfolios alone rose 10% from \$14.02 billion to \$15.41 billion, an increase of \$1.39 billion. Growth in responsible investment portfolios fared a little better than the broader market with total assets under management of all types of managed portfolios rising 9% in that same period.

The main factor contributing to this recovery was positive investment performance of \$1.05 billion. This was supported by net inflows into established funds of \$544 million and support for new funds of \$175 million. Offsetting this somewhat were portfolios that were either wound up or removed from the survey to the value of \$380 million.

The average return over the year of the largest category, Australian share funds, was 15.09%, better than the average return of 11.56% for mainstream Australian share funds. This outperformance trend is also generally reflected over longer timeframes and in other categories such as Overseas Shares and Balanced Growth funds.

The largest fund manager is AMP Capital Investors, with responsible investment assets under management of \$2.96 billion, rising from \$2.45 billion in 2009. The largest dedicated responsible investment fund manager is Hunter Hall at \$1.79 billion in funds under management and the superannuation fund with the largest amount of responsible investment assets is Local Government Super with \$1.77 billion.

Direct asset portfolios managed by financial advisers recovered strongly from \$972 million in 2009 to \$1,461 million, up 50% – reflecting both the recovery in the Australian stockmarket and a trend towards direct share portfolios both in responsible investment and across the financial services industry.

Community finance assets again posted sustained growth. A total of 11 community finance providers had total assets of \$1,331 million, an increase of 15% on last year's (re-stated) figure of \$1,157 million.

Broad responsible investment assets are estimated to be \$74.8 billion, an increase of 25% from \$59.9 billion in 2009. This comprises the assets of fund managers that have attained a rating of “good” or above from Mercer for their integration of ESG factors into their investment process and institutions that have subscribed to a corporate engagement service. Therefore, the total for this section does not automatically include all signatories to the United Nations Principles for Responsible Investment (UN PRI).

In the year to 30 June 2010 there were again no specific shareholder resolutions that related to environmental or social issues. This is the fourth consecutive year this has occurred and it stands in contrast with further growth in shareholder activism in the USA. The US Social Investment Forum states in their 2010 Trends Report that environmental and social resolutions raised in the year to 15 August 2010 were 360, a drop from 368 in 2009 and 401 in 2008. However, the “for” vote for such resolutions has risen from 14.1% in 2008 to 19.6% in 2010 (as reported by Si2, RMG, ISS and IRRRC).

The survey also reports on a number of other indicators that show how mainstream investors are taking steps toward ESG integration. Australian signatories to the UN PRI grew 29% from 87 in 2009 to 112 in 2010 with global assets under management of US\$591 billion. The asset manager segment of local UN PRI signatories has assets under management of US\$412 billion. This means that approximately half of the funds under management of Australian asset managers fall under UN PRI commitments to ESG integration. The strength of Australian uptake of the UN PRI is also shown by the fact that local signatories represent 14% of global signatories and 3% of the assets under management of all signatories.

The Investor Group on Climate Change Australia/New Zealand (IGCC), which locally administers the Carbon Disclosure Project, now comprises 54 members with \$600 billion in assets under management, up 20% from \$500 billion in 2009.

This year’s survey also presents data on 13 local indices based on ESG criteria and analysis and lists 51 investment research studies on the subject of responsible investment or ESG integration.

And for the second time we include a benchmark report on Australia’s Cleantech investment sector. The executive summary of that report can be found on page 26.

Last year RIAA reported a total combined estimate for core and broad responsible investment in New Zealand of NZ\$14.6 billion. For the year ended 30 June 2010 we estimate this to be \$17.2 billion an increase of \$2.6 billion, or 18%. The most significant factor in this increase was the NZ Superannuation Fund that increased by \$2.2 billion. Another factor is the inclusion for the first time of Trust Waikato with \$230 million. Further information about the New Zealand RI offerings that make up this total is provided on page 36. The New Zealand report was again provided by Dr Rodger Spiller.

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WHAT IS RESPONSIBLE INVESTMENT?

Responsible investment is an umbrella term to describe an investment process which takes environmental, social, governance (ESG) or ethical considerations into account. This process stands in addition to, or is incorporated into the usual fundamental investment selection and management process. This involves one or more of the following practices being included in the research, analysis, selection and monitoring of an investment.

RESPONSIBLE INVESTMENT SCREENING

In the conventional investment process, screening is used to reduce the investible universe based on preferred financial criteria such as leverage metrics and valuation ratios. In the case of responsible investment, however, screening also includes environmental, social, governance (ESG) and ethical factors as well as financial criteria.

Responsible investment screening is used in many ways: it can be applied to select investments based upon relative performance on specific issues (such as carbon emission benchmarks or governance standards) or to exclude entire sectors or activities (such as gambling or those who abuse human rights); it can be used for equities as well as property, fixed income and infrastructure; it can be employed either before or after the financial analysis has taken place; and it is usually supported by a pre-determined methodology that is clearly defined and transparent.

The competitive performance of screened investments depends on both the screening methodology and the final portfolio construction which seeks to minimise correlation and volatility and maximise diversification and risk adjusted return potential.

Negative screening is the term used to describe the exclusion or avoidance of an investment based upon environmental, social, governance or ethical factors, while positive screening is the favourable consideration of an investment opportunity based upon these issues.

INVESTING IN THE MOST SUSTAINABLE COMPANIES IN ALL SECTORS (BEST OF SECTOR)

The best-of-sector investment style implies that all industries should adopt higher standards of ESG practice in order to meet the expectations of society and to achieve sustainable and profitable business goals. This process does not involve negative screening, but rather identifies those companies with superior ESG performance from across all sectors. The approach is based on the premise that companies with strong ESG credentials are generally better managed companies, and therefore better investments.

THEMATIC INVESTMENT

Portfolios which contain only those investments that adhere positively to a particular sustainability theme such as environmental technology, carbon intensity, sustainable agriculture and forestry, water technology, waste management, community investing, affordable housing, sustainable property and infrastructure, human rights, microfinance or governance. This category also includes multi-strategy portfolios which may contain a variety of asset classes or a combination of these themes.

ESG INTEGRATION

ESG integration is the incorporation of environmental, social and governance factors into the investment decision-making process. More specifically, ESG knowledge is used to inform the analysis of risk, innovation, operating performance, competitive and strategic positioning, quality of management, corporate culture and governance and to enhance financial valuation, portfolio construction, engagement and voting practices.

ENGAGEMENT WITH COMPANIES ON ESG ISSUES

Engagement is the process by which an asset manager, asset owner or specialist firm will contact companies to build the business case for better management of ESG issues. Engagement can sometimes involve the formal or informal collaboration with like-minded investors on common issues which can increase the likelihood of a positive outcome from the engagement process.

SHAREHOLDER ACTIVISM – VOTING AND RESOLUTIONS

Investors who are active owners will exercise their right to vote and their right to raise resolutions in order to achieve better management outcomes. Investor activism on governance issues has grown substantially in the last ten years, particularly in Britain and the United States, and especially in relation to director elections and remuneration. More recently, environmental and social resolutions have also grown in number and support in the United States where 360 such resolutions were filed in the year to August 2010 receiving an average 19.6% “for” vote.

PROJECT DESCRIPTION

The overall aim of this project is to provide credible data on the size and growth of the Australasian responsible investment market and to compare this with trends in Australasia's financial market and responsible investment internationally.

The project is intended to establish the size and, where possible, growth of the following responsible investment categories:

Core responsible investment: Includes specifically tailored managed funds, direct share portfolios managed by financial advisers, and also microfinance, microcredit and green loan products offered by banks.

Broad responsible investment: ESG integration, corporate engagement and shareholder activism.

Results obtained from the current project are compared with those obtained in the benchmarking study in 2009.

The process of categorising the Australian responsible investment market into core and broad components follows the methodology developed for similar studies by the the European Sustainable Investment Forum (Eurosif) and Canada's Social Investment Organisation (SIO). Following the Eurosif approach, managed responsible investment portfolios have been classified in accordance with their approach to investment screening: ethical exclusions, positive screening, best-of-sector, thematic investment and norms-based investing.

METHODOLOGY

This study employed the same methodology as was used in the RIAA Benchmark Report 2009 and the six years prior. Data was gathered from a range of sources. Managed funds data was kindly provided by managed funds industry research specialists Morningstar, while a large proportion of the data was also provided directly to Corporate Monitor. Information on total investment management and the average performance of certain managed fund categories were provided by Morningstar. Data on the other segments was collected by Corporate Monitor.

Initial requests for data were made by email and then followed up by telephone, where necessary. It is important to note that for many areas of responsible investment data there is no requirement for disclosure and some investment custodians may be reluctant to supply information. This may be for reasons of privacy or commercial confidentiality. The figures for categories outside of managed responsible investment portfolios should be considered conservative for this reason.

All requests for information occurred in the period July through October 2010, but figures are as at 30 June 2010, unless otherwise stated.

All calculations of performance, growth levels and market share were performed by Corporate Monitor.

As stated above, the responsible investment market is also split into core responsible investment and broad responsible investment using the distinctions developed by Eurosif and the Canadian Social Investment Organisation.

CORE RESPONSIBLE INVESTMENT

Core responsible investment includes specifically tailored managed funds, direct share portfolios managed by financial advisers, and also community finance such as microfinance or microcredit loans offered by community finance organisations.

Managed Responsible Investment Portfolios

This is defined as the placement of money in managed funds, separately managed share portfolios, listed investment companies or discrete investment mandates screened to reflect environmental, social, labour relations, governance or ethical considerations.

Data was collected on the net assets of professionally managed portfolios that define themselves as responsible, socially responsible, ethical or sustainable. This includes investments directly into public offer managed funds (for both retail and wholesale investors), superannuation funds, directly managed accounts, institutional mandates and other portfolio-based investments.

Double counting is removed in arriving at reported figures, unless otherwise stated. Double counting arises when investment from a retail fund (offered by the same fund manager or superannuation fund) is then invested in a wholesale fund or mandate of another.

Feeder funds, which invest from one fund manager or investment platform into a responsible investment fund manager by another fund manager, have not been counted in the survey data. This also avoids double counting.

Where a fund manager operates multiple funds that invest into one investment pool, then any double counting of investments was removed. Managed responsible investment portfolios have also been further categorised into:

- Portfolios with a range of negative screens
- Portfolios that also have an element of positive screening
- Best-of-sector portfolios
- Thematic investment that involves exposure to a single sustainable investment asset class (e.g. clean technology or sustainable property portfolios)

Direct Investment Portfolios Managed by Financial Advisers

Some financial advisers provide specialised services to investors who want to use a responsible investment approach. From a database of advisers that have registered an interest in responsible investment we obtained data from 23 firms (up from 18 firms in 2009) on the amount under their advice that explicitly takes ESG issues into account in direct investment portfolios (including shares and other portfolio investments). This does not include the value of their clients' holdings in managed responsible investment portfolios.

Superannuation Funds

For several years now, superannuation funds have provided their members with a choice of funds, including the option of a responsible investment super fund. These options generally then invest in one of the managed responsible investment portfolios and are counted in the total for that category.

Some superannuation funds have also adopted responsible investing as part of their mainstream investment process. For the purposes of this study, if that investment has gone into an established responsible investment fund, then it is ignored so as to avoid double counting. Where the investment has gone to an external source, such as an overseas responsible investment mandate, it is listed as a managed responsible investment portfolio under the heading of the superannuation fund itself.

Community Finance

This involves pooling deposits in order to make loans to disadvantaged individuals, not-for-profit organisations or loans to fund actions that help the environment or society.

For this study we surveyed organisations known to be dedicated to community finance activities. This includes Approved Deposit Institutions that predominantly accept deposits from and make loans to lower income groups and not-for-profit organisations. In this case we included the value of the total assets of those organisations.

In addition a number of microfinance based loan portfolios (small and medium sized loans made to disadvantaged groups) and other responsible lending activities were also included in this category. Another segment includes deposits in accounts designated to benefit some environmental or social purpose. In this case we included the value of assets in those portfolios.

BROAD RESPONSIBLE INVESTMENT

Broad responsible investment includes:

- The relevant assets under management of fund managers that have integrated environment, social and governance factors (ESG) into their mainstream investment process
- The assets of fund managers or institutional investors that have appointed a formal ESG corporate engagement specialist
- Shareholder activism – the value of shareholdings that have supported a shareholder resolution on an environmental or social issue.

This section excludes assets in responsible investment portfolios as these are already counted within their own category in Core Responsible Investment.

ESG Integration

The trend towards mainstream acceptance of ESG related investment factors is significant. The details of a range of initiatives that signify the extent of this trend are outlined in this study. They include the United Nations Principles for Responsible Investment, Carbon Disclosure Project, ESG Research Australia and the Investor Group on Climate Change. Each allows fund managers, institutional investors and service providers to become signatories to a program of improved corporate ESG performance. Details of each initiative are outlined under the section on Broad Responsible Investment on page 17.

That said, as ESG integration is in its formative years, most of these signatories are yet to reach the point where they have adapted their investment strategy to include this research in the stock selection and portfolio construction process. The ESG integration segment only counts the relevant assets under management of fund managers that have reached this stage of development based on the research and ratings of Mercer.

Corporate Engagement on ESG

Engagement specialists undertake ESG research which they then use as the basis for a two-way dialogue with companies to advocate improved governance of ESG risks. This service is then taken up by fund managers and institutional investors. The study counts as a responsible investment the total value of shareholdings in companies which are the subject of the engagement process. This equates to client holdings in the top 200 Australian Stock Exchange listed companies. There are also many individual instances of this form of engagement undertaken by a range of institutional investors. But due to the private nature of most engagement processes, it is not practical to include details in this survey about the level of asset ownership involved.

Shareholder Activism

Using regular media coverage of incidents of shareholder activism, we considered a range of shareholder complaints about corporate performance on environmental and social issues. We also sought advice from corporate governance specialists on the incidence of any shareholder activism. But again this year, all such shareholder actions fell into the category of corporate governance – none fit within the definition of shareholder activism used in this study; i.e. a shareholder resolution to advocate for better environmental or social risk management or outcomes.

CORE RESPONSIBLE INVESTMENT

While the components of core responsible investment have been quantified and discussed in prior year studies, this is the third year that they have been grouped into a segment of the responsible investment marketplace.

■ CORE RESPONSIBLE INVESTMENT IN 2010 \$M



	2009	2009R	2010	Change
Managed portfolios	13,997	14,019	15,406	10%
Community finance	980	1,157	1,331	15%
Green loans	76	- *	-	-
Ethical adviser portfolios	777	972	1,461	50%
TOTAL	15,830	16,148	18,198	13%

* The Green loans segment is no longer included in the survey due to its immateriality and data collection difficulties.

R Revised owing to inclusion of new data not collected in last year's study.

MANAGED RESPONSIBLE INVESTMENT PORTFOLIOS

Managed responsible investment portfolios grew by 10% during the 2010 financial year from \$14.02 billion to \$15.41 billion, an increase of \$1.39 billion. This is a reversal of the decline that commenced in the 2008 year of 7% followed by a further decline of 11% in 2009.

Factors affecting this turnaround include a recovery in investment markets, growing in institutional support for a handful of Australian and overseas funds and mandates and a moderate amount of funds raised by new portfolios. This is offset by an overall lack of growth for retail responsible investment funds and the removal of a number of small portfolios from the survey for reasons mainly concerned with data integrity and classification issues.

The 10% growth of managed responsible investment portfolios was again higher than that of the broader market with total

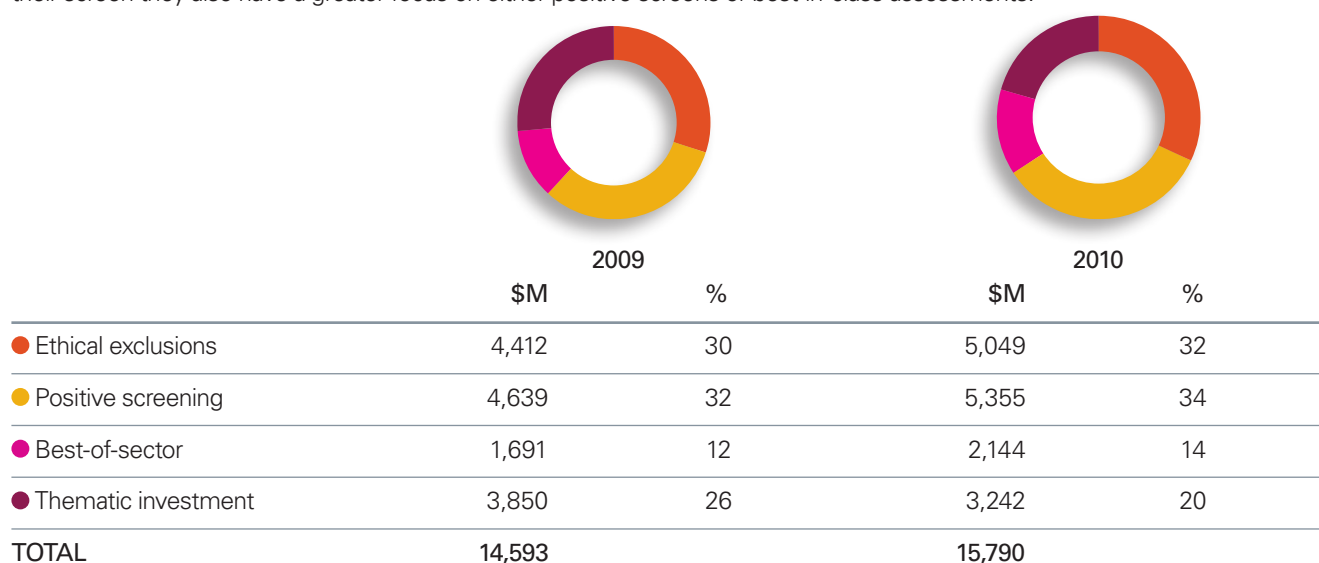
investment management of all types of managed portfolios increasing by 9% in that same period, according to Morningstar research.

Before subtracting double counting of \$384 million, the published value of all responsible investment portfolios was \$15.79 billion. Double counting is due to investment from retail funds (offered by a fund manager or a superannuation fund) which then invest in a wholesale fund or mandate of another.

■ RESPONSIBLE INVESTMENT PORTFOLIOS BY SCREENING APPROACH

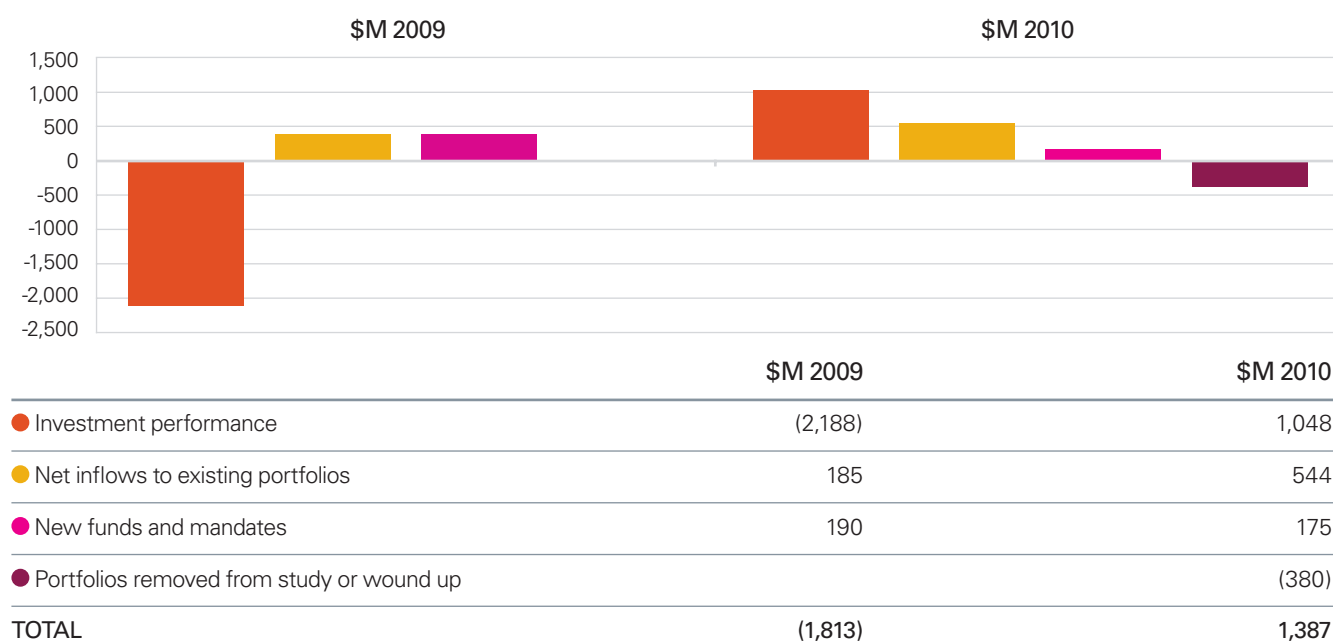
The table below demonstrates a reversal of a trend towards thematic investments (from 18% in 2007 to, 24% in 2008 and 26% in 2009, then back to 20% in 2010). This is mainly due to the fall in value of both property and energy infrastructure funds, offset partly by the advent of sustainable agriculture funds. Conversely, the relative size of the other three segments have all increased modestly suggesting that no one particular screening approach is gaining favour.

There are no recorded instances of norms-based investment screens in Australia. While some funds use the norms as part of their screen they also have a greater focus on either positive screens or best-in-class assessments.



■ RESPONSIBLE INVESTMENT PORTFOLIOS – COMPONENTS OF THE RECOVERY

This year shows a recovery after two years decline in responsible investment, re-establishing a long term growth trend since the benchmarking process began in 2001. The main factors contributing to the \$1.39 billion increase were:



Responsible Investment Funds New to the Survey

A small number of new funds were launched during the year, or included in the study for the first time.

- Maple-Brown Abbott Ethical Australian Shares Trust
- Australian Farms Sustainable Agriculture Fund
- Natural Capital Global Investment Fund
- JB Global Equity Plus Series – Sustainable Investment Option
- Alphinity Socially Responsible Share Fund (formerly Challenger)
- Dalton Nicol Reid Australia Equities SRI Portfolio

The \$380 million in portfolios removed from the study or wound up reflects nine funds that were either: reclassified as a mainstream fund; unable to be verified; or were wound up.

Responsible Investment Fund Managers

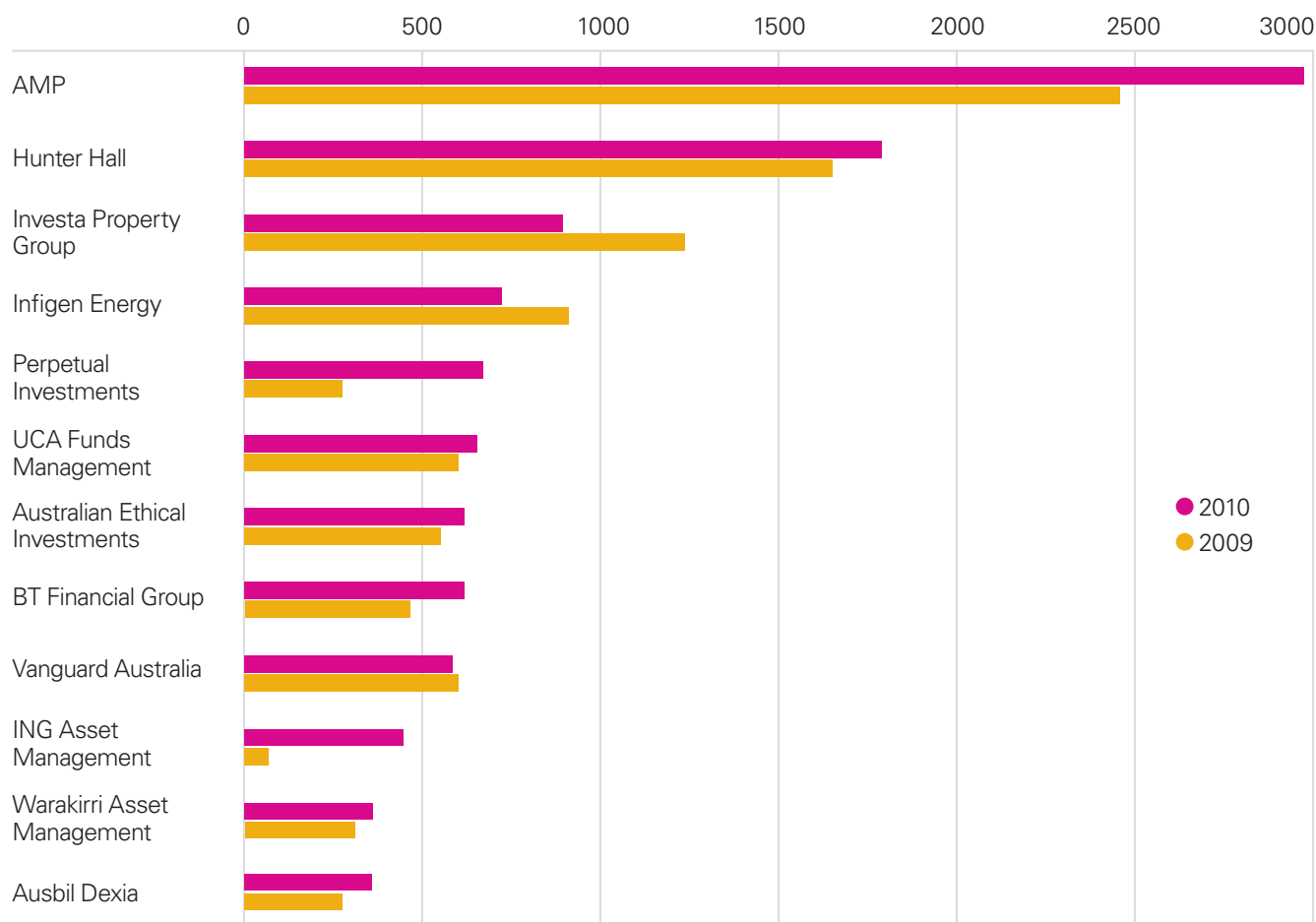
Fund managers with responsible investment funds under management as at June 2010 are listed as follows:

Manager \$M	2006	2007	2008	2009	2010
AMP	1,550	2,894	2,777	2,458	2,962
Hunter Hall	1,661	2,644	2,317	1,641	1,789
Investa Property Group	568	840	1,188	1,226	882
Infigen Energy	1,175	1,111	1,138	910	719
Perpetual Investments	130	310	330	285	672
UCA Funds Management	474	550	627	597	657
Australian Ethical Investments	424	617	536	556	614
BT Financial Group	284	444	433	455	608
Vanguard Australia	484	707	514	596	575
ING Asset Management	71	89	97	61	452
Warakirri Asset Management	375	406	354	303	367
Ausbil Dexia	236	537	389	275	362
Australian Farms Funds Management					145
Macquarie Investment Management	–	61	103	130	139
Myer Family Office	68	104	100	83	105
JB Global Investment Serviss				98	103
JM Asset Management				87	91
Cleantech Ventures			23	80	80
Smallco Investment Manager	66	220	90	57	70
Blackrock Investment Management		342	232	74	61
IOOF Perennial	40	62	64	53	59
Greencap			35	55	58
BNP Paribas (Impax)				1	50
CVC Sustainable Investments	36	38	26	20	38
Drapac			13	23	35
Credit Suisse Asset Management	–	113	86	49	34
Fat Prophets	30	35	28	29	29
ANZ Asprit	–	89	41	39	28
Alphinity Investment Management (formerly Challenger)	71	102	76	51	28
Maple-Brown Abbott					20
Perennial Value Management	57	79	46	39	18
Dalton Nicol Reid				15	18
Portfolio Partners	41	52	9	8	16

Viridis Clean Energy Group	111	200	95	67	16
Natural Capital					10
Next Financial – van Eyk	7	9	11	7	7
ArkX Investment Management			6	5	6
Bakers Investment Group				2	5

Note: Managers whose funds were closed or withdrawn and those who have requested confidentiality have been excluded from the table above.

■ LARGEST RESPONSIBLE INVESTMENT MANAGERS > \$300M IN 2010



■ SUPERANNUATION FUNDS AND RESPONSIBLE INVESTMENT

Superannuation funds are a significant investor in established funds as well as directing the establishment of new mandates. Superannuation funds continued to sign up to and adopt the UN PRI and other ESG integration initiatives. These are discussed in more detail from pages 17 to 20.

A list of superannuation with major investments in responsible investment portfolios follows:

Superannuation fund	\$M Responsible investment assets
Local Government Superannuation Scheme	1,772
VicSuper	1,287
Christian Super	483
HESTA	78

A number of funds with smaller amounts invested in their responsible investment option (under the member choice arrangements) are not listed, although those amounts are reflected in the managed funds that underlie those options.

Responsible Investment Portfolios – Market Share

According to Morningstar's latest Market Share Report, Total Investment Management (i.e. all types of mainstream managed investment portfolios) in Australia comprised \$926.8 billion in June 2010. Therefore, responsible investment portfolios in June 2010 of \$15.41 billion are 1.66% of this total, up slightly from 1.65% in 2009, 1.59% in 2008, 1.87% in 2007, 1.56% in 2006 and 1.15% in 2005. This indicates a moderating of several years of better relative growth for responsible investment, although it is still a very small segment.

Overseas Comparisons

Other parts of the globe that conduct similar studies of responsible investing include the USA, Canada and Europe. However this Australasian report is the first study of 2010 data to be published.

In recent years we have harmonised the methodology used in the study with similar studies overseas, particularly Canada and Europe. Even so, international comparisons between studies remain difficult because of differences in interpreting the methodology, the definitions of responsible investment and the level of investment disclosure.

That said, the sister responsible investment organisations around the world are currently working together toward a global responsible investment report for 2012.

USA

The biennial US Social Investment Forum Trends Report was released in November 2010, based on data to December 2009. The report found that 250 mutual funds with \$317.5 billion in total net assets from 60 different fund families incorporate some form of ESG criteria into investment management. The overall number of mutual funds incorporating ESG has increased 45 percent since 2007 while total assets managed using ESG criteria in these mutual funds have risen 85 percent since 2007. These figures include \$176.6 billion in assets underlying variable annuity portfolios, including funds and accounts managed by pension fund TIAA-CREF, which divested from companies with business operations in the Sudan.

A broader measure of responsible investment in the US study was a figure of \$3.07 trillion held by individuals, institutions, investment companies or money managers that use one or more of the three strategies that define socially responsible investing: incorporation of environmental, social and governance (ESG) issues into investment management; shareholder advocacy on ESG issues; and community investing. Therefore, nearly one out of every eight dollars under professional management in the United States is invested in ways that use at least one of these socially responsible investing (SRI) strategies. This represents more than 12 percent of all investment assets under professional management in the US, or \$3.07 trillion out of \$25.2 trillion.

CANADA

The next SRI Report for the biennial Canadian Social Investment Organization will be released in February 2011. Their most recent study based on data to June 2008 calculated that Canada's core responsible investments declined, from an estimated \$57.39 billion in 2006 to \$54.17 billion in 2008, a fall of 6%. The decline was most pronounced among asset managers with institutional clients. This was partially offset by an increase in retail SRI funds, particularly due to growth in renewable energy income trusts.

In contrast broad responsible investments (which include sustainable venture capital) grew from \$446.2 billion in 2006 to \$555 billion in 2008. The growth reflects a small increase in the number of pension plans and endowments with responsible investment policies, as well as asset growth by pension funds with existing responsible investment policies. This growth was partially offset by a decline in asset managers with institutional mandates using ESG integration strategies. Sustainable venture capital, while representing a relatively small part of total responsible investment assets, continued to enjoy substantial growth between 2006 and 2008. Combined, these components represent 19.9% of the Canadian managed investments market.

EUROPE

The biennial European Sustainable Investment Forum (Eurosif) Market Report was released in October 2010, based on data to December 2009.

This study presents a figure of EUR 1.2 trillion for core responsible investment and EUR 3.8 trillion for broad responsible investment. For the 2010 survey, Eurosif has included **all norms-based screening strategies** within the Core SRI segment, whereas it was previously counted in Broad SRI. In order to calculate market share, the study states that the European Fund and Asset Management Association (EFAMA) estimated the European asset management industry at EUR 10.7 trillion assets under management for both investment funds and discretionary mandates by the end of 2008. Estimating an average growth rate of 8.4% between 2008 and 2009, the study calculates that the total core responsible investment assets represent about

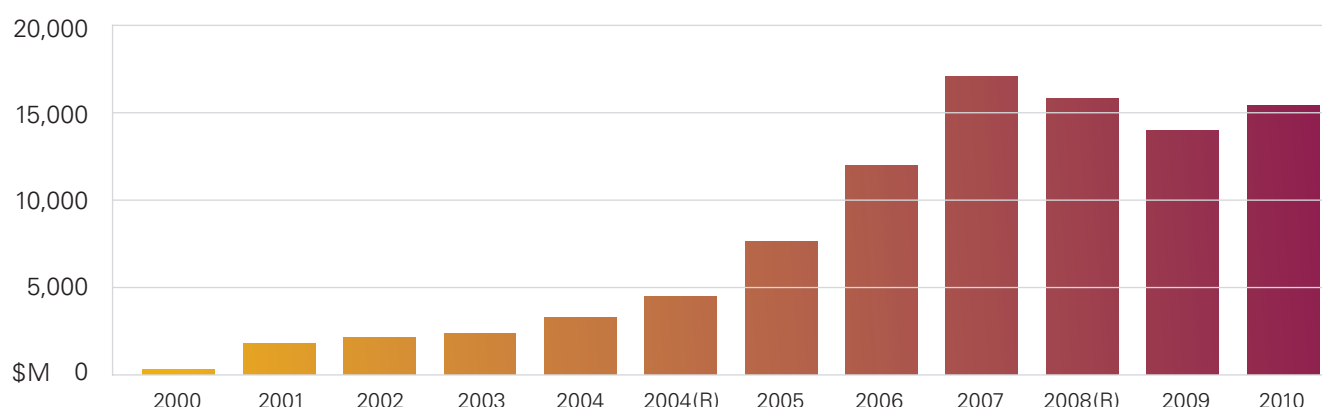
10% of the asset management industry in Europe. On a like-for-like basis with the 2008 Eurosif study (prior to the transfer of the norms-based strategies to Core SRI), the growth of core RI between 2007 and 2009 is estimated at 20.7% and the growth of broad RI for this same period is estimated at 119%. This remarkable number for broad RI is largely due to the uptake of ESG integration amongst French institutional and retail investors.

■ RESPONSIBLE INVESTMENT MANAGED PORTFOLIOS – LONG-TERM GROWTH

Year	\$M	% Market Share	% Change Year	% Change Cumulative	% Change of Total Investment Management (all managed investments)
2000	325				
2001	1,818		459	459	
2002	2,175		20	569	
2003	2,355		8	625	
2004	3,315		41	920	
2004(R)	4,500	0.7	91	1,285	
2005	7,670	1.15	70	2,260	9.2
2006	11,985	1.54	56	3,587	15.5
2007	17,102	1.87	43	5,162	20
2008(R)	15,810	1.59(R)	-7	4,865	-8.7
2009	13,997	1.64	-11	4,307	-14
2010	15,406	1.66	10	4,640	9

(R) = Restated in the following study

■ LONG-TERM GROWTH TRENDS IN RESPONSIBLE INVESTMENT MANAGED PORTFOLIOS



This table shows that despite the contraction in responsible investments in 2008 and 2009, the sector has sustained a steady resurgence in growth since 2007 relative to mainstream managed investments.

Investment Performance

Analysis on the following page of the performance to June 2010 of publicly offered responsible investment managed portfolios included in this study has found that the average responsible investor in Australia is getting better returns for all periods of one, through three, five and seven years in two of the three major investment categories.

The average return is based on asset-weighted return contributed by each responsible investment fund within its category. Mainstream indices are calculated by Morningstar using similar methodology.

In 2009-10 Australian and Overseas share funds staged a partial recovery from losses suffered from the worldwide financial crisis. Responsible investment funds participated in this recovery more strongly than both mainstream funds and the benchmark. While losses over the three-year period of the financial crisis remain, on a relative basis the average responsible investment Australian share fund outperformed the benchmark S&P/ASX 300 Index, while the average mainstream fund

underperformed the benchmark. Over periods of three years or more, the average responsible investment fund again outperformed the average mainstream fund as well as the benchmark.

The table below also shows the results of another survey of median responsible investment fund performance conducted by AMP Capital. This survey was carried out on Australian shares-based responsible investment funds before fees are taken into account. While its returns differ due to a slight difference in methodology it also shows the same pattern of outperformance.

Overseas responsible investment funds did even better. While this category has also suffered losses over the last three years, it shows vast outperformance over both the average mainstream fund and the benchmark for this category and over all the time periods measured.

A smaller sample of balanced funds showed outperformance over the average balanced mainstream fund over periods of five and seven years, while underperforming over periods of one and three years.

■ RESPONSIBLE INVESTMENT VS MAINSTREAM SHARE FUNDS

		1 year	3 years	5 years	7 years
Australian Share Funds	Average Resp. Invest. Fund (28)	15.09	-7.50	5.14	9.95
	Average Mainstream Fund	11.56	-8.05	3.70	8.75
	S&P/ASX 300 Acc'm	13.05	-8.05	4.49	9.70
	AMP SRI Median (10) (before fees)	13.60	-7.02	5.64	N/A
Overseas Share Funds	Average Resp. Invest. Fund (14)	11.41	-9.36	2.77	7.97
	Average Mainstream Fund	6.76	-12.33	-2.52	0.63
	MSCI World ex Australia Index \$A	5.50	-11.30	-2.00	1.20
Balanced Growth Funds	Average Resp. Invest. Fund (6)	8.45	-4.37	3.63	6.67
	Average Mainstream Fund	9.83	-3.23	2.63	5.08

Returns to June 2010 (net of management fees) % pa. Number of funds in each responsible investment category is shown in brackets.

COMMUNITY FINANCE

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

11 community finance providers had total assets of \$1,331 million an increase of 15% on last year's adjusted figure of \$1,157 million. These are:

■ COMMUNITY FINANCE PROVIDERS

- Bendigo Bank Community Sector Banking
- Bendigo Ethical Investment Deposit Account
- Bendigo Oxfam Aust Cash Management Account
- Fitzroy and Carlton Credit Co-op
- Foresters ANA
- Macauley Credit Co-op
- Maleny Credit Union
- mecu Community Sector Banking
- mecu Social Loans
- Muslim Community Co-operative (Australia)
- NAB Step up Loan & Concession Card Account + Mobile Finance

Allowing for the fact that assets invested in this segment have not suffered from the fall in values linked to the decline in sharemarkets, community finance has maintained a healthy growth rate. Growth in 2009 was 14% after 2008 at 27% and 34% in 2007. This demonstrates the efforts of a handful of organisations to build further community finance and micro-credit infrastructure in Australia.

FINANCIAL ADVISER RESPONSIBLE INVESTMENT PORTFOLIOS

Figures for this segment were gathered by surveying financial advisers with a declared interest in advice on responsible investment. Of that group, 23 firms responded that they advise on direct responsible investment portfolios which total \$1,461 million. This is up 50% from the adjusted 2009 figure of \$972 million.

This equates to about three times the level of increase in the Australian sharemarket in that period, suggesting there has been strong growth in the amount of assets invested in this manner. This compares favourably with a decline of 21% in 2009 and 3% in 2008 during the financial crisis; after strong growth of 46% in 2007 and 42% in 2006.

The longer term trend of strong (albeit volatile) growth in this segment indicates that screened direct share portfolios are becoming a more favoured means for financial advisers to meeting responsible investor needs. This is consistent with a broader trend away from managed funds and towards direct equity portfolios in the mainstream finance sector. The trend is most evident within private client businesses that are part of larger financial institutions and banks.

This segment also suffers from under-reporting as advisers that are known to provide this type of service are sometimes unwilling to share what they regard as commercially sensitive information.

BROAD RESPONSIBLE INVESTMENT

This is the fourth year that the broader aspects of responsible investment have been identified as a distinct segment within the study.

■ BROAD RESPONSIBLE INVESTMENT IN 2010

	\$ billion 2009	\$ billion 2010	Change
ESG integration	38.2	47.6	25%
Corporate engagement	40.5	52.5	30%
Shareholder activism	0	0	
Estimated double-counting *	(18.8)	(25.3)	
TOTAL	59.9	74.8	25%

* This is Corporate Monitor's estimate of the degree of overlap between the assets that are common to ESG integration on the one hand with corporate engagement and responsible investment managed portfolios on the other.

ESG INTEGRATION

The trend for fund managers to incorporate environment, social and governance (ESG) factors into their investment process has seen continued uptake with a significant rise in the number of new Australian signatories to the United Nations Principles for Responsible Investment (UN PRI). The UN PRI was launched in April 2006 to signify a commitment from investment institutions to develop their application of ESG factors across their investment portfolios (not just specialist responsible investment products).

Australian signatories to the UN PRI rose 29% in the year to August 2010 from 87 in 2009 to 112. This compares to 65 in 2008, 36 in 2007 and 8 in 2006.

Australian signatories at August 2010 are as follows:



■ ASSET OWNER SIGNATORIES

ARIA	Catholic Superannuation Fund
Australian Capital Territory	CBUS Superannuation Fund
Australian Catholic Superannuation and Retirement Fund	Christian Super
Australian Government Employees Superannuation Trust (AGEST)	CommInsure
AustralianSuper	Energy Industries Superannuation Scheme (EISS)
CARE Super	ESSSuper
	First State Superannuation Scheme

Goldman Sachs JBWere Superannuation Fund

Health Super

HESTA Super Fund

HOSTPLUS

IAG & NRMA Superannuation

Insurance Australia Group (IAG)

Local Government Super (LGS)

Local Super

LUCRF Super

Media Super

NGS Super

Statewide Super

Tasplan

Telstra Super

TWUSUPER

UniSuper Management

Uniting Financial Services

VicSuper

Victorian Funds Management Corporation

Vision Super

■ INVESTMENT MANAGER SIGNATORIES

AAG Investment Management

Agricultural Management Company

Alleron Investment Management

AMP Capital Investors

Anacacia Capital

ArkX

ATI Asset Management

Atom Funds Management

Australian Ethical Investment

Aviva Investors Australia

Bakers Alternative Energy

Bennelong Funds Management

BT Financial Group

Celeste Funds Management

Challenger Managed Investments

CHAMP Private Equity

Charter Hall Group

Colonial First State Global Asset Management (including First State Investments)

Dalton Nicol Reid

DEXUS Property Group

Drapac

EG Funds Management

Eureka Funds Management

Five Oceans Asset Management

Global Value Investors Limited (GVI)

Goldman Sachs JBWere Asset Management (Australia)

Greencape Capital

Hastings Fund Management

Herschel Asset Management

Hunter Hall Investment Management

Hyperion Asset Management

Industry Funds Management

Integrity Investment Management

Investa Property Group

Investors Mutual Limited (IML)

Ironbridge Capital

ISPT Super Property

JF Capital Partners

Kinetic

Legg Mason Asset Management Australia

Lend Lease Investment Management

Maple-Brown Abbott

mecu

Members Equity Group

New Forests

Northward Capital

Perennial Investment Partners

Perpetual Investments

QIC

RARE Infrastructure

Regal Funds Management

Resolution Capital

Selector Funds Management

Solaris Investment Management

Stockland

The GPT Group

Treasury Asia Asset Management (TAAM)

Tyndall Equities Australia

UCA Funds Management

Zurich Financial Services Australia

■ PROFESSIONAL SERVICE PARTNERS

Australian Council of Super Investors (ACSI)

Australian Institute of Superannuation Trustees

Blue Sky Water Partners

CJC Global

Clean Technology AustralAsia

Corporate Analysis. Enhanced Responsibility (CAER)

Dowse CSP	RiskMetrics
Frontier Investment Consulting	Seacliff Consulting
Glass Lewis & Co., LLC	SIRIS
Green Invest	St Davids Rd Advisory
Mercer	Taylor McKellar
Regnan Governance Research and Engagement	The Climate Institute
Reputex	Thrive Sustainability Services
Responsible Investment Consulting	Value Adviser Associates

Australian signatories now represent 14% of the 808 signatories globally, down slightly from 15% in August 2009.

The global funds under management or advice of the 112 Australian signatories is approximately US\$591 billion. This accounts for approximately 3% of the US\$20 trillion in total assets managed or advised by all signatories globally.

Within this the Australian funds under management for the asset manager component of UN PRI signatories is US\$412 billion. Allowing for timing differences in the above data and the fact the UN PRI data includes assets managed overseas, it is reasonable to state that approximately half of the funds under management of Australian asset managers now falls under a UN PRI commitment to ESG integration.

These statistics clearly demonstrate that Australia has continued to show strong support for this initiative.

This is the second year that Mercer provided data showing the amount and percentage of funds under management that have achieved above-average ESG ratings in Australia and New Zealand. Since 2008, Mercer's manager research process has expanded to include evaluation of the extent to which traditional fund managers in all asset classes and regions behave as active owners and integrate ESG factors into their investment decision making process at the strategy level and regardless of whether they are signatories of the UN PRI. In addition to the traditional investment rating, each strategy receives an ESG rating. According to the data in Mercer's proprietary Global Investment Manager Database (GIMD), investment strategies in Australia that have achieved an above average ESG rating account for 20% of total rated strategies. This percentage was calculated using the number of strategies rather than assets under management (AUM). Of the 20% of all strategies that achieved above average ESG ratings, around 68% were managed by UN PRI signatories. Mercer also states that the total Australian funds under management of good ESG rated strategies by the end of June 2010 is \$46 billion across all asset classes, although only 62% of the number of good ESG rated strategies has answered the AUM aspect of Mercer's survey.

This figure of rated strategies has been included in the ESG integration figure shown in the Broad Responsible Investments table on page 17 together with the assets of community finance institutions that are known to have adopted a high degree of ESG integration – to make a total for ESG Integration of \$47.6 billion.

OTHER ESG INTEGRATION INITIATIVES

Carbon Disclosure Project

Another indication of the level of fund manager interest in ESG issues is provided by the Carbon Disclosure Project (CDP). This represents a process whereby institutional investors collectively sign a single global request for disclosure of information on the management of greenhouse gas emissions by the world's largest listed companies. On their behalf CDP seeks information on those companies' business risks and opportunities presented by their climate change and greenhouse gas emissions data. The 2010 project for Australia and New Zealand sent this information request to companies in the S&P/ASX 200 Index on behalf of 534 global investors with assets under management of more than US\$64 trillion.

Within Australia the Carbon Disclosure Project is administered by the Investor Group on Climate Change (see over page).

CDP Australia and New Zealand 2010 reported that 72% of the ASX 100 companies answered the CDP questionnaire, a decrease of 1%, after a 1% increase in 2009 and a jump of 26% in 2008. Within this there was a decline in responses from smaller companies and New Zealand companies. The global average response rate was 61% in 2008 and 55% in 2009.

This suggests that even though Australian companies are smaller relative to those that are included in global index benchmarks, their 72% participation rate in carbon disclosure is at a higher level than the global average.

ESG Research Australia

Last year a new local group was formed to promote the advancement of ESG research. ESG Research Australia (ESGRA) has the objective of increasing the amount and quality of sell-side research in Australia that includes consideration of ESG issues. In 2010 ESGRA has grown to 46 members (an increase of 6 members) with assets under management of \$492 billion.

Investor Group on Climate Change

Another collaboration of investment managers in this field is a local initiative called the Investor Group on Climate Change Australia/ New Zealand. Its stated purpose is to ensure that the risks and opportunities associated with climate change are incorporated into investment decisions. According to the IGCC its 54 members speak for over \$600 billion in funds under management, an increase of 20% in dollar terms from 40 members with \$500 billion reported in 2009.

INVESTOR GROUP ON CLIMATE CHANGE AUSTRALIAN MEMBERS



AIST	Generation Investment Management
AMP Capital Investors	Goldman Sachs
ARIA	Guardians of New Zealand Superannuation
Arkx Investment Management	The GPT Group
Australian Catholic Superannuation & Retirement Fund	Herbert Geer
Australian Ethical	HESTA Super Fund
AustralianSuper	Industry Funds Management
The Australian Private Equity and Venture Capital Association	Local Government Super
Aviva	LUCRF Super
Baker&McKenzie	Mercer
BlackRock Investment Management (Australia)	Merrill Lynch
BT Investment Management	Mirvac
Catholic Super	Non-Government Schools Superannuation Fund
Cbus	Perenia
Celeste Funds Management	Perpetual
Citi Investment Research	REI Super
Cleantech Ventures	Responsible Investment Association Australasia (RIAA)
Colonial First State Global Asset Management	Russell Investments
CVC Sustainable Investments	SAS Trustee Corporation (State Super)
Deutsche Bank Equity Research	Starfish Ventures
DEXUS Property Group	Statewide
Emergency Services and State Super	Stockland
Eureka Funds Management	Transcap Investments
Financial Services Institute of Australasia	UniSuper
Five Oceans Asset Management	Victoria Funds Management Corporation
Franklin Templeton Investments Australia	VicSuper
Frontier Investment Consulting	Vision Super

CORPORATE ENGAGEMENT

In Australia there are two specialist engagement organisations, Regnan and the Responsible Engagement Overlay offered by F & C Management, who provide corporate engagement services on behalf of superannuation funds and institutional investors with total shareholdings of \$52.4 billion. This is up 30%, reversing a fall of 21% in 2009. This increase is about twice the amount of appreciation in share values, suggesting that the growth in investor savings supporting corporate engagement services has returned.

SHAREHOLDER ACTIVISM

For the last five years, and again in 2010, there have been no specific shareholder resolutions that related to an issue of environmental or social responsibility – marking another year devoid of shareholder resolutions of this type. Shareholder resolutions on these issues in Australia appear to have a lower priority to the practice of corporate engagement or public media debate. This will change in the coming year as the new Australian Ethical Climate Advocacy Fund mounts resolutions starting in the 2010 Annual General Meeting season with a view to garnering support from other responsible investors looking to improve corporate performance on climate change issues. While there were no relevant resolutions, there are regular shareholder engagements based on ESG issues which result in changes that are subsequently announced and covered in media reports. The best example this year were the changes in the management, governance and business practices at Gunns Ltd (ASX: GNS) after a long campaign of activism followed by institutional shareholder engagement.

This five-year pause in formal environmental and social shareholder resolutions contrasts with continuing developments in institutional shareholder advocacy on pure corporate governance issues such as director and executive remuneration, board composition or failure to properly inform the market of material events. This takes the form of organised institutional opposition to standard resolutions on board appointments and the remuneration report or class actions on behalf of an aggrieved group of shareholders.

This has been facilitated by improved regulations and best practice guidelines on good governance as well as a requirement to present shareholders with a remuneration report which is subject to a non-binding vote at each company's Annual General Meeting.

There has also been a trend for institutional investors to seek professional advice on governance matters. Two local service providers with international affiliations dominate this area: CGI Glass Lewis and RiskMetrics, now owned by MSCI. The Australian Council of Superannuation Investors has also been active in a coordinating role on behalf of its major superannuation fund members.

Some responsible investment fund managers, like AMP Capital Investors, Australian Ethical, BT Financial Group, Colonial First State Global Asset Management and Hunter Hall, provide a public report on their active ownership practices.

This benign environment for shareholder activism by AGM resolution stands in contrast to the US. The US Social Investment Forum states in their 2010 Trends Report that environmental and social resolutions raised in the year to 15 August 2010 were 360, a drop from 368 in 2009 and 401 in 2008. However, the "for" vote for such resolutions has risen from 14.1% in 2008 to 19.6% in 2010 (as reported by Si2, RMG, ISS and IRRC).

ESG INDICES

For the second time in this year's study we present a list of the growing number of indices based on ESG criteria and analysis. Some of these indices are available for investment while others are used to demonstrate the performance of companies based on sustainability criteria.

■ LIST OF AUSTRALIAN ESG INDICES

ACT Australian Cleantech	Lists approximately 80 ASX listed cleantech companies. Sub Indices for: solar, wind, biofuels, waste, efficiency/storage and geothermal segments.
ALTEXAustralia	Run by Bakers Investment Group this index series comprises 90 companies within the ASX300 with involvement in alternative energy and with a market capitalisation in excess of A\$47.4 billion. Includes: Altex Red – low emission utilities, Altex Green – renewable energy, Altex Blue – natural gas, Altex Yellow – uranium, Altex Black – environmental technologies.
AuSSI	AuSSI is undertaken by Sustainable Asset Management (SAM) and includes Australia's leading companies from every sector based on economic, environmental and social criteria. The index comprises the top 40 percent in terms of sustainability from a starting universe of 193 listed Australian companies.

St James Ethics Centre Corporate Responsibility Index (CRI)	The Corporate Responsibility Index is a strategic management tool to enhance the capacity of businesses to develop, measure and communicate best practice in the field of corporate social responsibility.
Ethinvest Environmental	The non-weighted index is formed based on approximately 30 ASX listed companies selected on the basis of their environmental performance. Most of the listed companies are small and mid caps, only a few companies have a higher market value. The index was founded by financial advisory firm Ethinvest and is maintained by publisher Ethical Investor.
FTSE4Good Australia 30	The index is derived from the FTSE4Good Global Index. To be included in the index, companies need to demonstrate they are working towards having good environmental management practices, climate change mitigation, countering bribery, upholding human and labour rights and having sound supply chain labour standards.
FTSE Shariah Australia	Index of the largest and most liquid companies that are compliant with Shariah principles. Shariah is the Divine Islamic Law which governs the practical aspect of a Muslim's daily life. Typical exclusions are: conventional finance, high debt ratios, alcohol, pornography, pork and non-halal food production, entertainment, tobacco and weapons.
Goldman Sachs JBWere Climate Leadership	Identifies companies whose Carbon Disclosure Project responses most adequately demonstrate to investors that the company has assessed and understands the risks and opportunities associated with climate change, and has in place effective governance, strategies and programs to manage such risks and opportunities.
Reputex Climate Change Opportunity	Anticipates the impact on earnings of climate change risk and identifies the best performing companies in a climate change economy.
RepuTex Environment Opportunity	Includes companies that are exposed to environmental risk, and positioned to mitigate and adapt to these constraints.
Reputex Future Energy	Series comprises 7 indices including: Future Energy 100 Index, Alternative Energy Index, Alternative Energy (Upstream Supply) Index, Alternative Energy (Asia) Index, Solar Index, Nuclear Index and Water Index.
Reputex Governance Leaders	Provides investors with exposure to companies which display positive corporate governance credentials.
Reputex Sustainability 120 Index	Provides investors with exposure to 120 companies which demonstrate effective mitigation of emerging risks, such as corporate governance, environmental, social and workplace risk.

There is also a growing range of global sustainability indices available to Australian investors and for which Australian companies may be eligible to qualify.

ESG RESEARCH

Now in its third year, we continue to gather information on the level of formalised sector-wide investment research being undertaken on responsible investment and ESG integration over the last year. The sources of these studies vary from academia, sustainability research specialists, sell-side analysts and industry sponsored collaborative research projects. Please note that this is not an exhaustive list of all ESG research produced in Australia. However there is a year on year trend of an increased number of ESG research related reports, with a total of 51 collated this year.

■ ESG RESEARCH STUDIES IN AUSTRALIA 2010

Employer/Sponsor	Principal Author(s)	Date	Research Paper
AMP Capital Investors	Angus Dennis	Jul 2010	<i>New and emerging clean technology funds</i>
Citi Investment Research	Elaine Prior	Jan 2010	<i>ASX-listed office trusts: Does “Green” pay?</i>
Citi Investment Research	Elaine Prior	Mar 2010	<i>ESG: ASX100 remuneration analysis</i>
Citi Investment Research	Elaine Prior	May 2010	<i>Australia’s ageing population</i>
Climate Risk	Karl Mallon, Donovan Burton, Maria Mackiewicz-Turner	Jul 2009	<i>Synthesis report: Climate change and infrastructure expert summit</i>
Deutsche Bank	Tim King, Tim Jordan	Oct 2009	<i>Australian Carbon Pollution Reduction Scheme: Decarbonising the CPRS</i>
Deutsche Bank	Tim King, Tim Jordan	Nov 2009	<i>Australian Carbon Pollution Reduction Scheme: Key changes to the CPRS</i>
Deutsche Bank	Tim King, Tim Jordan	Feb 2010	<i>Opposition climate policy: Australian climate policy uncertainty continues</i>
Deutsche Bank	Tim King, Tim Jordan	Feb 2010	<i>Renewable energy target: Major changes boost large-scale renewables</i>
Deutsche Bank	Tim King, Tim Jordan	Apr 2010	<i>Australian renewable energy: More detail on changes to renewables target</i>
Deutsche Bank	Tim King, Tim Jordan	Apr 2010	<i>Market alert: Government announces executive remuneration reforms</i>
Deutsche Bank	Tim King, Tim Jordan	Apr 2010	<i>Market alert: Australian government defers emissions trading until 2013</i>
Deutsche Bank	Tim King, Tim Jordan	Jun 2010	<i>Environmental, social & governance alert: Australian renewable energy legislation passes</i>
Deutsche Bank	Tim King, Tim Jordan	Jul 2010	<i>Australian climate policy: Government announces election climate policy</i>
Deutsche Bank	Tim King, Tim Jordan	Jul 2010	<i>West Australia employment: Resources sector faces tightening labour market</i>
Deutsche Bank	Tim King, Tim Jordan	Oct 2010	<i>The carbon column</i>
Goldman Sachs & Partners	Andrew Gray	Sep 2009	<i>Corporate Governance – Investing update</i>
Goldman Sachs & Partners	Andrew Gray	Oct 2009	<i>Carbon Disclosure Project 2009 – Significant climate change report</i>
Goldman Sachs & Partners	Andrew Gray	Nov 2009	<i>ESG – Carbon trading (Update)</i>
Goldman Sachs & Partners	Kynwynn Strong, Roy Gilmore	Nov 2009	<i>Utilities: Proposed CPRS deal – Sector implications</i>

Employer/Sponsor	Principal Author(s)	Date	Research Paper
Goldman Sachs & Partners	Andrew Gray	Mar 2010	<i>Corporate governance – Investing update</i>
Goldman Sachs & Partners	Andrew Gray	Oct 2010	<i>Carbon Disclosure Project 2010 – Significant climate change report</i>
Grattan Institute	John Daley, Tristan Edis	Apr 2010	<i>Restructuring the Australian economy to emit less carbon</i>
IGCC / PwC / Goldman Sachs	Nathan Fabian (IGCC), Andrew Gray (Goldman Sachs), Robert Clancy (Catholic Super), Liz Maimone (PwC), Barnard Carlon (DECCW NSW)	Oct 2010	<i>Carbon Disclosure Project (2010) – Report for Australia and New Zealand</i>
IGCC / CSIRO	Anthony Szatow	Mar 2010	<i>Distributed energy: The value proposition</i>
JP Morgan	Garry Sherriff	May 2010	<i>ESG: Reporting for duty A comparison of six ESG reporting initiatives</i>
JP Morgan	Garry Sherriff, Shaun Cousins, Shen Li	Jun 2010	<i>ESG and the retail sector Suicides at a supplier factory: Implications for Australian retailers</i>
JP Morgan	Garry Sherriff, Fraser Jamieson, Mark Busuttil, Joseph J Kim	Sep 2010	<i>ESG and the resources sector Social analysis: Safety, workforce, community</i>
JP Morgan	Garry Sherriff, Paul Huxford, Thomas Reif	Sep 2010	<i>ESG: Integrated thinking Introducing the ESG snapshot</i>
Macquarie Economics Research	Aimee Kaye, Ian Myles	Sep 2009	<i>ESG exploration: Carbon emissions</i>
Macquarie Economics Research	Aimee Kaye	Sep 2009	<i>Australian economics – Technology trends: Carbon capture and storage</i>
Macquarie Economics Research	Aimee Kaye, Ian Myles	Dec 2009	<i>ESG exploration: Human capital</i>
Macquarie Economics Research	Aimee Kaye, Ian Myles	Mar 2010	<i>ESG exploration: Water management</i>
Macquarie Economics Research	Aimee Kaye, Ian Myles	Apr 2010	<i>ESG – the insurance climate: Quantifying the impact of climate change on the insurance sector</i>
Macquarie Economics Research	Aimee Kaye, Gavin Maher, Shai Hill	Jun 2010	<i>ESG late renewal for renewables: Outlook for the Australian renewables sector</i>
Macquarie Economics Research	Aimee Kaye, Ian Myles	Jun 2010	<i>ESG exploration: Corporate Governance and balance sheet management</i>
Macquarie Economics Research	Aimee Kaye	Jul 2010	<i>ESG diversity disclosures</i>

Employer/Sponsor	Principal Author(s)	Date	Research Paper
Macquarie Economics Research	Aimee Kaye, Ian Myles	Sep 2010	<i>ESG exploration: Industrial relations</i>
Macquarie Economics Research	Aimee Kaye, Ian Myles	Sep 2010	<i>ESG carbon conundrum</i>
Macquarie Economics Research	Aimee Kaye	Oct 2010	<i>ESG reporting season #1 – Review of corporate reporting on ESG to date</i>
Mercer Australia	Helga Birgden, Dr Xinting Jia	Jan 2010	<i>ESG integration by mainstream Australian equity managers</i>
Regnan	Research Team	Oct 2010	<i>Board diversity and director independence</i>
RepuTex Carbon Analytics + Arbor	Research Team	Dec 2009	<i>Carbon risk – Seeing through the uncertainty</i>
SIRIS / Net Balance / ACCA UK	Stefanie Phelan, Reiko Yamada, Chris Bourke	Aug 2010	<i>Water disclosures in ASX50</i>
SIRIS	Stefanie Phelan, Matt Irons	Oct 2010	<i>Gunns Ltd: ESG risk & opportunity</i>
The Australian Institute Of Superannuation Trustees / The Climate Institute	The Australian Institute Of Superannuation Trustees / The Climate Institute	Mar 2010	<i>Climate change investment initiative: Asset owners disclosure project</i>
Trucost/VicSuper	Lauren Smart	Dec 2009	<i>Carbon Count 2009 – The importance of disclosing carbon emissions for Australian business</i>

RIAA CLEANTECH INVESTMENT BENCHMARK REPORT 2010

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PART 1 – KEY ASPECTS

Executive Summary

The RIAA Cleantech Investment Benchmark Report is the second such report of its kind published by RIAA and provides a developing set of data from which to examine investment trends in the Cleantech industry in future years.

As worldwide efforts to address environmental problems such as global warming, air pollution, water and energy security and increased energy use are on the rise, an industry based on innovative clean technologies has emerged and captured the attention of the investment community.

There are three essential components that define Cleantech investment:

1. It is an investment in an activity geared to produce a commercial return.
2. That investment must support a degree of innovation or technology applied to the production process.
3. It must be directed at improving the environment.

The objective of this survey is to map the main publicly available dimensions of the Cleantech investment sector in Australia. In turn this process shows how the sector in Australia is funded and where investment activity is focussed.

It was decided that largely independent and publicly available sources would be used for data collection, rather than to use a questionnaire to survey individual companies. The data series spanned July 2009 to June 2010.

The main component is 78 ASX listed companies with a business model that is dedicated to the Cleantech sector. In total they had a market capitalisation of \$9.24 billion and they have raised approximately 20% of their value (\$2.04 billion) by way of new capital in calendar year 2009.

In total market share terms they comprise 3.6% of all companies listed on the ASX but only 0.6% of the total stockmarket capitalisation. However they accounted for approximately 2.5% of all stock exchange capital raising.

Waste, wind, water, biogas and geothermal companies dominate this list.

Of the 78 companies, 11 are constituents of the S&P/ASX 300 Index. These 11 companies account for 83% of the market capitalisation of the segment. A further four are included in the broader 500 strong All Ordinaries Index. While only 17% (\$1.58 billion) of the market capitalisation of this segment falls outside of the All Ordinaries Index, this also represents the majority of constituents – 63 of the 78 companies (81%). So in number terms, the Cleantech sector is dominated by microcaps whereas in

in market capitalisation terms it is dominated by the largest 10 companies.

Apart from direct investment, other sources of grant funding for Cleantech were examined.

Cleantech businesses attracted a total of 335 government grants \$172.8 million, an increase of 103% in dollars terms since 2009. The pool of government funds set aside to fund investment and takeup of Cleantech also increased markedly, up 147% to \$3.6 billion.

Likewise, funding for university research into clean technologies increased markedly, comprising 71 grants totalling \$8.6 million with similar amounts committed for a further two years. Grants for Cleantech research in 2010 represented 8% of Australian Research Council grants, up from 5% in 2009. While this funding is not significant in dollar terms, the number of grants demonstrates a growing environment for new research and early stage commercialisation.

The survey also reviewed the data on Cleantech's investment performance as measured by local and overseas stockmarket indices. These generally show that Cleantech company shareholders have suffered significant losses as a result of the Global Financial Crisis. And on a relative basis, they have underperformed mainstream benchmarks over this period.

The range of investment options for Cleantech investing is regarded as part of the broader category of responsible investments and, as such, their assets under management and performance are included in the main section of this report. This section of the report lists 15 managed portfolios which are either dedicated to or significantly invested in Cleantech companies. The total net assets of these 15 funds was \$1.20 billion, a fall of 12% from 2009.

PART II – SCOPE

What is Cleantech Investment?

There are three essential components to Cleantech:

1. It is an investment in an activity geared to produce a commercial return.
2. That investment must support a degree of innovation or technology applied to the production process.
3. It must be directed at improving the environment.

A simple table of what is, or is not, Cleantech follows:

Cleantech Investments?

Activity	Company
■ YES	
Renewable energy generation	Geodynamics
Engine efficiency	Orbital Corp
Alternative fuels manufacture	Natural Fuels
New waste technology	GRD
Carbon Sinks	CO2 Group
Biogas generation	Energy Developments
Dedicated scrap recycler	Sims Metal
■ NO	
Gas-fired generation	AGL
Coal seam gas recovery	Metgasco
Engine parts	Repco
Petrol refining to new standards	Caltex
Waste transfer	Brambles
Broad scale agribusiness & milling	Gunns
Use of recycled materials	Smorgan Steel
Diversified energy utility	Origin Energy
Carbon Capture and Storage	Coal miners

A number of judgements were made in order to make the distinctions outlined above. It is emphasised that this categorisation process is not based on ethical criteria. Nor is it to delineate what is, or is not environmentally acceptable. Rather it is to set up an understandable and credible framework under which Cleantech investing can be studied in more detail.

For example companies that are investing in improving the emissions profile of fossil fuel-based energy are not included in the definition of cleantech – such as gas-fired power, cleaner fuels and carbon capture and storage. This shows the definition favours investment in alternative energy sources in preference to transitional sources of energy.

A further distinction is made between a *dedicated* Cleantech business (or fund) on the one hand, and a business undertaking *partial* Cleantech investments on the other hand. A *dedicated* Cleantech business has its activities dominated by investments within the category. The *partial* category may have one or more projects that fall within the definition. This study focuses on dedicated Cleantech investments, however a description of various partial cleantech projects resulting from significant government funding incentives has been described in the section PART IV.

The various sub-categories of Cleantech activities used in this survey – such as Energy Generation and Energy Efficiency – follow the categorisation process used in North American studies. Again, their purpose is to indicate areas of focus or concentration.

Survey Objective

The objective of the survey is to map the main publicly available dimensions of the Cleantech investment sector in Australia. This will show how the sector is funded, where this level of investment activity is focussed and how it has developed since 2009.

Methodology

After examining how the survey process for benchmarking Cleantech operates in North America, it was decided to develop a distinctive process for the Australian market. There were two main reasons for this:

1. In the North American market Cleantech's capital accumulation process is dominated by the venture capital and private equity markets. But in Australia there is a greater tendency for these businesses, and the funds that support them, to have a stock exchange listing.
2. The process of measuring Cleantech investing is more established overseas and so companies are more able, and willing to provide relevant data.

Therefore, it was decided that largely independent and publicly available sources would be used for data collection, rather than to survey individual companies.

Within these constraints the survey established the following:

- Identify and categorise each public company dedicated to Cleantech
- Determine and describe their level of involvement
- Calculate the most recent market value of the business
- Calculate the level of investment into the business at June 2010
- Identify dedicated sources of committed funding that supported Cleantech companies in the year to June 2010
- Summarise the activities of social networks that are committed to developing the Cleantech sector.

The specific data sources used include the following:

- Announcements and registers from Australian stock exchanges
- Data provided by Australian CleanTech, a specialist consultant in this field
- Government websites that detail funding and grants for environmental or commercialisation purposes
- Australian Research Council website that details university grants.

PART III – AREAS OF INVESTMENT

Dedicated ASX Listed Companies

Using analysis provided by the ACT Australian Cleantech Index, there are 78 Australian Stock Exchange (ASX) listed companies with a business model that is substantively (though not always exclusively) dedicated to the Cleantech sector. In total those companies had a market capitalisation of \$9.24 billion which is a decline of 7% from 2009. Further, those companies have

raised approximately 20% of their value (\$2.04 billion) by way of new capital in calendar year 2009. New capital raising includes Initial Public Offers, share placements, rights issues, share offers and the exercise of options.

According to the ASX publication *market – vital statistics* as at June 2010, the domestic market capitalisation of the ASX was \$1.65 trillion comprising 2,192 companies. In the context of a growing listed company market, as seen below, Cleantech's very small share fell from 0.8% to 0.6% reflecting a difficult year in share price performance and new listings. This is partly offset by a relatively strong level of capital raising in the sector.

The market share statistics of the Cleantech segment are as follows:

ASX Listed Cleantech	Cleantech		Total ASX-listed Market		%	
	2009	2010	2009	2010	2009	2010
Number of companies	77	78	2,062	2,192	3.7	3.6
Market capitalisation (\$billion)	9.96	9.24	1,200	1,650	0.8	0.6
New equity (\$billion)	0.42	2.04*	88	77	0.5	2.5**

* New equity raisings for calendar year 2009.

** Estimate based on average capital raised in 2009 and 2010 financial years.

A table detailing each company follows:

SECTOR	COMPANY	ASX CODE	MARKET CAP. (\$M)
SOLAR	Dyesol	DYE	150.0
	Solco	SOO	15.0
	EnviroMission	EVM	7.1
	Quantum Energy	QTM	77.4
	Sylex Systems	SLX	684.2
	Advanced Energy Systems	AES	22.3
WIND	Viridis Clean Energy Group	VIR	9.2
	WHL Energy	WHN	5.6
	Infigen Energy	IFN	539.9
	Transfield Services Infrastructure Fund	TSI	270.1
BIOFUEL	Solverdi WordWide Limited	SWW	9.5
	Australian Renewable Fuels	ARW	6.9
	Agri Energy	AAE	5.0
	Mission NewEnergy	MBT	74.3
	Sterling Biofuels	SBI	1.8
	Genesis R&D	GEN	1.1
	Jatoil	JAT	2.4
WATER	Hydromet	HMC	13.6
	Hydrotech Int	HTI	1.9
	Phoslock Water Solutions	PHK	18.7
	Island Sky	ISK	4.4
	Crane Group	CRG	624.7
	CleanTeQ	CLQ	16.4
WASTE	CMA Corp	CMV	84.2
	Transpacific Industries	TPI	917.4

	Papyrus Australia	PPY	25.6
	Sims Metal Management Ltd	SGM	3413.0
	Tox Free Solutions	TOX	215.2
	AnaeCo	ANQ	30.2
	Dolomatrix	DMX	35.6
	Stericorp	STP	28.3
	Medivac Ltd	MDV	7.8
	Novarise Renewable Resources Ltd	NOE	95.8
	Intec Ltd	INL	3.2
	Electrometals	EMM	3.5
	Reclaim Ind	RCM	4.6
EFFICIENCY	Bluglass	BLG	22.1
	Pro-Pac Packaging	PPG	40.3
	Traffic Technologies	TTI	4.3
	Gale Pacific	GAP	44.8
	Cardia BioPlastics	CNN	11.1
	Nanosonics	NAN	121.9
	Lazco Ltd (Skydome Hldg)	LZC (SKY)	0.7
	Galaxy Resources	GXY	179.1
	Orocobre	ORE	154.8
	Eco Quest Ltd (SeNevens Int)	ECQ	7.5
	Eden Energy	EDE	10.3
	Ceramic Fuel Cells	CFU	136.6
	CBD Energy	CBD	41.1
WAVE	Carnegie Wave Energy	CWE	63.8
BIOGAS	Energy Developments	ENE	379.0
	Pacific Energy	PEA	43.0
	Willmott Forests	WFL	44.3
VEHICLES	Revetec	RVC	7.2
	Vmoto	VMT	69.2
	Advanced Engine Components	ACE	6.5
	Orbital Corp	OEC	12.0
GEO THERMAL	Geodynamics	GDY	93.0
	Petratherm	PTR	16.2
	Torrens Energy	TEY	5.4
	Green Rock	GRK	7.1
	Wasabi Energy	WAS	17.1
	Geothermal Resources	GHT	4.7
	Panax Geotherm	PAX	25.2
	KUTh Energy	KEN	3.3
	Greeneearth Energy	GER	6.8
	Hot Rock Ltd	HRL	6.5

CARBON	Carbon Conscious	CCF	3.6
	CO2 Group	COZ	34.9
ENVIRONMENT	Coffey Environments	COF	110.3
	Environmental Group	EGL	9.7
	Pacific Environment	PEH	11.8
	Greencap Ltd	GCG	20.2
	Aeris Tech	AEI	5.9
OTHER	Australian Ethical Investment	AEF	23.0
	BioProspect	BPO	8.4
	Soil Sub Technologies	SOI	3.7
	Green Invest	GNV	2.5

Source: ACT Australian Cleantech Index



Of the 78 companies, 11 are constituents of the S&P/ASX 300 Index. A further four are included in the broader 500 strong All Ordinaries Index. While only 17% (\$1.58 billion) of the market capitalisation of this segment falls outside of the All Ordinaries Index, this also represents the majority of constituents – 63 of the 78 companies (81%). So in this sense, the Cleantech sector is “microcap-land” and most of the companies involved would simply fall outside of the investible universe of the great majority of stockbroker analysts and institutional investors.

From the above the following observations are offered:

- Cleantech is a small sector of the stock market
- Companies dedicated to the sector are typically small early and mid-stage companies (notwithstanding that large diversified companies also make Cleantech investments)
- Over the period of the Global Financial Crisis the sector has been raising proportionately more capital than the broader market given its size (in market capitalisation terms).

Larger Diversified Companies

Further investment and deployment of clean technologies is typically the domain of the larger, more diversified energy utilities and waste management companies. Benchmarking the level of such investment falls outside the scope of the study. Therefore a sample of this activity is outlined below:

AGL Energy

The company estimates that based on current customer numbers, approximately \$7 billion will need to be invested to meet its mandated requirements under the RET scheme.

AGL has announced plans to construct the Macarthur Wind Farm project in joint venture with Meridian Energy. The 420 MW Macarthur Wind Farm in Victoria is expected to cost approximately \$1 billion and, on completion in 2013, will be the largest wind farm in the southern hemisphere.

During the year AGL completed the Bogong Power Station (140 MW), the biggest hydroelectricity development on mainland Australia in 25 years.

The construction of Hallett 2 Wind Farm (71.4 MW) was completed and it commenced construction of Hallett 4 (132 MW) in July 2009 and announced that it had committed to construction of Hallett 5 (52.5 MW).

Origin Energy

This company now has 519,000 green energy accounts, 396,000 GreenPower electricity customers and 123,000 green gas customers.

Wind: The Cullerin Range Wind Farm has commenced commercial operations and also exercised an option to acquire the Yass Valley Wind Farm project with a capacity of between 222 MW and 420 MW. The wind farm also completed the permitting for the 40 MW Lexton site in Victoria.

Geothermal: 30% interest in the Innamincka Joint Venture with Geodynamics Ltd which won \$90 million funding under the Renewable Energy Demonstration Program.

Origin and Geodynamics have also formed the Innamincka Shallows Joint Venture to evaluate the geothermal potential of the shallower Cooper and Eromanga basin section. Origin will contribute \$4.5 million of project expenditure.

Solar: Origin and Micron Technology of the United States have formed a 50:50 joint venture called Transform Solar with a focus on the development of photovoltaic energy. The first 20 MW production line is being developed in Micron's US production facilities.

PacificHydro

The company delivered the Portland Wind Energy Project Stage II (Cape Bridgewater Wind Farm) and Stage III (Cape Nelson South Wind Farm) and achieved the first generation at Clements Gap Wind Farm. Other achievements mainly relate to its assets in Chile and Brazil.

Hydro Tasmania

The sale of Roaring 40s' Asian assets recouped \$163 million in proceeds which have been committed to renewable energy projects in Australia with the wind farms at Waterloo in South Australia and Musselroe in Tasmania being the priority projects.

TRUenergy

TRUenergy has committed around \$1 billion to the development of low and zero emission energy generation technologies. Its flagship is TRUenergy Tallawarra, described as Australia's most efficient large-scale gas-fired power station developed at a cost of \$430 million with a capacity of 435 megawatts.

Acciona

This Spanish leader in Cleantech has been operating in Australia for six years, has invested more than \$630 million and has plans for renewable energy, water and infrastructure projects valued at more than \$2 billion for development over the next four years.

PART IV – OTHER SOURCES OF CLEANTECH FUNDING

Government Grants

Australian governments, both state and federal, are an important and growing contributor to the Cleantech sector. Funding sources include commercialisation grants and funding from established environmental programs. More recently dedicated environmental schemes that will provide grants to Cleantech related projects have emerged, though the scene has changed with policy direction from the Federal Labor government.

The study identified 335 Cleantech grants made in 2010 totalling \$172.8 million, an increase of 103% on the amount of grants in 2009.

We also identified four government funds totalling \$3.6 billion that are expected to support environmental technologies in future years. This is also a substantial increase on last year's forward commitment of \$1.46 billion, up 147%:

Government Schemes to Fund Cleantech

Fund or scheme	\$M Committed	Period
Climate Ready Program	75	2009-2013
Green Building Fund (Stream B)	90	2009-2014
Green Car Innovation Fund	1,300	2009-2019
Sustainability Fund Victoria 2009	4	2009-2010
Australian Carbon Trust	75	2010-2015
Australian Centre for Renewable Energy (ACRE) #	560	2010-2015
Solar Flagships Program Round 1	1,500	2010-2014

ACRE encompasses the following programs:

- Renewable Energy Demonstration Program
- ACRE solar projects
- Second Generation Biofuels Research and Development Program
- Geothermal Drilling Program
- Wind Energy Forecasting Capability Program
- Advanced Electricity Storage Technologies Program

Note that these programs support both the expansion of Cleantech on a significant scale as well as more conventional investment in Cleantech research and commercialisation.

Government funding has also been provided to support transitional energy technologies such as the Carbon Capture and Storage Institute. These have not been listed as they are not within the definition of Cleantech used in this study.

In addition recurrent funding is apparent from the following sources:

- Commercialising Emerging Technologies (COMET)
- Queensland Sustainable Energy Innovation Fund
- Victoria Smart Water Fund
- Retooling for Climate Change

This major increase in government support and forward commitments has also been accompanied by the introduction in June 2010 of the Renewable Energy Target (RET) scheme which mandates that 20% of Australia's electricity supply will come from renewable sources by 2020. This has since been revised to single out a Large Scale Renewable Energy Target (LRET) of 41,000 Gigawatt hours by 2020. AGL therefore estimates that over the next decade to 2020, the energy industry will need to invest between \$20 to \$30 billion in construction of new renewable generation assets.

These developments stand in contrast to the delayed introduction of legislation to place a price on greenhouse gas emissions, originally via the formerly proposed Carbon Pollution Reduction scheme.

While uncertainty about carbon pricing continues, private investment in Cleantech has been much tempered. However, government support for the sector in terms of funding and setting targets has improved and this augurs well for an escalation in local Cleantech investment should a carbon price be introduced in the next few years.

Funding for University Research and Commercialisation

A number of university based research centres are involved in developing clean technologies to the stage where they can be commercialised. The main avenue for this type of funding is the Australian Research Council (ARC) Discovery Grants.

The survey reviewed new grants approved in 2009 for commencement in 2010 that were relevant to the environment, waste and recycling. Each grant normally spans a three-year period. In total 71 grants were identified totalling \$8.6 million in funding, an increase of 59% in dollar terms on 2009. An additional \$8.1 million was committed for each of 2011 and 2012 – a total of \$24.8 million over three years. This means that ARC funding for Cleantech over a three year horizon has increased by \$10.4 million or 72% in the last round, when the three-year commitment was \$11.4 million.

In total the ARC approved 925 grants for funding. So Cleantech accounted for 8% of grants, up from 5% of grants in 2009.

Other grants approved by the ARC in 2009 also have an allocation of \$4.5 million for 2009 funding. So the total amount in ARC grant funding to Cleantech projects in 2010 is about \$13.1 million.

Overall, while University funding is not significant in comparative dollar terms, the number of relevant grants demonstrates that there is a healthy and growing level of cleantech related research being undertaken and supported in Australia.

PART V – INVESTMENT OPTIONS AND PERFORMANCE

INDICES

There is now a range of indices available in both Australia and overseas that track the investment performance of publicly listed Cleantech companies and making comparisons with mainstream performance benchmarks.

Details of the Australian indices are described in the ESG Indices section of the Benchmark report on page 21. Discussion of the performance of three of these Australian indices and one leading international index follows.

ACT Australian Cleantech Index

Over the year to June 2010, the ACT Australian CleanTech Index recorded a loss of 32.0%, lagging well behind the S&P ASX200 gain of 11.8% and the S&P ASX Small Ordinaries gain of 10.5%. Over a three year period the ACT Cleantech index also underperformed.

	FY2010 %	3 Yrs to June 2010 % (not annualised)
ACT Australian CleanTech Index	(32.0)	(65.0)
S&P/ASX Small Ords	11.8	(30.6)
S&P/ASX200	10.5	(42.5)

Ethinvest Environmental Share Price Index

Most of the constituents of this index are dedicated Cleantech companies. A few have partial Cleantech involvement and a few others are gas pipeline businesses.

The 29 constituents of the Ethinvest Environmental Share Price Index fell 8.6% in the year to June in contrast to gains in the broader sharemarket. In contrast this index has recorded a 13 year history of 13.0% p.a. since inception.

The Cleantech Index®

The Cleantech Index® is a global index of 77 companies with a market capitalisation of US\$326 billion at September 2010 regarded by The Cleantech Group as established leaders in the sector. The index commenced in 2006 and retail investors can track its performance using the PowerShares Cleantech Portfolio Exchange Traded Fund, which is traded on the New York Stock Exchange.

As with the stockmarket generally, the index staged a recovery after major falls over the prior two years, with performance of 2% in the year and a loss of 19% in the three years to June 2010.

Other established international Cleantech indices include Wilderhill Clean Energy Index, Ardour Global Alternative Energy Index, NASDAQ Clean Edge US Index and the FTSE Environmental Technology Index.

CLEANTECH FUNDS

Funds that invest in Cleantech companies are viewed as part of the responsible investment sector. Accordingly, the benchmark report includes pooled funds that are oriented towards Cleantech investing within the category of responsible investment managed portfolios. Hence their assets under management and performance form part of the benchmarks for responsible investment as a whole.

Funds which are either dedicated to Cleantech or which have a substantial component of investee companies in the sector are as follows:

Cleantech Oriented Managed Portfolios

- Bakers Alternate Energy Portfolio
- Arkx Carbon Fund
- Impax Environmental Markets Trust
- Australian Ethical Equities Trust
- Australian Ethical International Trust
- Hunter Hall Global Deep Green Fund

- Viridis Clean Energy Group
- CVC Reef
- CVC Sustainable Investments Fund
- Infigen Energy
- Macquarie Clean Technology Fund
- Emerald Cleantech Fund
- Cleantech Australia Fund
- Greencap Ltd
- CentreBoard Renewable Energy Trust

The total net assets of these 15 funds was \$1.20 billion, compared with \$1.38 billion in 2009, a fall of 12%.

It is also worth noting that financial advisers typically serve the needs of their responsible investment clients by recommending at least some direct investment in ASX-listed Cleantech companies.

RESPONSIBLE INVESTMENT IN NEW ZEALAND

By Dr Rodger Spiller

All amounts in the following section are expressed in \$NZ. Date of figures is at 30 June 2010 unless otherwise stated.

Last year RIAA reported a total estimate for responsible investment in New Zealand of NZ\$14.6 billion. For the year ended 30 June 2010 we estimate this to be \$17.2 billion an increase of \$2.6 billion. The most significant factor in this increase was the NZ Superannuation Fund that increased by \$2.2 billion. Another factor is the inclusion for the first time of Trust Waikato \$230 million. Further information about the New Zealand RI offerings that make up this total is provided below.

AMP Capital Investors

AMP Capital Investors has two responsible investment products available in New Zealand, the AMP Capital Responsible Investment Leaders Global Shares Fund and the AMP Capital Responsible Investment Leaders Balanced Fund. AMP Capital employs a multi-manager strategy. AMP Capital was the first fund manager in New Zealand to receive Responsible Investment Certification from RIAA (see page 36) for more information) and is a signatory to the UN PRI. The funds have grown from \$4.9 million to total assets of \$11.2 million.

ASB Community Trust

ASB Community Trust is Australasia's largest philanthropic trust and is a signatory to the UN PRI. The UN Global Compact provides a benchmark for monitoring the Trust's portfolio. The Trust encourages engagement and voting by investment managers drawing from guidelines developed around best practice fiduciary standards. The Trust Fund holds assets of \$1.0 billion.

ASB Group Investments

ASB Group Investments offers the Global Sustainability Fund as an option via the ASB FirstChoice KiwiSaver scheme. The underlying investment manager is Generation Investment Management. The fund size increased over the year from \$539,307 to \$1.4 million.

Asteron

Asteron launched New Zealand's first Socially Responsible Investment Trust in 2002 investing primarily in New Zealand listed companies and based on the principle of negative screening. The Asteron Socially Responsible KiwiSaver Scheme was launched in July 2007, however, Asteron withdrew from the KiwiSaver market with effect from 31 May 2010. Asteron's SRI Trust (including the KiwiSaver fund) has consequently reduced from \$6.1 million in the year to \$2.3 million.

Craigs Investment Partners Investment Management

Craigs Investment Partners offers a Balanced SRI Fund of investments it deems to be environmentally and socially sustainable whilst still meeting their traditional portfolio investment criteria. It grew over the year from \$3.16 million to \$5.75 million.

Fidelity Life

Fidelity Life launched a diversified KiwiSaver fund called the Fidelity Life Ethical KiwiSaver Scheme, in June 2008 and the Ethical Portfolio as a non-KiwiSaver version in December 2008. Tyndall Investment Management (NZ) manages NZ and Australian assets, while global shares are managed by the specialist RI team at UK-based F&C. Over the year assets grew from \$1.5 million to \$3.51 million.

Just Dollar\$ Trust

Just Dollar\$ was established in 1992 as a charitable trust providing small business loans to people and not-for-profits in the Canterbury region who are unable to access bank finance. It has over \$250,000 in investor's funds and since 1993 has loaned over \$1.1 million to more than 300 people.

The Methodist Church of New Zealand Investment Advisory Board

The Methodist Church IAB oversees the investment practices and policies of the Methodist Church of New Zealand and is currently, actively seeking to develop a more responsive Socially Responsible Investment programme through both peer review and research into current best practice models. Through the New Zealand Methodist Trust Association the Board oversees the direct investment of \$155 million.

The Nelson Enterprise Loan Trust

The Loan Trust is a charitable trust established in 1997 operating a regionally-based, ethical investment loan fund that facilitates employment opportunities by making loans of up to \$20,000 to small enterprises in the Nelson region. NELT has loans from investors totalling \$363,000. Since 1997 it has made 122 loans totalling more than \$924,000 with only one failing (for \$5,000).

The New Zealand Anglican Church Pension Board

The New Zealand Anglican Church Pension Board invests under an ethical and ESG policy for superannuation and welfare funds for The Anglican Church in Aotearoa, New Zealand and Polynesia, and invests for some other church organisations. The Board manages a KiwiSaver Scheme (The Koinonia Fund), a defined contribution superannuation scheme (The Retire Fund), and a defined benefit superannuation scheme (The Pension Fund). The Board manages ethically screened investments amounting to \$93 million in cash, fixed interest, mortgages, New Zealand and international equities, and forests.

New Zealand Superannuation Fund

The Board of the Guardians of New Zealand Superannuation has adopted a Responsible Investment (RI) Policy to enable them to manage the New Zealand Superannuation Fund in a manner consistent with their legal obligations.

This RI Policy has been developed to help the Guardians to manage the Fund in a manner consistent with:

- best practice portfolio management;
- maximising returns without undue risk to the Fund as a whole; and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Responsible investment is integrated into the terms of reference of the internal investment committee and into the approval process for new investment mandates. The Guardians are committed to the UN PRI.

The appointment of a specialist proxy voting agency has enabled the Guardians to exercise their voting rights on international holdings consistently across the Fund's investment portfolios.

The Fund commenced investing in October 2003 with \$2.4 billion. As at 30 June 2010, the Fund size was \$15.63 billion. Treasury estimates that the Fund is expected to reach nearly \$65 billion (before tax) by the end of 2025.

Prometheus

Prometheus began its operations in 1983 providing deposit and borrowing services. It lends to people and projects that make a positive contribution to society by incorporating social and environmental responsibility, sustainability and sound business practices. Total deposits increased during the year from \$14 million to \$14.5 million with total lending at \$7.1 million.

The Quaker Investment Ethical Trust

The Trust was established in 1989 with the primary object to provide an ethical savings, investment and loan service in such a way as to reflect Quaker concerns. Loans have been for housing, small businesses, clearing high interest bearing debt, environmental enhancement and tertiary education. Total assets are \$1.9 million.

SuperLife

SuperLife launched in February 2008 with the balanced ethical investment option for its KiwiSaver and non-KiwiSaver schemes. The option is known as Ethica. The assets in this investment option increased from \$0.7 million to \$1.8 million.

Trust Investments

Trust Investments was established in 2002 and provides specialist services, investment products and advice to charities and not-for-profits. Trust Investments offers the Sustainable Australasian Share Fund weighted in favour of companies that meet certain sustainability criteria and with assets under management of \$15.3 million.

Trust Waikato

Trust Waikato is a signatory to the UNPRI and uses a range of approaches to implement its responsible investment commitments. The Trust is investing in a sustainable global equities fund, has a negative screen on its Australasian equities, and is currently considering engagement approaches related to global equities and bond portfolios. The Trust is still considering more active approaches to shareholder voting. At 30 June 2010, the Trust fund stood at \$236 million.

New Zealand Signatories to the UN PRI

In the year to June 2010, New Zealand signatories to the UN PRI rose from 17 to 23, an increase of 35%, very similar to Australia's growth of 34%. The complete list of New Zealand signatories at October 2010 was:

■ ASSET OWNER SIGNATORIES

Accident Compensation Corporation
ASB Community Trust
Community Trust of Southland
Earthquake Commission
Government Superannuation Fund Authority
New Zealand Fire Service Superannuation Scheme
New Zealand Superannuation Fund
Otago Community Trust
The Canterbury Community Trust
Trust Waikato

■ INVESTMENT MANAGER SIGNATORIES

Devon Funds Management
Direct Capital Limited
DNZ Property Fund Limited
Endeavour Capital Limited
Harbour Asset Management
HRL Morrison & Co Ltd
Huljich Wealth Management
iGlobe Treasury Management (NZ) Ltd
Pathfinder Asset Management
Pioneer Capital Partners
Socrates Fund Management Ltd
TOWER Investments
Wealth Limited

RESPONSIBLE INVESTMENT CERTIFICATION PROGRAM

The Responsible Investment Certification Program was created to help investors find, and learn more about responsible investment products and services available in Australia and New Zealand. The program provides assurance, independent verification and information for consumers about the way in which responsible investment products and services operate and is the only initiative of its kind in the world. The Program provides training, education, marketing support, disclosure and guidance at all points in the investment cycle – for individual investors, financial advisers, dealer groups, fund managers and superannuation funds.

The Certification Symbol is a registered trade mark created and managed by the Responsible Investment Association Australasia (RIAA) and available only to products and services domiciled or distributed in Australia and New Zealand. The Symbol is designed to encourage informed choice about responsible investment products and services. Individuals and organisations certified under the program as at October 2010 are as follows. Full details of licensees can be found on RIAA's website at www.responsibleinvestment.org



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AMP Capital Investors
Atom Funds Management
Ausbil Dexia
Australian Ethical Investment
BT Investment Management
CVC Sustainable Investments
Dalton Nicol Reid
Foresters Community Finance
Hunter Hall Investment Management
Investa Property Group
Perennial Investment Partners
Perpetual Investments
UCA Funds Management
Vanguard Investments

■ SUPER FUND

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Australian Christian Superannuation
Christian Super
Combined Fund
Equipsuper
Equity Trustees Superannuation Ltd
Sunsuper
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UniSuper Management

■ NON-GOVERNMENT ORGANISATION

WWF Australia

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