

# RESPONSIBLE INVESTMENT ANNUAL 2011

A benchmark report on  
responsible investment in  
Australia and New Zealand by  
the Responsible Investment  
Association Australasia

★ November 2011

Research conducted by CAER



RI funds outperform  
in 12 out of 12  
categories!  
— see page 17

Australia tops global  
sustainable property  
benchmark  
— see page 26

Australia builds largest  
wind farm in the southern  
hemisphere  
— see page 31

# THANK YOU TO OUR PARTNERS

Responsible Investment 2011 has been made possible with the generous support of our partners:

**australianethical**<sup>®</sup>  
investment + superannuation

Currently celebrating 25 years of ethical investment, Australian Ethical is a fund manager and superannuation provider that believes that long term competitive financial returns can be successfully combined with environmental, social and governance considerations across all of its investments.

Our approach to investing is distinguished from conventional fund managers, and from other ethical fund managers, as we employ a deeply rigorous and consistent ethical screening process in Australia.

This philosophy is founded on the Australian Ethical Charter — principles guiding our investment process and corporate behaviour — whereby we actively seek investments in companies which bring social, environmental and financial benefits, and avoid investments which are socially or environmentally harmful.

Phillip Vernon, *Managing Director, Australian Ethical Investment and Superannuation*

**ADVANCE**  **BT** Financial Group

Advance Asset Management is a specialist asset management business within BT Financial Group (Australia's largest administrator of superannuation, retirement and investments). Our focus is on delivering on the investment

management needs of our investors within our robust risk management framework.

We believe researching, assessing and managing Environmental, Social and Governance (ESG) factors enhances our ability to meet the long-term investment objectives for our funds. The level of ESG integration and individual investment manager capabilities forms an important part of our selection process. We encourage our investment managers to include ESG factors in their investment processes as we believe it provides a greater level of risk analysis and enhances portfolio risk management.

Managing for a long-term investment outcome is not only beneficial for this generation, but for generations to come.

Patrick Farrell, *Head of Advance Investment Solutions*

**Perpetual**  


As a leading investment manager, Perpetual is committed to investing clients' money responsibly. We recognise the growing social and political expectation that the companies we invest in operate sustainably. We are a signatory to the UNPRI and have committed to consider those environmental, social and governance risks and opportunities that are relevant to the quality or value of our

investments. While the consideration of ESG factors is inherent in Perpetual's quality focused, conservative, value driven investment philosophy, we are committed to continually developing and enhancing our approach to understanding and managing the investment implications of ESG factors.

We are proud to support the RIAA benchmark report and the important role it plays in defining the different approaches to responsible investment.

Cathy Doyle, *Group Executive Equities, Perpetual*

**Solaris**  
Investment Management

Solaris is a mainstream, style-neutral Australian equities boutique with a proven investment process forged over one and a half decades. Our background is unique in that our team previously worked together in a large institution where we gained experience in responsible investment portfolios by managing funds for faith-based organisations for more than 10 years.

During this time, we became familiar with the drivers that influence assessment of Environment, Social and Governance (ESG) factors. Although Solaris is now a mainstream manager and no longer offers specialist ESG portfolios, we consider ESG awareness to be an important factor in company analysis and valuation. Solaris became a UN PRI Signatory in May 2009 and has successfully integrated ESG awareness as part of our investment process.

Denis Donohue, *Managing Director, Solaris Investment Management*

Research conducted by:

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Corporate Analysis. Enhanced Responsibility.

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# RIAA – INVESTMENT FOR THE FORESEEABLE FUTURE

## WHAT IS RIAA?

The Responsible Investment Association Australasia (RIAA) was established in 2000 and is the industry peak body for organisations and professionals who take environmental, social and governance (ESG) factors into account in their investment decisions. RIAA covers Australia and New Zealand and our members include superannuation funds, asset consultants, fund managers, financial advisers, dealer groups, insurance companies and many other participants in the investment chain. In addition to working at a local level, RIAA collaborates with its sister organisations in the United Kingdom, Europe, Asia, Canada and the United States and in 2012 we will together release the first global study on responsible investment trends.

## LEADERSHIP IN RESPONSIBLE INVESTMENT

Extraordinary transformations have taken place in recent decades in the world of business enterprise, particularly in relation to globalisation and technology. The factors that drive corporate and economic value have changed as well. While heavy (or tangible) assets still play an essential role in industry, the average company in the modern economy is now more reliant upon intangible assets to create value: relationships, innovation, reputation, efficiencies and access to new markets to name a few. And yet these intangible assets, which now make up the majority of value in the 21<sup>st</sup> century economy, are often not well understood, fall largely outside standard accounting practices and are rarely priced into financial models.

Responsible investment seeks to overcome this market failure, and create new and progressive ways to find and integrate critical value drivers into investment decision-making. Such integration may include analysis of the company's track record and future plans in relation to the dominant trends of our time. These dominant trends fall into three broad categories: the environment, society and corporate governance (ESG). In practice, they cover an array of issues which dominate our news cycle such as water, food and energy security; changing demographics; global warming; increasing regulation, litigation and civil activism; access to scarce resources; reputation and customer loyalty; and the increasing trend toward the pricing of externalities.

To support this transition to investment best practice, RIAA provides training and professional development, networking events, trends analysis and responds directly and collaboratively to policy initiatives and regulatory reforms.

## 1. TRAINING & PROFESSIONAL DEVELOPMENT — TO STAY AT THE CUTTING EDGE

RIAA's innovative, online training in responsible investment gives you the edge, the information and the step-by-step tools needed to make the right decisions in today's dynamic marketplace.

The RI Academy is the world's first structured learning pathway for corporate and financial services professionals needing to understand how environmental, social and governance (ESG) issues are impacting shareholder value and ongoing access to investment and capital markets. Courses and exams are offered entirely online through a world-class elearning platform. Curriculum details, pricing and a sneak preview of the Academy's capabilities can be found at [www.riacademy.org](http://www.riacademy.org).

## 2. EVENTS — TO MEET THE RIGHT PEOPLE

RIAA events provide you with the opportunity to learn from globally recognised leaders, network with like-minded professionals from all parts of the investment chain and gather insight into the trends, movements, discoveries, tools, short-cuts and resources that the industry has to offer.

Events include: RIAA's famous biennial international conference; functions related to our new "Foreseeable Future" research series; topical industry seminars in New Zealand and around Australia, the release of the Responsible Investment Annual and informal "RI drinks" gatherings.

## 3. RESEARCH — TO DISPEL MYTHS AND GIVE YOU ACCESS TO TRUSTED DATA

RIAA's Responsible Investment Annual is Australasia's only comprehensive study on who's who in the RI marketplace in Australia and New Zealand, as well as the size, growth and development of our industry.

In addition to this major piece of research, in 2012 RIAA will release the first in a series of online reports called *The Foreseeable Future*. This series will provide unique insight into the ESG trends and sectoral shifts that lie at the heart of our changing economic landscape.

## 4. POLICY INITIATIVES — TO ENGAGE WITH GOVERNMENT ON ESG ISSUES

In keeping with our mission to promote stable markets, maximise financial returns and create positive ESG outcomes, RIAA will respond to invitations from government to participate in enquiries and commissions related to responsible investment and transparency in capital markets. This may involve engagement with government officials and parliamentary representatives to assist in the delivery of market reforms that recognise the links between ESG factors and financial outcomes.



## MEMBERSHIP CATEGORIES

RIAA membership covers the entire investment chain:

- Asset Consultant
- Asset Manager
- Asset Owner
- Association or NGO
- Banking Institution
- Charity or NFP
- Community Bank or Credit Union
- Community Trust or Foundation
- Dealer Group
- Financial Adviser
- Insurance Group
- Partnership Firm
- Religious Institution
- Research Firm
- RI Consultant
- Supporting Individual
- Supporting Organisation
- University or Academic Institution

## GET INVOLVED WITH YOUR INDUSTRY BODY

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 responsible investment practices continue to grow and prosper.

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. Being part of RIAA means feeling confident in the knowledge that you are in the right place at the right time with the right networks.

Louise O'Halloran  
Group Executive Director  
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**The Responsible Investment Annual 2011 is dedicated to Erik Mather,  
a true champion of responsible investment, who passed away on 26 September 2011, aged 45.**

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## EXECUTIVE SUMMARY

Responsible Investment 2011 is the 11th annual Benchmark Report commissioned by RIAA and the first report based on research carried out by CAER. Its aim is fivefold: to update figures for the 2010-11 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 two feature reports showing benchmarks for sustainable property and clean technology investment.

Responsible investment is split into core and broad components. Put simply, core responsible investment includes specialised 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, the section on managed portfolios provides further classification in accordance with their approach to investment screening: ethical exclusions, positive screening, best-of-sector and thematic investments.

In a period that saw ongoing uncertainties about the Global Financial Crisis and sovereign debt, the recovery in asset values was slow. As new funds applied RI policies, however, core responsible investment grew at a higher rate than the mainstream market. Broad responsible investment experienced strong growth due to a larger number of mainstream fund managers achieving an “above average” level of ESG integration in their investment process and a higher proportion of funds included in this category reporting their funds under management. It remains to be seen whether a recovery in asset prices will be achieved during 2012 as concerns persist about sovereign debt and the sustainability of economic recovery across major western economies.

### RESULTS IN BRIEF — *all data is for 2011 financial year unless otherwise stated*

Core responsible investment (including managed responsible investment portfolios, community finance, responsible investment portfolios of charities and client portfolios of financial advisers) rose 8% in 2010-11 from \$18.12 billion (re-stated) to \$19.55 billion.

Managed responsible investment portfolios alone rose by 7% from \$15.41 billion to \$16.52 billion – an increase of \$1.1 billion. The increase in responsible investment portfolios fared better than the broader market with total assets under management of all types of managed portfolios rising 1.8% in that same period.

The main factor contributing to this growth is the number of new funds adopting RI policies amounting to \$1.34 billion and net inflows to existing portfolios of \$176 million.

The average responsible investment fund delivered higher returns than the average mainstream fund in every one of the twelve categories covered in this report (across one, three, five and seven years, and for Australian, overseas and balanced funds).

The largest fund manager is AMP Capital Investors, with responsible investment funds under management of \$2.5 billion. The largest dedicated responsible investment fund manager is Hunter Hall at \$1.7 billion in funds under management. The superannuation fund with the largest amount of responsible investment assets is Local Government Super with \$3.3 billion, an increase from \$1.8 billion in 2010, largely due to the fund now also applying its RI policies to international equities.

Direct asset portfolios managed by financial advisers also increased from \$1,461 million in 2010 to \$1,538, up 5%. This reflected the recovery in the Australian stockmarket as well as 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 \$1,490 million, an increase of 19% on last year's (re-stated) figure of \$1,257 million.

Broad responsible investment assets are estimated to be \$148.9 billion, an increase of 99% from \$74.8 billion in 2010. This comprises the assets of fund managers that have attained a rating of “above average” or better from Mercer (Australia) for their integration of ESG factors into their investment process and institutions that have subscribed to a corporate engagement service. The total for this section *does not* necessarily include all signatories to the United Nations-backed Principles for Responsible Investment (UN PRI), only those with above average performance, and *does* include those with above-average performance who may not be signatories.

In the year to 30 June 2011 there was one specific shareholder resolution in Australia that related to environmental issues. The resolution was lodged with Woodside Petroleum by Australian Ethical Investment's Climate Advocacy Fund on the issue of carbon emissions price assumptions.

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 7% from 112 in 2010 to 120 in 2011 with global assets under management of approximately US\$876 billion. The asset manager (as opposed to asset owner) segment of local UN PRI signatories has assets under management of US\$595 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 signatory numbers represent 13% 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 61 members with \$700 billion in assets under management, up 17% from \$600 billion in 2010.

This year's survey also presents 14 local indices based on ESG criteria and analysis and lists 47 investment research studies on the subject of responsible investment or ESG integration.

For the third time we include a report on Australia's Cleantech investment sector. This provides a benchmark from which to analyse future investment flows and performance, particularly as the Australian marketplace prepares for the introduction of a carbon price in July 2012.

For the first time we have included key figures from **"Environmental Performance — A Global Perspective on Commercial Real Estate" from the Global Real Estate Sustainable Benchmark group (GRESB)**. This is the second global report of its kind, and in it Australian property funds continue to lead the world in sustainability performance.

Last year RIAA reported a total combined estimate for core and broad responsible investment in New Zealand of NZ\$17.2 billion. For the year ended 30 June 2011 we estimate this to be NZ\$20.7 billion, an increase of NZ\$3.5 billion, or 20%. The most significant factor in this increase was the NZ Superannuation Fund that increased by NZ\$3.4 billion. 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 the inclusion of one or more of the following practices 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.

## BEST OF SECTOR

This 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.

## 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.

## IMPACT INVESTING

This emerging investment style involves actively placing capital in businesses and funds that are directed toward solving specific and significant environmental and social challenges while providing returns to the investor that range from principal to above market. By leveraging the private sector, these investments can provide solutions at a scale that purely philanthropic interventions usually cannot reach. Investors usually include high net wealth individuals, institutional investors, charities, corporations and foundations who invest across a wide range of asset classes and where success is measured by a combination of financial returns and environmental and social impact.

## 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 and in 2011 Australia's first dedicated climate change shareholder resolution was brought forward.



## 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 specialised managed funds, direct share portfolios managed by financial advisers, and also microfinance and microcredit offered by banks.
- Broad responsible investment: ESG integration, corporate engagement and shareholder engagement, voting and activism.

Results obtained from the current project are compared with those obtained in last year's report.

The process of categorising the Australian responsible investment market into core and broad components follows the methodology developed for similar studies by the European Sustainable Investment Forum (Eurosif) and Canada's Social Investment Organisation (SIO).

## METHODOLOGY

This study employed the same methodology as was used in last year's report and the seven 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 CAER. Information on Total Assets Under Management (TAUM) and the average performance of certain managed fund categories were provided by Morningstar. Data on the other segments was collected by CAER.

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 2011, but figures are as at 30 June 2011, unless otherwise stated.

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

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 specialised 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, 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. In total 105 trusts and superannuation funds were included in the 2011 survey.

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 one or more sustainable investment asset classes (e.g. clean technology, water, agriculture or sustainable property).

## 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 28 firms (up from 23 firms in 2010) 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 so as to avoid double counting.

## 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 achieved above average performance for the integration of 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. A number of growing initiatives that show the extent of mainstream acceptance are outlined in this report. They include the United Nations-backed 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 ESG performance for target investments. Details of each initiative are outlined under the section on broad responsible investment.

That said, as ESG integration is in its formative years, many of these signatories are yet to reach the point where they have adapted their investment strategy to include this research in the stock selection, portfolio construction, engagement and voting processes. This is changing rapidly, however, as can be seen in this year's results. 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 issues

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. Only one fit 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. The remainder fell into the category of corporate governance.

The total funds supporting shareholder activism were calculated by multiplying the number of shares voted in support of the resolution by the share price as at the AGM date.

## CORE RESPONSIBLE INVESTMENT

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

### ■ CORE RESPONSIBLE INVESTMENT IN 2011 \$M



	2010	2011	Change
■ Managed portfolios	15,406	16,516	7%
■ Community finance (R)	1,257	1,490	19%
■ RI adviser portfolios	1,461	1,539	5%
<b>TOTAL</b>	<b>18,124</b>	<b>19,545</b>	<b>8%</b>

## MANAGED RESPONSIBLE INVESTMENT PORTFOLIOS

Managed responsible investment portfolios grew by 7% during the 2011 financial year from \$15.41 billion to \$16.5 billion, an increase of \$1.1billion.

The main factor contributing to this recovery was more funds adopting RI policies representing \$1.34 billion. Net inflows of \$176 million also contributed to the increase. This recovery was offset to a small degree by \$174 million in negative investment performance and portfolios that were either wound up or removed from the survey.

The 7% growth of managed responsible investment portfolios was again higher than that of the broader market with Total Assets Under Management (TAUM) of all types of managed portfolios increasing by 1.8% in that same period, according to Morningstar research.

Before subtracting double counting of \$264 million, the published value of all responsible investment portfolios was \$16.8 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 next table demonstrates a proportionate growth in the percentage of funds under management using an ethical exclusion approach. This is mainly due to Local Government Super expanding its SRI overlay to its large international equities portfolio. The Local Government Super SRI overlay excludes investments in companies that derive more than 10% of their revenues from a number of areas including: armaments; gambling; nuclear/uranium; old growth logging; tobacco; poor mining practices; questionable work-place practices; and questionable environmental, social or corporate governance practices.



2010

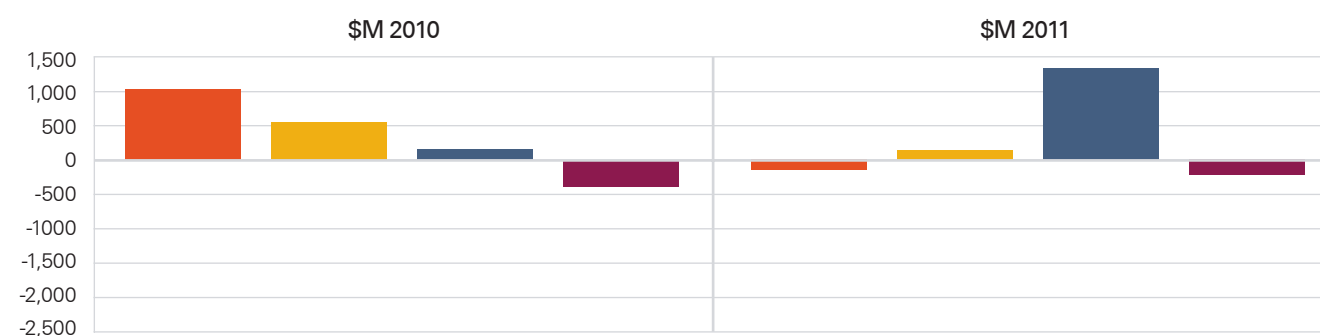


2011

	\$M	%	\$M	%
Ethical exclusions	5,049	32%	6,394	38%
Positive screening	5,355	34%	5,140	31%
Best-of-sector	2,144	14%	1,929	11%
Thematic investment	3,242	20%	3,318	20%
<b>TOTAL</b>	<b>15,790</b>	<b>100%</b>	<b>16,781</b>	<b>100%</b>

## RESPONSIBLE INVESTMENT PORTFOLIOS

This year shows again an increase in responsible investment, continuing the long term growth trend since the benchmarking process began in 2001. The main factors contributing to the \$1,110 million increase is mainly due to Local Government Super expanding its SRI overlay to its large international equities portfolio, reflected under new funds and mandates in the table below:



	\$M 2010	\$M 2011
Investment performance (R)	1,025	(174)*
Net inflows to existing portfolios (R)	567	176
New funds and mandates	175	1,336
Portfolios removed from study or wound up	(380)	(227)
<b>TOTAL</b>	<b>1,387</b>	<b>1,110</b>

(R) 2010 figures restated

\* Poor investment performance of some responsible investment and Cleantech funds not included in the Ethical Investor magazine tables resulted in negative investment performance of \$174 million.

## Responsible Investment Funds New to the Survey

Two new funds were launched during the year, or included in the study for the first time.

- Australian Ethical — Climate Advocacy Fund
- Australian Governance Masters Index Fund

The \$227 million in portfolios removed from the study or wound up reflects six funds that were either: reclassified as a mainstream fund; unable to be verified; or were wound up.

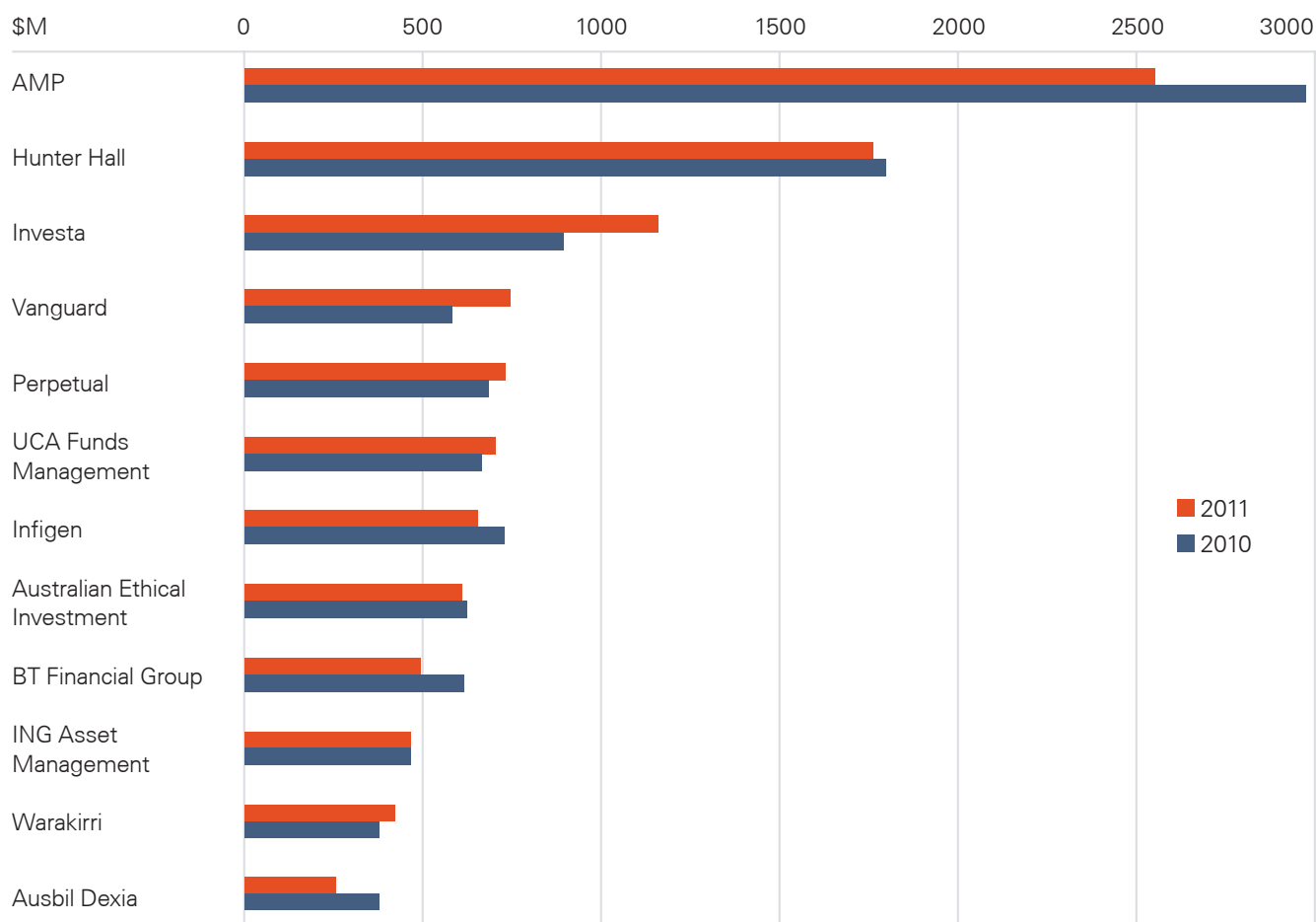
## Responsible Investment Fund Managers

Of the responsible investment funds offered by fund managers, retail is estimated to account for a little over half of the responsible investment funds managed. This portion is high by international standards. Fund managers with responsible investment funds under management as at June 2011 are listed as follows:

\$M Manager Consolidated Totals	2007	2008	2009	2010	2011
AMP	2,894	2,777	2,458	2,962	2,536
Hunter Hall	2,644	2,317	1,648	1,789	1,749
Investa (retail funds now managed by Australian Unity Investments)	840	1,188	1,226	882	1,147
Vanguard	707	514	596	575	736
Perpetual	310	330	285	672	723
UCA Funds Management	550	627	597	657	692
Infigen	1,111	1,138	910	719	641
Australian Ethical Investment	617	536	556	614	602
BT Financial Group	444	415	456	608	479
ING Asset Management	89	97	60	452	453
Warakirri	406	354	303	367	415
Ausbil Dexia	537	389	275	362	244
Macquarie Investment Management	61	103	130	139	115
Myer Family Office	104	100	93	105	97
Cleantech Ventures		23	80	80	80
Small co Investment Manager	220	90	57	70	75
IOOF Perennial	62	64	53	59	60
BNP Paribas (Impax)			1	50	60
JB Global Investment Services			99	104	54
Greencap Ltd		35	55	58	52
BlackRock Investment Management (Australia)	63	0	119	61	47
Drapac		13	23	35	40
Perennial Value Management	79	46	39	46	38
ANZ Asprit	89	41	39	28	27
Credit Suisse	113	86	49	34	26
Alphinity Investment Management (formerly Challenger)	102	76	51	28	25
Maple Brown Abbott	16	15	0	20	22
Dalton Nicol Reid			15	18	20
Portfolio Partners	52	9	8	16	17
Arkx Carbon Fund		6	5	6	9
Next Financial — van Eyk	9	11	7	8	8



## ■ LARGEST RESPONSIBLE INVESTMENT MANAGERS > \$300M IN 2011



## ■ 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 18 to 25.

Following is a list of superannuation funds with significant responsible investment portfolios:

Superannuation fund	\$M Responsible investment assets		% change
	2010	2011	
Local Government Superannuation Scheme *	1,772	3,256	84%
VicSuper (R)	1,122	1,229	10%
UniSuper	682	603	(12%)
Christian Super	483	575	19%
HESTA	78	83	6%

\* the increase of investment assets is mainly due to Local Government Super expanding its SRI overlay to its large international equities portfolio  
(R) 2010 figures restated

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 Assets Under Management, or TAUM (i.e. all types of mainstream managed investment portfolios) in Australia comprised \$936.01 billion in June 2011. Therefore, responsible investment portfolios in June 2011 of \$16.5 billion are 1.76% of this total, up slightly from 1.67% in 2010 and from 1.15% in 2005. This indicates a continuation of several years of better relative growth for responsible investment, although it is still a 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 2011 data to be published.

The responsible investment organisations in each region are currently collaborating to release the first global study on responsible investment trends, due out in December 2012.

### USA

The most recent 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% since 2007 while total assets managed using ESG criteria in these mutual funds have risen 85% 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% of all investment assets under professional management in the US, or US\$3.07 trillion out of US\$25.2 trillion.

### CANADA

The most recent biennial SRI Report for the Canadian Social Investment Organization was released in May 2011. This study is based on data to June 2010. It calculated that Canada's core responsible investments increased from an estimated CA\$57.3 billion, or 2.1% of total assets under management in 2006, to CA\$66 billion, or 2.4% of total assets under management in 2010. Over this period the value of funds managed by asset managers employing social and environmental screening was steady but there were substantial increases in retail investment funds and "impact investing" (investments aimed at solving social or environmental challenges while generating a financial return).

Similarly, broad responsible investment (which includes sustainable venture capital) grew from 15.4% of total assets under management in 2006 (CA\$ 410.1 billion) to 16.7% in 2010 (CA\$ 464.9 billion). The growth reflects a substantial increase in the value of pension plans and endowments with responsible investment policies, such as ESG integration. 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 2010.

Retail SRI in Canada is relatively small by international standards. Retail investment funds represent only 5% of the total core and broad SRI market.

### EUROPE

The biennial European Sustainable Investment Forum (Eurosif) Market Report was released in October 2010, based on data to December 2009. The European SRI market is by far the largest in the world, more than twice the size of the US market.

The Eurosif 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 SRI between 2007 and 2009 is estimated at 20.7% and the growth of broad SRI for this same period is estimated at 119%. This remarkable number for broad SRI is largely due to the uptake of ESG integration amongst French institutional and retail investors.

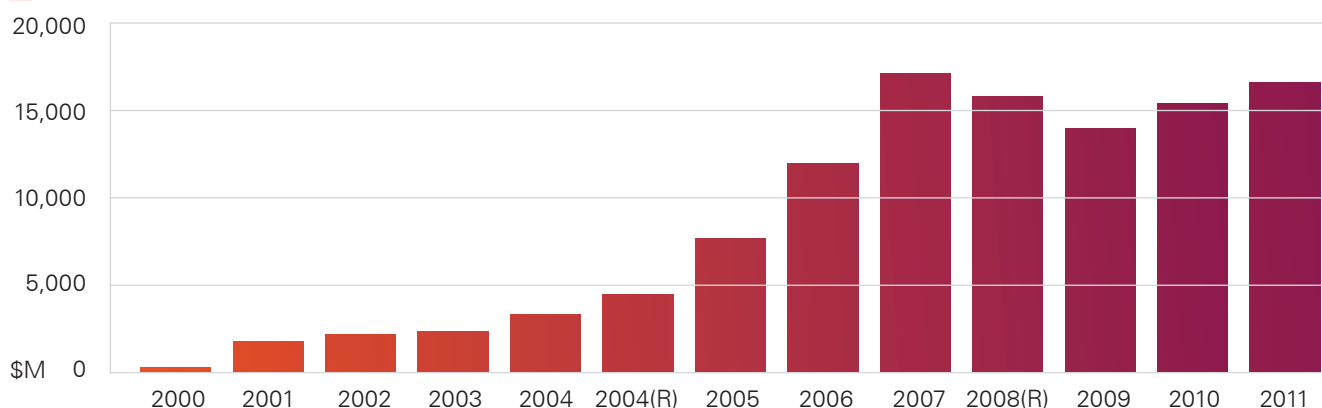
Retail accounts for an even smaller portion of total core SRI in Europe than the US (92% of the European market is institutional by comparison with 81% in the US). However the split varies substantially between countries – in Germany and Switzerland retail represents about half the market.

## RESPONSIBLE INVESTMENT MANAGED PORTFOLIOS – LONG-TERM GROWTH

Year	\$M	% Market Share	% Change Year	% Change Cumulative	% Change of Total Assets Under Management (TAUM)
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	36 (R)	1,285	
2005	7,670	1.15	70	2,260	9.2
2006	11,985	1.54	56	3,588	15.5
2007	17,102	1.87	43	5,162	20
2008 (R)	15,810	1.59 (R)	-8 (R)	4,765 (R)	-9
2009	13,997	1.64	-11	4,207 (R)	-14
2010 (R)	15,406	1.67 (R)	10	4,640	8 (R)
2011	16,516	1.76	7	4,982	2

(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

The average responsible investment fund delivered higher returns than the average mainstream fund in every one of the twelve categories covered in this report (across one, three, five and seven years, and for Australian, overseas and balanced funds).

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 2010-11 Australian and overseas share funds staged a partial recovery from losses suffered from the worldwide financial crisis. Responsible investment funds in this survey participated in this recovery more strongly than mainstream funds.

## ■ RESPONSIBLE INVESTMENT VS. MAINSTREAM SHARE FUNDS

		1 year	3 years	5 years	7 years
<b>Australian Share Funds</b>	Average Resp. Invest. Fund (30)	10.81	0.98	2.38	8.38
	Average Mainstream Fund	10.09	0.17	1.65	7.63
	S&P/ASX 300 Acc'n	11.90	0.26	2.37	8.38
<b>Overseas Share Funds</b>	Average Resp. Invest. Fund (16)	4.66	-2.15	-0.29	5.21
	Average Mainstream Fund	4.24	-3.79	-4.99	-0.89
	MSCI World ex Australia Index \$A	2.66	-3.28	-5.15	-1.17
<b>Balanced Growth Funds</b>	Average Resp. Invest. Fund (8)	9.80	2.19	2.81	7.00
	Average Mainstream Fund	7.65	1.97	1.80	4.58

Returns to June 2011 (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 \$1,490 million, an increase of 19% on last year's adjusted figure of \$1,257 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, Microloans & 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 share markets, community finance has maintained a healthy growth rate. Growth in 2010 was 16% (adjusted) after 14% in 2009, 27% in 2008, 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, 28 firms responded that they advise on direct responsible investment portfolios which total \$1,538 million. This is up 5% from the 2010 figure of \$1,461 million.

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

### ■ BROAD RESPONSIBLE INVESTMENT IN 2011

	\$ billion 2010	\$ billion 2011	Change
ESG integration	47.6	119.7	151%
Corporate engagement	52.5	54.4	4%
Shareholder activism	0	1.3	
Estimated double-counting*	-25.3	-26.5	
<b>TOTAL</b>	<b>74.8</b>	<b>148.9</b>	<b>99%</b>

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

## ESG INTEGRATION

The trend for fund managers to incorporate environmental, social and governance (ESG) factors into their investment process has seen continued uptake with some 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 processes (not just specialist responsible investment products).

Since its inception Australian investors have shown large increases in UN PRI signatory numbers. In 2011 the number rose again to a total of 120 in October 2011 from 112 in 2010. The continued rise of the already high proportion of Australian UN PRI signatories is positive amid the introduction of mandatory fees for signatories. The 7% increase in signatories is not as significant when compared to the rapid uptake of the UN PRI in Australia since 2006. In 2009 Australian signatories numbered 87, compared to 65 in 2008, 36 in 2007 and 8 in 2006.



Australian signatories at October 2011 are as follows:

### ■ UN PRI ASSET OWNER SIGNATORIES

ARIA

Australian Capital Territory

Australian Catholic Superannuation and Retirement Fund

Australian Government Employees  
Superannuation Trust (AGEST Super)

AustralianSuper

CARE Super

Catholic Superannuation Fund

CBUS Superannuation Fund

Christian Super

CommInsure

Energy Industries Superannuation Scheme (EISS)

ESSSuper

First State Superannuation Scheme

Goldman Sachs JBVere Superannuation Fund

HESTA Super Fund

HOSTPLUS

IAG & NRMA Superannuation

Insurance Australia Group (IAG)

Local Government Superannuation Scheme

Local Super

LUCRF Super

Media Super

Mirvac Group

NGS Super

SAS Trustee Corporation

Statewide Super

Tasplan

Telstra Super

TWUSUPER

UniSuper

Uniting Financial Services

VicSuper

Victorian Funds Management Corporation

Vision Super

### ■ UN PRI INVESTMENT MANAGER SIGNATORIES

AAG Investment Management

Allegro Funds

Alleron Investment Management

Alphinity Investment Management

AMP Capital Investors

Anacacia Capital

Ankura Capital

Ardea Investment Management

ArkX

ATI Asset Management

Australian Ethical Investment

Australian Pastoral Funds Management

Bennelong Funds Management

BT Financial Group

Catalyst Investment Managers

Celeste Funds Management

CHAMP Private Equity

Change Investment Management

Charter Hall Group

Colonial First State Global Asset Management

Dalton Nicol Reid

DEXUS Property Group

Drapac

EG Funds Management

Eureka Funds Management

Five Oceans Asset Management

Fortius Fund Management

Global Value Investors Limited (GVI)

Goldman Sachs Asset Management & Partners 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 (now Australian Unity Investments)

Investors Mutual Limited (IML)



Ironbridge Capital
ISPT Super Property
JCP Investment Partners
Kinetic
Legg Mason Asset Management Australia
Lend Lease Investment Management
Maple-Brown Abbott
mecu
Merlon Capital Partners
New Forests Pty
Northward Capital
NovaPort Capital
Perennial Investment Partners
Perpetual Investments
Phoenix Portfolios
Platypus Asset Management

PM Capital
QIC
RARE Infrastructure Limited
Regal Funds Management
Resolution Capital
Sigma Funds Management
Solaris Investment Management
Stockland
Taurus Funds Management
The GPT Group
Treasury Asia Asset Management (TAAM)
Tyndall Equities Australia
UCA Funds Management
Wallara Asset Management
Zurich Financial Services Australia

## ■ UN PRI PROFESSIONAL SERVICE PARTNERS

Australian Council of Super Investors (ACSI)
Australian Institute of Superannuation Trustees
Blue Sky Water Partners
CAER — Corporate Analysis. Enhanced Responsibility.
Dowse CSP
Fortuna Capital Partners
Frontier Investment Consulting
Glass, Lewis & Co.
ME Bank

Mercer Investment Consulting
Regnan Governance Research and Engagement
Reputex
Responsible Investment Association Australasia
Seacliff Consulting
SIRIS
The Climate Institute
Value Adviser Associates

Australian signatories now represent 13% of the 910 signatories globally, a slight reduction from August 2010 when Australian signatories represented 14%. This reflects the increasing uptake of the UN PRI in international markets relative to a lower number of new signatories based in Australia. The early and rapid uptake of the principles in Australia compared to other countries is likely to play a part in this slight decline.

Total global funds under management or advice of the 120 Australian signatories is approximately US\$876 billion, of which US\$595 billion belongs to the Australian asset manager component. The total signatory AUM of US\$867 billion accounts for approximately 3% of the US\$30 trillion in total assets managed or advised by all signatories globally.

Allowing for timing differences in the above data and the fact that the UN PRI data includes assets that are managed overseas, it is reasonable to state that approximately half of the funds under management of Australian asset managers now fall 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 third 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 22% of total rated strategies — slightly above the 20% achieved in 2010. This percentage was calculated using the number of strategies rather than assets under management (AUM).

Above average ratings are awarded to managers that have demonstrated integration of ESG across the investment process evidenced in portfolio construction, implementation and management, and monitoring of ESG factors as well as being well progressed in active engagement with companies and collaborative initiatives. Of the 22% of all strategies that achieved above average ESG ratings, around 62% of those were managed by UN PRI signatories. In addition, the total Australian funds under management of above average ESG rated strategies by the end of June 2011 is around \$118 billion across all asset classes, a significant increase from \$46 billion last year. This reflects the increased AUM of above average ESG rated strategies as

well as improved manager self-reporting through Mercer's proprietary GIMD database. The increase in the total funds under management is largely due to a larger proportion of above average managers reporting their funds under management. In 2010 the figure only included funds under management for 62% of the above average rates ESG strategies. Therefore the increase reflects increased reporting by funds in this category.

This figure of rated strategies has been included in the ESG integration figure shown in the broad responsible investment table on page 17 together with the assets of financial institutions that are known to have adopted a high degree of ESG integration – to make a total for ESG Integration of \$119.7 billion.

## Broad responsible investment — market share

According to Morningstar's latest Market Share Report, Total Assets Under Management (i.e. all types of mainstream managed investment portfolios) in Australia comprised \$936.01 billion in June 2011. Therefore, the broad responsible investment market in June 2011 of \$148.9 billion is 16% of this total, up from 8% in 2010. This indicates a strong growth for the broad responsible investment market relative to the total market.

## 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 2011 project for Australia and New Zealand sent this information request to companies in the S&P/ASX 200 Index on behalf of 551 global investors with assets under management of more than US\$71 trillion.

Within Australia and New Zealand the Carbon Disclosure Project is administered by the Investor Group on Climate Change.

CDP Australia and New Zealand 2011 reported that 73% of the ASX 100 companies answered the CDP questionnaire, compared to 72% in 2010, and 73% in 2009. Within this there was an increase in responses from ASX 200 companies (50% in 2011 compared to 47% in 2010 and 52% in 2009), but a further decline in responses from New Zealand companies (42% in 2011 compared to 46% in 2010 and 52% in 2009). The average response rate of the Global 500<sup>1</sup> was 81% in 2011, compared to 82% in 2010 and 2009.

Even though the 73% participation rate in carbon disclosure by the top 100 Australian companies is at a lower level than the Global 500 average, this is still a respectable response given many are smaller relative to those that are included in global index benchmark.

### ESG Research Australia

ESG Research Australia is a local group and 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 2011 ESGRA grew to 50 members (an increase of four members) with assets under management of approximately \$492 billion.

### Investor Group on Climate Change

Another collaboration of investment owners and managers in this field is a local initiative called the Investor Group on Climate Change Australia and 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 61 members speak for over \$700 billion in funds under management, an increase of 17% in dollar terms from 54 members with \$600 billion reported in 2010.

#### INVESTOR GROUP ON CLIMATE CHANGE MEMBERS



AIST	BlackRock Investment Management (Australia)
AMP Capital Investors	BT Investment Management
Arkx Investment Management	Carbon Market Institute
Australian Catholic Superannuation & Retirement Fund	Catholic Super
Australian Ethical	Cbus
AustralianSuper	Celeste Funds Management
AVCAL	Christian Super
Aviva	Citi Investment Research
Baker & McKenzie	Cleantech Ventures

<sup>1</sup> The Global 500 are the largest companies by market capitalization included in the FTSE Global Equity Index Series. Please note that previous RIAA benchmark reports compared the Australian response rate to the total global average response rate, however, this data is not available for 2011. Global response rates for previous years have been restated to reflect the Global 500.

Colonial First State Global Asset Management
Commonwealth Superannuation Corporation
CVC Sustainable Investments
Deutsche Asset Management (Australia)
Deutsche Bank Equity Research
DEXUS Property Group
Emergency Services and State Super
Eureka Funds Management
Financial Services Institute of Australasia
Five Oceans Asset Management
Franklin Templeton Investments Australia
Frontier Investment Consulting
Generation Investment Management
Goldman Sachs
Guardians of New Zealand Superannuation
The GPT Group
Herbert Geer
HESTA Super Fund
Industry Funds Management
Local Government Super
LUCRF Super
Merrill Lynch

Mirvac
Nanuk Asset Management
Norton Rose
Non-Government Schools Superannuation Fund
Perenia
Perpetual
REISuper
Responsible Investment Association Australasia
Russell Investments
SAS Trustee Corporation (State Super)
SIM VSE
Starfish Ventures
Statewide Super
Stockland
The Association of Superannuation Funds of Australia
Transcap Investments
UBS Investment Bank
UniSuper
Victoria Funds Management Corporation
VicSuper
Vision Super

## CORPORATE ENGAGEMENT

In Australia there are two specialist engagement organisations, Regnan and the Responsible Engagement Overlay offered by F&C Management. These organisations provide corporate engagement services on behalf of superannuation funds and institutional investors with total shareholdings of \$54.4 billion. This is up 4% from 2010, compared to a rise of 30% between 2009 and 2010 and a fall of 21% in 2009.

## SHAREHOLDER ACTIVISM

In 2010-11 there were four environmental resolutions raised in Australia in contrast to the previous decade over which time only one resolution that could be described as environmental or social had ever been raised. A far more common practice in the US, shareholder activism is relatively undeveloped in Australia. In the US over 100 climate change resolutions were proposed in the last year, with a total of several hundred falling under broader issues of environmental and social responsibility — from protecting endangered habitat to supply chains and repressive regimes.

Inactivity in formal environmental and social shareholder resolutions in Australia contrasts with continuing developments in institutional shareholder advocacy on 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. It is exclusively, however, a reactive stance and does not extend to the formulation or lodgement of resolutions.

Part of the reason for the differences between the US and Australian situations relates to the differing regulatory system in the US which accommodates the resolution process and provides a structure with well codified arrangements.

Shareholder activism can be seen as an alternative to, or augmentation of, conventional responsible investment approaches such as screening, ESG integration and engagement.

In 2010 the Climate Advocacy Fund was established with the specific goal to raise resolutions on issues of materiality relating to climate change.

Four resolutions were lodged with companies in the 2010-11 Australian corporate reporting season and fell within three broad categories. That the company should:

1. describe their carbon emissions footprint
2. have a plan to reduce their overall emissions to a publically stated, target level (or else reduce carbon intensity)
3. ensure investment decisions and balance sheet valuations are based on publically stated, reasonable assumptions about future carbon emission pricing and regulation

Resolutions were lodged for consideration at the AGMs of four companies:

- Aquila Resources and Paladin Energy on point one above
- Oil Search on point two above
- Woodside Petroleum on point three above

The Climate Advocacy Fund's resolution formulation process also included input from CAER and the Climate Institute.

## THE PROCESS

The first two resolutions were lodged in September 2010 in regard to Aquila and Paladin's AGMs held in November 2010. These were standard resolutions requiring 51% of votes cast in order to be successful. Following their own legal advice – remembering that resolutions of this nature are relatively unknown in corporate Australia — both companies rejected the resolutions as not being shareholder business, and hence declined to place them before shareholders for their consideration. Both resolutions were worded in a manner so that they would have been approved in the US by the 'arbiter' – the Securities and Exchange Commission. In Australia, ASIC does not have the legal authority to act in this capacity.

The companies did, however, distribute the supporting material for the resolutions (the scientific and financial rationale) to all their shareholders. Both companies also acceded to the requests made within the resolutions for disclosure of company carbon emissions. Aquila agreed to produce the data within 12 months and Paladin to do so within two years.

In the Oil Search case, a standard resolution was also lodged for their AGM in May 2011. Prior to the AGM, Oil Search management and senior personnel from the Climate Advocacy Fund team identified timeframes which could achieve public disclosure of a target for greenhouse footprint reduction without a resolution. The proposed Climate Advocacy Fund resolution was withdrawn.

In relation to the Woodside resolution, it became apparent that the company would reject the first proposed resolution as not being shareholder business. The decision was made to lodge a constitutional change resolution. This form demands 75% voter agreement, but it is also obligatory for it to be placed before shareholders.

At the AGM vote on 20 April 2011 a total of 5.69% of shareholders supported the resolution. In US terms this would be a creditable first time result — likely leading to a repeat of the resolution in a subsequent year.

## ESG INDICES

For the third time we present a list 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	Approximately 80 ASX listed cleantech companies. Sub-indices for: solar, biofuels, water, waste, efficiency/storage/fuel cells and geothermal segments.
ALTEXAustralia	Run by Bakers Investment Group this index series comprises 118 companies within the ASX300 with involvement in alternative energy and with a market capitalisation in excess of A\$47.3 billion. Includes: Altex Red – low emission utilities, Altex Green – renewable energy, Altex Blue – natural gas, Altex Yellow – uranium, Altex Black – enabling technologies.
Carbon Disclosure Leadership Index (CDLI)	Identifies companies whose Carbon Disclosure Project (CDP) responses demonstrate to investors that the company has assessed and understands the risks, opportunities, management and mitigation strategies associated with climate change.
Corporate Responsibility Index (CRI)	Compiled by Business in the Community (BITC) in the UK in cooperation with the St James Ethics Centre. The index is a strategic management tool to help businesses to develop, measure and communicate best practice in the field of corporate social responsibility.
Ethinvest Environmental Share Price Index	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. Founded by Ethinvest and maintained by Ethical Investor.
FTSE4Good Australia 30	The index is derived from the FTSE4Good Global Index that assesses companies against a set of ESG inclusion criteria based on research from EIRIS and CAER.

FTSE Shariah Australia	Index of the largest and most liquid companies that are compliant with Shariah principles based on research provided by Yasaar Ltd. Typical exclusions are: conventional finance, high debt ratios, alcohol, pork related products and non-halal food production, entertainment (casinos, gambling, and pornography), tobacco and weapons.
GS/ASX 300 Socially Responsible Accumulation Index	Tracks the ASX 300 excluding companies deriving more than 5% of their sales revenue from tobacco, gaming, armaments, or pornography.
IPD Green Property Investment Index	Launched in February 2011 the index quantifies the investment performance of buildings with a Green Star, NABERS Energy or NABERS Water rating.
Reputex Climate Change Opportunity	Identifies the impact on earnings of climate change risk and 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:	Comprises seven 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 exposure to companies which display strong corporate governance performance.
Reputex Sustainability 120 Index	Provides exposure to 120 companies within ASX 300 Index which demonstrate effective mitigation of corporate governance, environmental, social and workplace risks.

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 fourth 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 46 collated this year.

### ■ ESG RESEARCH STUDIES IN AUSTRALIA 2011

Organisation	Author	Date	Title
AGL Energy	Tim Nelson, Elizabeth Wood, James Hunt & Cathlin Thurbon	June 2011	Improving Australian greenhouse gas reporting and financial analysis of carbon risk associated with investments
The Australian Council of Superannuation Investors (ACSI) & The Financial Services Council (FSC)	ACSI & the FSC	June 2011	The ESG Reporting Guide for Australian Companies
The Australian Council of Superannuation Investors (ACSI)	ACSI & Corporate Analysis. Enhanced Responsibility (CAER)	October 2011	Anti-Corruption and Bribery Practices in Corporate Australia
The Australian Council of Superannuation Investors (ACSI)	ACSI	July 2011	Sustainability Reporting Practices of the S&P/ASX200
Australian Institute of Superannuation Trustees & Trucost	Liesel van Ast	September 2011	Carbon Counts 2011: The Carbon Footprints of Australian Superannuation Investment Managers
CAER/Seacliff Consulting	Phil Preston, Duncan Paterson & Julia Leske	December 2010	Australian Superannuation Fund Investments – A report on progress made in the implementation of ESG practices
Deutsche Bank	Tim King, Tim Jordan	Fortnightly	The Carbon Column. A fortnightly update of key news and market developments in carbon pricing and climate change



Organisation	Author	Date	Title
Deutsche Bank	Tim King, Tim Jordan, Emily Behncke	November 2010	ESG Dashboard – ESG in the Australian building materials sector: carbon is key
Deutsche Bank	Tim King, Tim Jordan	February 2011	Australian carbon policy – Tax-then-trade to start July 2012: climate committee
Deutsche Bank	Tim King, Tim Jordan, Emily Behncke, John Hynd	April 2011	ESG Dashboard – Modest carbon price impact for Australian steelmakers
Deutsche Bank	Tim King, Tim Jordan, John Hirjee, Hugh Morgan	July 2011	ESG Dashboard – Carbon price impact broadly neutral for utilities
Deutsche Bank	Tim King, Tim Jordan	July 2011	Australian carbon price – Carbon price to start at \$23/t
Deutsche Bank	Tim King, Tim Jordan	September 2011	ESG – Manufacturing’s long decline
Deutsche Bank	Tim Jordan	October 2011	Executive Remuneration – The CEO’s slice of the pie
Financial Services Institute of Australasia/CAER	Financial Services Institute of Australasia/CAER	May 2011	Promoting Gender Equality Through Transparency
Grattan Institute	Saul Eslake, Marcus Walsh	February 2011	Australia’s Productivity Challenge
Grattan Institute	John Daley, Tristan Edis	April 2011	Learning the hard way: Australia’s policies to reduce emissions
Grattan Institute	Jane-Frances Kelly	June 2011	The Housing We’d Choose
Grattan Institute	Tony Wood, Tristan Edis	September 2011	New Protectionism Under Carbon Pricing
IGCC	Walter Gerardi from SKM/MMA	June 2011	Impacts on electricity markets of delaying an emissions trading scheme
IGCC	IGCC and Catholic Super	June 2011	Summary report: cost of delaying a carbon price in Australia
JP Morgan	Garry Sherriff	October 2010	ESG and the Energy Sector – Water Concerns: QLD Coal Seam Gas Developments
JP Morgan	Garry Sherriff	February 2011	Australian Climate Change Series: 2011 Garnaut Climate Change Review – Update 1 (of 3)
JP Morgan	Garry Sherriff	March 2011	Australian Carbon Pricing: Quantifying the Impacts on Company Earnings Under Various Carbon Pricing Scenarios
JP Morgan	Garry Sherriff	April 2011	Australian Carbon Pricing: Emissions & Raw Carbon Costs for 50 Companies
JP Morgan	Garry Sherriff	April 2011	Carbon Compensation: Please Sir, Can I Have Some More (Detail)?
JP Morgan	Garry Sherriff	May 2011	Australian Carbon Pricing: Professor Garnaut’s Final Report on Climate Change
JP Morgan	Garry Sherriff	June 2011	Board + Executive Remuneration: Two Strikes Rule Passed by the Australian Parliament
JP Morgan	Garry Sherriff	July 2011	Key Governance Changes for Listed Australian Companies: What Investors Need to Know
JP Morgan	Garry Sherriff	August 2011	New QLD Coal Seam Gas Laws: restrictions on New and Existing Exploration Permits
JP Morgan	Garry Sherriff	October 2011	Executive Remuneration: Historical Offenders – ASX Companies to Watch This AGM Season

Organisation	Author	Date	Title
Macquarie Securities	Aimee Kaye	December 2010	ESG Innovation — It isn't easy being green
Macquarie Securities	Aimee Kaye	March 2011	ESG – Is it Women's Day in the workplace?
Macquarie Securities	Aimee Kaye	March 2011	ESG Carbon Pricing – Companies go into the wild green yonder
Macquarie Securities	Aimee Kaye	June 2011	ESG Dynamics – remuneration, industrial relations, reporting and ratings
Macquarie Securities	Aimee Kaye	June 2011	ESG – Evaluating employee engagement
Macquarie Securities	Aimee Kaye	September 2011	ESG — News Corp, Australian corporate governance and global perspectives
Macquarie Securities	Aimee Kaye	September 2011	ESG – Ratings Revealed
Mercer	Mercer RI Team	February 2011	Climate Change Scenarios – Implications for Strategic Asset Allocation
Mercer	Dr Richard Fuller & Helga Birgden	October 2011	Institutional Share Voting and Engagement: exploring the links between directors, institutional shareholders and proxy advisers
MSCI	Drew Fryer & Chris Parks	July 2011	ESG Research Insights 2011 – Australian Carbon Tax Report Assessment
MSCI	Remy Briand, Chin-Ping Chia, Roger Urwin	August 2011	ESG Investment Concepts – Integrating ESG into the Investment Process – MSCI ESG Research Whitepaper
Net Balance, SIRIS, ACCA	Archie Beeching, Kathryn Smith, Mark Lyster, Ben Spruzen, Tom Lehner, Rachel Jackson	October 2011	Disclosures on Supply Chain Sustainability
Net Balance, CAER, ACCA	Susan Kitchener, Mark Lyster, Emily Albert, Astrid Edwards, Natasha Menezes, Duncan Paterson, Julia Leske, Rachel Jackson	October 2011	Disclosures on Managing Human Rights Risks
Regnan – Governance Research & Engagement	Chris Fayers, Doug Holmes, Huon Morton	October 2011	Coal Seam Gas in Australia – ESG risks and opportunities
Regnan – Governance Research & Engagement	Serena de Kretser	July 2011	Skills Shortage – A key ESG Risk

# GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARK REPORT 2011 SUMMARY & AUSTRALIAN HIGHLIGHTS

The global real estate sector is responsible for up to 40% of global carbon emissions.<sup>1</sup> The buildings that are owned and operated by property funds account for a substantial share of these emissions. For this reason, it was in 2009 that a consortium of investors led by pension funds APG, PGGM and USS joined forces with the European Centre for Corporate Engagement at Maastricht University in the Netherlands to develop the world's first benchmark report on sustainable real estate, released in 2010. The report was entitled "Environmental Performance — A Global Perspective on Commercial Real Estate" and stated that "The Australian property companies are the clear environmental leaders of the globe... To a great extent the Australian top-5 outperforms their European peers and the full top-10 of American peers. It is clear that property companies from all over the world can learn from Australian best practices in environmental management."

The Global Real Estate Sustainable Benchmark (GRESB) group's second report was released in October 2011 and again, Australian property companies have dominated, holding positions in six of GRESB's global top-10.

To recognise this outstanding achievement, and to congratulate those RIAA members who rated among the top performers, the Responsible Investment Annual 2011 has collaborated with the survey's sponsoring consortium to reprint extracts that pertain specifically to Australia's performance in this important global survey.

We trust that this will provide value to our members and stakeholders in relation to property investment decisions and engagement processes.

The full GRESB report can be found at [www.gresb.com](http://www.gresb.com).

## RESPONDENTS

NORTH AMERICA: 60 respondents

ASIA: 49 respondents

AUSTRALIA: 33 respondents

EUROPE: 194 respondents

SOUTH AMERICA: 4 respondents

## HIGHLIGHTS

- Both in the listed and in the private market, Australian property funds lead the way, just as documented in the 2009 GRESB survey. The difference between Australia's overall score and the score of the other regions is still substantial.
- The global number one in this year's GRESB survey is the Commonwealth Property Office Fund, a listed Australian property fund managed by Colonial First State Asset Management, with an overall GRESB score of 88. The Investa Office Portfolio ranks second with an overall score of 86.

## ABOUT GRESB

The Global Real Estate Sustainability Benchmark is a science-based benchmark to measure the environmental performance of property portfolios, based on an annual survey produced by the GRESB Foundation. This industry-led initiative has the goal to enhance shareholder value by increasing transparency in environmental and social practices in the property sector.

The sponsoring consortium of pension funds and industry associations has grown from three in 2009 to 23 institutional investors and affiliated groups and consultancies, including from Australia Local Government Super (LGS), AustralianSuper and the Victorian Funds Management Corporation. Consequently, the number of real estate managers around the world participating in the GRESB survey has grown by 72% from 198 to 340.

<sup>1</sup> UNEP Sustainable Buildings and Construction Initiative 2006, *Buildings and Climate Change: Status, Challenges and Opportunities*, available online: <http://www.unep.fr/scp/publications/details.asp?id=DTI/0916/PA>

# INTRODUCTION

## SUSTAINABILITY | CHANGING DYNAMICS IN THE PROPERTY SECTOR

Institutional investors increasingly use the tool of engagement to assess and improve the environmental, social and governance (ESG) performance of companies they invest in.

The real estate sector is of specific interest from an environmental perspective, as it has been well documented that the sector is responsible for 40% of global greenhouse gas emissions, for 55% of the global usage of wood, and for about 75% of electricity consumption in the United States alone. More efficient use of energy and other resources by the real estate sector can structurally reduce these numbers, and thus lower the demand for increasingly scarce (and costly) natural resources.

Importantly, improved sustainability performance in the real estate sector may very well go hand in hand with enhanced financial performance, through lower operational costs as well as reduced portfolio risk. A 2007 McKinsey report has suggested that many investments aimed at reducing carbon emissions from buildings could be made at a profit. Academics and practitioners have further investigated this issue, and the general evidence shows positive financial effects associated with better environmental performance. For example, commercial buildings with energy efficiency ratings command significantly higher rents, better occupancy rates, and higher prices than otherwise comparable conventional buildings. On the other hand, lower levels of energy efficiency and sustainability have been associated with an increased risk of obsolescence.

Given these findings, one would expect that rational real estate investors take the necessary initiatives to improve the energy efficiency and sustainability of their portfolios. But of course, for markets to function properly, information transparency on environmental, social and governance metrics is a key ingredient.

## ENERGY EFFICIENCY AND THE BOTTOM LINE

The GRESB Foundation aims to provide comprehensive metrics and other relevant information that is material to investors and that relates directly to the bottom line.

The direct return on investment from energy efficiency improvements can be modelled quite precisely, and returns on simple measures (e.g. lighting, HVAC optimization and water saving measures) are generally substantial.

There is now a considerable body of scientific evidence of a “green premium” in the US commercial property market. It has been documented that office buildings labelled as efficient (“Energy Star”) or green (“LEED”) command higher effective cash flows of about 7% on average, and transaction prices that are more than 13% higher as those of conventional buildings. Importantly, these premiums have not been affected by the recent increase in the supply of sustainable space, or the crisis in the US office market.

## MOVING FORWARD | THE GRESB 2011 RESEARCH REPORT

The GRESB Foundation has made a significant leap forward in coverage of the real estate sector: the number of respondents increased from 198 in 2009 to 340 in 2011, a 72% increase. Importantly, the response among property companies and funds in Asia has improved substantially. The 2011 survey covers over 21,000 commercial buildings, with a combined floor area of about 356 million square meters. The assets covered by the 2011 GRESB survey illustrate that the scope of the commercial property sector is large by all standards: on aggregate, the respondents manage approximately US\$ 928 billion in commercial real estate assets, with an estimated aggregate emission of 34 million tons of carbon per year (the equivalent of 6 million cars on the road in a year). Institutional engagement with the property sector can thus have a substantial and positive impact on the environment.

## GRESB METHODOLOGY

Based on the GRESB survey, a science-based benchmarking framework has been created, consisting of 39 metrics. The individual metrics are scored to represent the relative materiality of their impact to investors. The metrics are divided between seven sub-categories within the environmental and social dimensions.

The weight of each dimension thus depends on how it may affect financial performance.

The overall GRESB score rewards actions more than words. 70% of the score goes to implementation and performance measurement while 30% goes to management and policy.

Data on each of the 340 funds and companies is presented through a dynamic scorecard, with information benchmarked against peers at different levels of aggregation.

# GLOBAL RESULTS

## RESPONSE RATE | INCREASED COVERAGE

One of the main goals of the GRESB Foundation and the investors supporting the initiative is to increase the disclosure on sustainability management in the property sector. In line with this goal, the global response to the GRESB survey increased from 198 property funds in 2009/10 to 340 in 2011, which implies a growth rate of 72%.

The growth in the response rate is mainly the result of increased participation on the private side of the real estate capital market.

The growth in unlisted coverage holds for all regions, but is especially strong in Australia (fourfold increase in responses), Europe (now at 162 funds) and Asia (doubling of responses).

### RESPONSE OVERVIEW

	Number of Respondents	Market Coverage (value-weighted)	Gross Asset Value (\$ billion)
<b>Listed</b>			
Asia	12	12%	40
Australia	10	80%	141
Europe	32	75%	168
North America	15	37%	133
<b>Listed total</b>	<b>69</b>	<b>35%</b>	<b>482</b>
<b>Private</b>			
Asia	37		51
Australia	23		57
Europe	162		204
North America	45		129
South America	4		5
<b>Private total</b>	<b>271</b>		<b>447</b>
<b>GRAND TOTAL</b>	<b>340</b>		<b>928</b>

## FOUR QUADRANTS | THE GRESB MODEL OF ENVIRONMENTAL PERFORMANCE

The GRESB four-quadrant model of environmental performance provides an overview of the global environmental performance of the real estate investment management community.

- **Green Starters** – have started to develop some sustainability policies, but limited organisational focus. Environmental initiatives are not yet fully implemented and measured across the entire portfolio. No comprehensive measurement of environmental key performance indicators.
- **Green Talk** – dedicated resources for sustainability management, comprehensive external reporting, sustainability implementation plans have been developed. More attention could be given towards the implementation and measurement of these action plans.
- **Green Walk** – integration of sustainability policies and measurement of environmental key performance indicators, but limited reporting. External stakeholders expect a stronger focus on transparency.
- **Green Stars** – integrated organisational approach towards measurement and management of environmental key performance indicators. Steering on reduction of resource consumption, and innovation in measures beyond energy efficiency (e.g. productivity, tenant behaviour).

## OVERALL GRESB SCORES | GLOBAL COMPARISONS

Both in the listed and in the private market, Australian property funds lead the way, just as documented in the 2009 GRESB survey. The difference between Australia's overall score and the score of the other regions is still substantial. By and large, listed property companies have higher sustainability scores than private funds: the global average score for listed funds is 41 (out of 100) and 31 for private funds.

There is a marked difference between the scores on questions relating to management & policy and those regarding implementation & measurement. The average scores in the latter dimension are significantly lower than those in the former.



## ENVIRONMENTAL LEADERSHIP REVISITED | NEW NAMES AT THE TOP

The global best practice in sustainability management are provided in the following graph, listing the top green performers in the global real estate investment management industry. Australian funds do extremely well, and there are also some very strong European and North American funds that are catching up with the leaders of 2009.

### REGIONAL GRESB SCORES



The global number one in this year's GRESB survey is the Commonwealth Property Office Fund, a listed Australian property fund managed by Colonial First State Asset Management, with an overall GRESB score of 88. Interestingly, Commonwealth scores substantially better on implementation & measurement (91) than on management & policy (82). The Investa Office Portfolio ranks second, while Sonae Sierra is the first European investor to make it into the global top-3.

Company/Fund Name	Fund Manager	Nature	Region	Score	MP*	IM*
Commonwealth Property Office Fund	Colonial First State Global Asset Management	Listed	Australia	88	82	91
Investa Office Portfolio	Investa Property Group	Private	Australia	86	88	85
Sonae Sierra	Sonae Sierra	Private	Europe	86	92	83
GPT Group		Listed	Australia	85	95	80
Bentall Kennedy Group	Multi-Employer Property Trust	Private	N America	83	95	78
Bentall Kennedy Group	Bentall Kennedy Group – North America	Private	N America	83	97	77
Hammerson PLC		Listed	Europe	83	92	78
GPT Group	GPT Wholesale Office Fund	Private	Australia	83	87	78
Colonial First State Global Asset Management	Private Property Syndicate (PPS)	Private	Australia	80	83	79
Lend Lease Investment Management	Australian Prime Property Fund Commercial	Private	Australia	80	77	82

\*MP: Management & Policy

\*IM: Implementation & Measurement

## KEY PERFORMANCE INDICATORS | MAPPING THE IMPACT OF THE GLOBAL PROPERTY SECTOR

The ultimate yardstick to judge the environmental and social credentials of the sector is the amount of resources consumed. Funds may have great environmental strategies, advanced environmental reporting, and may link environmental performance to employee remuneration (and the management & policy dimension of the GRESB score rewards respondents for that), but it all does not mean much if resource consumption just keeps growing.

A large part of the GRESB survey therefore focuses on environmental key performance indicators. These indicators include: energy, water, waste, and greenhouse gas emissions.

## REGIONAL RESULTS | AUSTRALIA

In the 2009 GRESB survey, Australian property investment funds turned out to be the environmental world champions. Coverage of the Australian market was strong in last year's survey, but has improved further this year, especially among private funds, with the 2011 survey reporting the environmental performance of 23 funds, up from 6 in 2009. The total number of funds is now at 33, and the combined gross asset value of the commercial properties owned by these Australian funds is US\$198 billion.

The listed respondents display a stronger sustainability performance than private funds in Australia, with average scores of 66 and 57, respectively. Nevertheless, the top-5 for both categories demonstrates similar levels of excellence. Australia's leading listed fund this year is the Commonwealth Property Office Fund, which is also the world leader of the 2011 GRESB survey.

Investa's Office Portfolio fund is the leading private fund, with a score of 86, and last year's best performer, GPT, now comes in second (listed as well as private).

### TOP-5 LISTED COMPANIES IN AUSTRALIA

Company	Score	MP*	IM*
1. Commonwealth Property Office Fund	88	82	91
2. GPT Group	85	95	80
3. Stockland	78	97	68
4. CFS Retail Property Trust	75	88	68
5. DEXUS Property Group	69	77	66
<b>Regional Average</b>	<b>66</b>	<b>76</b>	<b>61</b>

\*MP: Management & Policy

\*IM: Implementation & Measurement

### TOP-5 PRIVATE FUNDS IN AUSTRALIA

Fund	Fund Manager	Score	MP*	IM*
1. Investa Office Portfolio	Investa Property Group	86	88	85
2. GPT Wholesale Office Fund	GPT Group	83	92	78
3. Private Property Syndicate (PPS)	Colonial First State Global AM	80	83	79
4. Australian Prime Property Fund Commercial	Lend Lease Investment Management	80	77	82
5. Direct Property Investment Fund (DPIF)	Colonial First State Global AM	79	83	77
<b>Regional Average</b>		<b>58</b>	<b>74</b>	<b>50</b>

\*MP: Management & Policy

\*IM: Implementation & Measurement

Australia's property investors perform exceptionally well in environmental issues that are related to management (70), policy & disclosure (67), and strategy & analysis (80), suggesting that the industry has created the managerial infrastructure needed to improve environmental performance. For instance, among Australian respondents, 70% has implemented tenant behaviour programs (compared with 43% globally). Also, more than two-thirds of the respondents have variable compensation linked to the sustainability performance of assets (for 39% of the respondents, this performance incentive even affects the executive board/senior management). Importantly, there seems to be a direct connection between sustainability and financial performance: over 70% of the Australian respondents integrate information on environmental performance into the valuation process.

In advanced markets, sustainability will go beyond resource efficiency alone, and social factors may receive more attention. For example, health and well-being improvement programs have been implemented in the portfolios of eight Australian property funds. This is evidence of an increased attention towards productivity in buildings, a focus area where other regions may follow.

## PERFORMANCE INDICATORS AMONG AUSTRALIAN RESPONDENTS

- 2.95% reduction in energy use (kWh/m<sup>2</sup>)
- 4.73% reduction in water use (m<sup>3</sup>/m<sup>2</sup>)
- 72.7% integrates environmental performance in valuation
- 70% has implemented tenant behaviour programs

For the full GRESB report, and more information on regional results, go to [www.gresb.com](http://www.gresb.com).

# RIAA CLEANTECH INVESTMENT BENCHMARK REPORT 2011

The RIAA Cleantech Investment Benchmark Report is the third such report published by RIAA and provides a developing set of data from which to examine investment trends in the Cleantech industry in future years, as Australia prepares for the introduction of a carbon price in July 2012.

As worldwide efforts to address environmental problems such as global warming, air pollution, food, 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.

The objective of the Cleantech 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 2010.

## HIGHLIGHTS

■ **The Macarthur Wind Farm in Victoria is a joint venture between AGL and Meridian Energy. On completion in 2013, it will be the largest wind farm in the southern hemisphere.**

■ **CS Energy has invested in the Kogan Creek Solar Boost Project that will provide a 44 MW solar thermal addition to the existing coal power plant. The project is expected to be the largest solar integration with a coal-fired power station in the world when it is operational in 2013.**

## 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:

Activity			Activity		
Company			Company		
YES	Renewable energy generation	Geodynamics	NO	Gas-fired generation	AGL
	Engine efficiency	Orbital Corp		Coal seam gas recovery	Metgasco
	Alternative fuels manufacture	Natural Fuels		Petrol refining to new standards	Caltex
	New waste technology	GRD		Waste transfer	Brambles
	Carbon Sinks	CO2 Group		Broad scale agribusiness	Gunns
	Biogas generation	Energy Developments		Use of recycled materials	OneSteel
	Dedicated scrap recycler	Sims Metal		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 and benchmarked 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 on page 36.

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.

## 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:

Firstly, 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.

Secondly, 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 2011
- Identify dedicated sources of committed funding that supported Cleantech companies in the year to June 2011
- 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.

## AREAS OF INVESTMENT

### Dedicated ASX listed companies

Using analysis provided by the ACT Australian Cleantech Index, there are 76 Australian Securities 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 \$8 billion which is a decline of 12% from 2010. Further, those companies have raised approximately 5.7% of their value (\$679.6 million) by way of new capital in calendar year 2010. New capital raising includes Initial Public Offers, share placements, rights issues, share offers and the exercise of options.

As at June 2011 the domestic market capitalisation of the ASX was \$1.35 trillion comprising 2,247 companies. In the context of a growing listed company market, as seen below, Cleantech's very small share fell again, from 0.7% to 0.6% reflecting continuing difficulties in share price performance and new listings. In 2010 this was partly offset by a relatively strong level of capital raising in the sector, but in 2011 the share of capital raising has declined from approximately 2.1% to 1%.

### ■ MARKET SHARE STATISTICS OF ASX LISTED CLEANTECH COMPANIES

ASX Listed Cleantech	Cleantech		Total ASX-listed Market		%	
	2010	2011	2010	2011	2010	2011
Number of companies	78	76	2,192	2,247	3.6	3.4
Market capitalisation (\$billion)	9.24	8.13	1,254 (R)	1,348	0.7 (R)	0.6
New equity (\$ billion)*	1.73 (R)	0.68	77	63	2.1 (R)**	1.0**

(R) restated from last year's report

\* New Cleantech equity raisings for calendar years 2010 and 2009.

\*\* Estimates based on average total ASX-listed market equity raised in 2009 and 2010, and 2010 and 2011 financial years respectively.

■ ASX LISTED CLEANTECH COMPANIES AS AT 30 JUNE 2011

SECTOR	COMPANY	ASX CODE	MARKET CAP. (\$M)
BIOFUEL	Mission NewEnergy	MBT	42
	Australian Renewable Fuels	ARW	37
	Algae.Tec	AEB	10
	Jat Energy (previously Jatoil)	JAT	5
	SolverdiWordWide	SWW	5
	Sterling Biofuels	SBI	3
	Genesis R&D	GEN	2
BIOGAS	Energy Developments	ENE	395
	Pacific Energy	PEA	149
CARBON	CO2 Group	COZ	52
	Carbon Conscious	CCF	10
	WAG (PacPyro)	WAG	2
EFFICIENCY, STORAGE AND FUEL CELLS	Galaxy Resources	GXY	241
	Orocobre	ORE	212
	Nanosonics	NAN	176
	Ceramic Fuel Cells	CFU	144
	Gale Pacific	GAP	59
	Redflow	RFX	59
	CBD Energy	CBD	50
	Pro-Pac Packaging	PPG	45
	Bluglass	BLG	28
	Eden Energy	EDE	23
	Advanced Energy Systems	AES	20
	CardiaBioPlastics	CNN	11
	Enerji	ERJ	10
	Eco Quest (SeNevens)	ECQ	4
	Traffic Technologies	TTI	3
ENVIRONMENT	Coffey Environments	COF	80
	Aeris Environmental	AEI	19
	Greencap	GCG	18
	Pacific Environment	PEH	4
	Environmental Group	EGL	3
GEOTHERMAL	Wasabi Energy	WAS	70
	Geodynamics	GDY	69
	Earth Heat Resources	EHR	23
	Petratherm	PTR	12
	Green Rock	GRK	10
	Hot Rock	HRL	7
	Greeneearth Energy	GER	6

SECTOR	COMPANY	ASX CODE	MARKET CAP. (\$M)
GEOTHERMAL	PanaxGeotherm	PAX	6
	Geothermal Resources	GHT	3
	KUTh Energy	KEN	3
	Torrens Energy	TEY	3
SOLAR	Silex Systems	SLX	497
	Dyesol	DYE	74
	Quantum Energy	QTM	35
	Solco	SOO	21
	EnviroMission	EVM	8
VEHICLES	Orbital Corp	OEC	12
	Vmoto	VMT	12
	Advanced Engine Components	ACE	4
WASTE	Sims Metal Management	SGM	3,625
	Transpacific Industries	TPI	783
	Tox Free Solutions	TOX	196
	Novarise Renewable Resources	NOE	91
	CMA Corp	CMV	84
	Carbon Polymers	CBP	34
	Stericorp	STP	32
	Dolomatrix	DMX	29
	AnaeCo	ANQ	15
	Medivac	MDV	8
	Electrometals	EMM	5
	Papyrus Australia	PPY	5
	Intec	INL	4
WATER	Hydromet	HMC	18
	Phoslock Water Solutions	PHK	18
	Water Resources Group	WRG	14
	CleanTeQ	CLQ	4
	Hydrotech	HTI	4
	Island Sky	ISK	1
WAVE	Carnegie Wave Energy	CWE	68
WIND	Infigen Energy	IFN	267
OTHER	Australian Ethical Investment	AEF	19
	BioProspect	BPO	9
	Soil Sub Technologies	SOI	4
	Green Invest	GNV	2

Source: ACT Australian Cleantech Index





Of the 76 companies, seven are constituents of the S&P/ASX 300 Index. A further four are included in the broader 500 strong All Ordinaries Index. While only 23% (\$1.85 billion) of the market capitalisation of this segment falls outside of the All Ordinaries Index, this also represents the majority of constituents – 65 of the 76 companies (86%). 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.

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

The construction of Hallett 4 and Hallett 5 wind farms are expected to be completed in late 2011 (together 184.5 MW), and the Oaklands Hill Wind Farm (63 MW) in Western Victoria is scheduled for completion in early 2012.

In addition, AGL Energy is planning to develop the Coopers Gap Wind Farm in Queensland with a stated capacity of 350 MW.

### Origin Energy

This company has 503,000 green energy accounts, 373,000 GreenPower electricity customers and 130,000 green gas customers.

Wind: Origin has wind farm projects with a total 587 MW capacity approved, with a further 1,502 MW in planning stage and 1,314 MW undergoing feasibility studies.

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 with expansion to 50 MW expected in financial year 2012.

### Pacific Hydro

The Moree Solar Farm, which is being built by a consortium of Pacific Hydro, Fotowatio Renewable Ventures (FRV) and BP Solar, received \$306.5 million in funding through the Australian Government’s Solar Flagships program. In total the project requires a \$923 million investment, with construction scheduled to begin in mid-2012. In addition to federal funding, the NSW Government will also provide up to \$120 million in funding for the project. Proposed installed capacity of the photovoltaic solar farm is 150 MW.

PacificHydro partnered with GreenRock Energy in August 2011 to develop conventional geothermal projects in the Great Artesian Basin in South Australia, and in the Mid-West in Western Australia. Initial projects with 25 MW are contemplated in both regions.

Pacific Hydro also develops a number of wind farm projects across Australia, including the Carmody’s Hills wind farm with a 140 MW capacity, Crowlands Wind Farm (126 MW), Keyneton wind farm project in South Australia (130 MW capacity), Nilgen wind farm project (100 MW capacity) and the Yaloak wind farm (115 MW capacity).

### CS Energy

The Queensland Government-owned company has invested in the Kogan Creek Solar Boost Project that will provide a 44 MW solar thermal addition to the existing coal power plant. This project is expected to be the largest solar integration with a coal-fired power station in the world when it is operational in 2013. CS Energy invested \$70 million in the project and received around \$34 million from the Australian Government’s Renewable Energy Demonstration Program. CS Energy has also received support from

the Queensland Government through a contribution of \$35.4 million to CS Energy's Carbon Reduction Program.

A consortium comprising AREVA Solar, CS Energy and Wind Prospect CWP manages the Solar Dawn Project which received \$464 million from the Solar Flagship Program Round 1 for a 250 MW solar thermal gas hybrid power station near Chinchilla in South West Queensland. The Queensland Government has also committed \$75 million to the project which is expected to commence operation in early 2015.

#### Hydro Tasmania

Hydro Tasmania reports it spends around \$4.5 million on research and development on improving and developing renewable energies. In 2011, Hydro Tasmania formalised its support for the University of Tasmania's Centre for Renewable Energy and Power Systems (CREPS) as a Governor Member. CREPS aims to enhance both fundamental and applied research in power and energy systems in Australia.

## 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.

The study identified 138 Cleantech grants made in 2011 totalling \$397 million, an increase of 130% on the amount of grants in 2010.

We also identified committed government funds and schemes totalling \$3 billion that are expected to support environmental technologies in future years. This is a slight decrease on last year's forward commitment of \$3.6 billion, largely due to the ceasing of the Green Car Innovation Fund in early 2011 due to savings measures to fund flood infrastructure spending across eastern Australia.

The table below details Government funds and schemes committed to funding Cleantech during 2011. From 2012 the landscape of Cleantech related funding is set to change through the Federal Government's announced Clean Energy Future Program. The Program includes the introduction of a carbon price, bundling of current schemes under the Australian Renewable Energy Agency and an additional \$10 billion in committed funds through a Clean Energy Finance Corporation. Meanwhile, the renewable energy target for electricity generators continues to push for increases in renewable energy supplies. These changes are discussed in more detail below.

### Government schemes to fund Cleantech

Fund or scheme	\$M Committed	Period
Renewable Energy Development Program (NSW)	40	2008-2012
Australian Solar Institute (ASI)	150	2009-2012
Climate Ready Program	75	2009-2013
Green Building Fund (Stream B)	90	2009-2014
Green Car Innovation Fund*	375	2009-2011
Low Carbon Australia (was Australian Carbon Trust)	100	2010-2015
Australian Centre for Renewable Energy (ACRE) #	690	2010-2015
Solar Flagships Program Round 1	1,500	2010-2014
Cleantech Partnering Program South Australia	2	2011-2013

\* Grant Agreements Executed to September 2011. On 27 January 2011, the Prime Minister announced the closure of the Green Car Innovation Fund as part of the Government's saving measures to support the rebuilding of infrastructure damaged by the floods over large areas of eastern Australia. The Government honoured grants offered and processed applications received before the announcement.

# 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
- Renewable Energy Venture Capital Fund
- ACRE Emerging Renewables Program
- Australian Biofuels Research Institute (ABRI)

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:

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

## Australian carbon pricing scheme

In late 2011 the Federal Government passed bills to introduce a carbon price from 1 July 2012. The introduction of the carbon price and related support programmes is expected to create greater certainty in Australia around investments in clean energy technologies.

The carbon pricing mechanism introduced by the Labour Government will first see a three year fixed price and then a free float price with a price floor and a price cap.

The carbon price is fixed to start at \$23 in 2011-2012 and then rise to \$25.40 in 2014-2015. From 1 July 2015 the scheme will transition to a flexible price cap-and-trade emissions trading scheme. The first three years of trading will include a ceiling price set at \$20 above the global carbon market price (effectively EU ETS price) rising by 5% each year in real terms, and a floor price starting at \$15 rising 4% each year in real terms. Emission permits are allocated by auction with some assistance provided to trade exposed industries such as steel, aluminium, zinc and liquefied natural gas (LNG).

## Clean Energy Finance Corporation

As part of its Clean Energy Future package, the Australian Government committed \$10 billion to a commercially oriented Clean Energy Finance Corporation (CEFC). The CEFC will be independent from government with an independent chair and board overseeing its activities. The aim of the corporation is the commercialisation and deployment of renewable energy and enabling technologies, energy efficiency and low emissions technologies.

Funding tools include loans on commercial or concessional terms and equity investments, whereas any capital returned from investments will be reinvested. The structure, details of mandates and governance of the Clean Energy Finance Corporation are not yet finalised. An expert review panel will consult with key stakeholders and report to the Government by mid-March 2012 with recommendations on the implementation, mandates and governance of the CEFC.

The CEFC will not invest in carbon capture and storage (CCS) technology, which will continue to be supported through existing programs such as the CCS Flagship Program and the Global CCS Institute. Therefore funding supported by CEFC will be largely in line with the definition of Cleantech used in this report.

The CEFC is expected to start operating from 2013-14. The funding is allocated for five years.

## Australian Renewable Energy Agency and the Cleantech Innovation Program

In addition, the Government announced the establishment of the Australian Renewable Energy Agency to manage \$3.2 billion in existing government funding over nine years from 2011-12.

A \$200 million Clean Technology Innovation Program over five years (2012-2017) is set to support business investment in renewable energy, low emissions technology and energy efficiency through matched co-investment. Businesses, companies controlled by universities and public sector research organisations can apply for funding.

New government support and forward commitments are accompanied by the Renewable Energy Target (RET) scheme which mandates that 20% of Australia's electricity supply will come from renewable sources by 2020. The target now singles out a Large Scale Renewable Energy Target (LRET) of 41,000 Gigawatt hours by 2020 to support investments in large scale renewable energy projects.

# 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 make comparisons with mainstream performance benchmarks.

Details of the Australian indices are described in the ESG Indices section of the Benchmark report on page 22. Discussion follows on the performance of four different Cleantech-focused indices.

### ACT Australian Cleantech Index

Over the year to June 2011, the ACT Australian CleanTech Index recorded a loss of 8.1%, lagging well behind the S&P ASX200 gain of 4.2% and the S&P ASX Small Ordinaries gain of 9.5%. Over a three year period the ACT Cleantech Index also significantly underperformed.

	FY2011 %	3 Yrs to June 2011 % (not annualised)
ACT Australian CleanTech Index	(8.1)	(61.7)
S&P/ASX Small Ords	9.5	(18.2)
S&P/ASX200	4.2	(13.5)

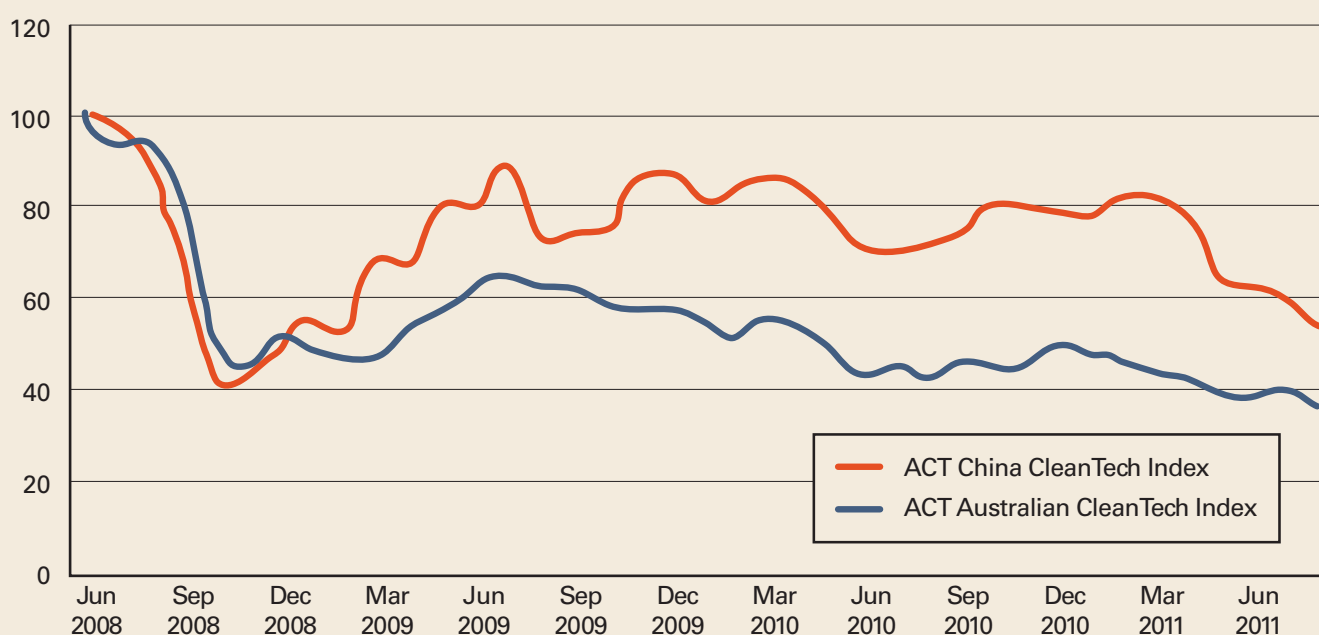
### ACT China CleanTech Index

Australian Clean Tech launched the China CleanTech Index in September 2011. The index provides a measure of the performance of Chinese Cleantech companies that are listed on stock exchanges around the world.

Australian CleanTech reports that since the commencement of measuring the China CleanTech Index performance in July 2008, it has generally underperformed its benchmarks. This general underperformance disguises some very good individual company results during this period and is largely the result of significant price-to-earnings multiples being consistently reduced from significant highs during 2007. There is also significant volatility in the Chinese Cleantech market with a rush of Cleantech IPOs and variable demand conditions in sub-sectors such as solar and wind.

	FY2011 %	3 Yrs to June 2011 % (not annualised)
ACT China CleanTech Index	(12)	(38.1)
Wilder Hill New Energy Global Innovation Index (NEX)	13.1	(49.3)
The CleanTech Index (CTIUS)	33.2	(19.3)

### China CleanTech Index vs. Australia CleanTech Index



Whilst the China Index was clearly doing much better than the Australian CleanTech Index for most of the period, the recent collapse in the Chinese solar and wind company stocks has brought it more in line with the Australian performance.

## 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 Ethinvest Environmental Share Price Index fell 0.21% in the year to June in contrast to a 7.75% gain of the All Ordinaries Price Index. In contrast the Ethinvest index has recorded a 14 year history of 12.06% p.a. since inception.

## The Cleantech Index®

The Cleantech Index® is a global index of 72 companies regarded by The Cleantech Group as established leaders in the sector, with a market capitalisation of US\$470.6 billion as at March 2011. 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 33.2% in the year and a loss of 19.3% in the three years to June 2011.

Other established international Cleantech indices include Wilder Hill New Energy Global Innovation Index, Ardour Global Alternative Energy Index, NASDAQ Clean Edge Green Energy 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

Arkx Carbon Fund	Macquarie Clean Technology Fund
Impax Environmental Markets Trust	Emerald Cleantech Fund
Australian Ethical Smaller Companies Trust	Cleantech Australia Fund
Australian Ethical International Equities Trust	Greencap
Hunter Hall Global Deep Green Fund	CentreBoard Renewable Energy Trust
Infigen Energy	

The total net assets of these 11 funds were \$1.26 billion, compared with adjusted net assets of \$1.39 billion in 2010, a fall of 9%.

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 2011 unless otherwise stated.

Last year RIAA reported a total estimate for responsible investment in New Zealand of NZ\$17.2 billion. For the year ended 30 June 2011 we estimate this to be NZ\$20.7 billion, an increase of NZ\$3.5 billion. The most significant factor in this increase was the NZ Superannuation Fund that increased by NZ\$3.4 billion, or 20%. 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. The funds have grown from total assets of NZ\$11.2 million to NZ\$17.7 million.

## ASB Community Trust

ASB Community Trust is Australasia's largest philanthropic trust. The UN Global Compact provides a benchmark for monitoring the Trust's portfolio which have grown over the year from NZ\$1 billion to NZ\$1.1 billion.

## ASB Group Investments

ASB Group Investments offers The Global Sustainability Fund as an option via the ASB First Choice KiwiSaver scheme. The underlying investment manager is Generation Investment Management. The fund size increased over the year from NZ\$539,307 to NZ\$1.4 million to NZ\$2.67million.

## 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. Asteron's SRI Trust reduced from NZ\$2.3 million in the year to NZ\$2.2 million. Asteron announced in June 2011 that it is winding up all its unit trusts, including the SRI Trust as at 30 September 2011.

## Craigs Investment Partners Investment Management

Craigs Investment Partners offers a Balanced SRI Fund which grew over the year from NZ\$5.75 million to NZ\$7.92 million.

## Fidelity Life

In 2008 Fidelity Life launched the Fidelity Life Ethical KiwiSaver Scheme and the Ethical Portfolio as a non-KiwiSaver version. 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 NZ\$3.51 million to NZ\$6.67 million.

## Just Dollar\$ Trust

Just Dollar\$ was established in 1992 as a charitable trust providing small business loans up to NZ\$10,000 to people and not-for-profits in the Canterbury region who are unable to access bank finance. It has over NZ\$250,000 in investor's funds and since 1993 has loaned over NZ\$1.1 million to more than 400 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 has adopted a responsible investment policy. Through the New Zealand Methodist Trust Association the Board oversees the direct investment of NZ\$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 NZ\$20,000 to small enterprises in the Nelson region. NELT has loans from investors totalling NZ\$465,867. Since 1997 it has made 179 loans totalling NZ\$1,418,370 with a repayment rate of 99%.

## 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 of NZ\$120 million.



## 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 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 NZ\$2.4 billion. The fund increased over the year from NZ\$15.63 billion to NZ\$19.03 billion.

## Prometheus Finance Limited

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 NZ\$14.5 million to NZ\$15 million with total lending at NZ\$6.2 million.

## The Quaker Investment Ethical Trust

The Trust was established in 1989 to provide an ethical savings, investment and loan service that reflects Quaker concerns. Loans have been for housing, small businesses, clearing high interest bearing debt, environmental enhancement and tertiary education. Total assets are NZ\$1.9 million.

## SuperLife

In 2008 SuperLife launched a balanced ethical investment option for its KiwiSaver scheme and non-KiwiSaver superannuation scheme. The option is known as Ethica. The assets in this investment option increased over the year from NZ\$0.9 million to NZ\$2.7 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 a number of Group Investment Funds designed specifically to meet the needs of charities including the Sustainable Australasian Share Fund which increased over the year from NZ\$15.3 to NZ\$16.0 million.

## Trust Waikato

Trust Waikato uses a range of approaches to implement its responsible investment commitments and has invested in a sustainable global equities fund, has a negative screen on its Australasian equities and fixed income portfolios and is currently considering a range of approaches for its engagement and voting activities. At 30 June 2011, the Trust fund had increased from NZ\$231 million to approximately NZ\$251 million.

## New Zealand signatories to the UN PRI

In the year to June 2011, New Zealand signatories to the UN PRI declined from 23 to 17. The complete list of New Zealand signatories at September 2011 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

Sovereign Assurance Limited

The Canterbury Community Trust

### ■ INVESTMENT MANAGER SIGNATORIES

Devon Funds Management

Direct Capital Limited

DNZ Property Fund Limited

Harbour Asset Management

HRL Morrison & Co

### ■ PROFESSIONAL SERVICE PARTNERS

CAER — Corporate Analysis. Enhanced Responsibility. (Australia and New Zealand)

# 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 2011 are as follows. Full details of licensees can be found on RIAA's website at [www.responsibleinvestment.org](http://www.responsibleinvestment.org).

## FUND MANAGER

AMP Capital Investors
AusbilDexia
Australian Ethical Investment
BlackRock
BT Investment Management
Dalton Nicol Reid
Foresters Community Finance
Hunter Hall Investment Management
Investa Property Group
Perennial Investment Partners
Perpetual Investments
UCA Funds Management

## SUPER FUND

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

## MASTER FUND

The Emerald Club
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## NON-GOVERNMENT ORGANISATION

WWF Australia
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## DEALER GROUP

BDO Wealth Management (VIC)
Ethical Investment Advisers
Ethical Investment Services

## FINANCIAL ADVISER

James Baird, JustInvest Financial Planning
Stuart Barry, Tas Ethical
Michelle Brisbane, Ethical Investment Services
Michael Driessen, GDA Financial Services
Jonathan Dunne, IPS Wealth Management
Louise Edkins, Ethical Investment Advisers
Paul Elkington, DJ Carmichael
Andrew Gaston, Accord Financial Solutions
Lisa Greeve, Greeve & Associates
Katrina Hawker, Capital Investment Planning
Mary Henderson, SuperElements
Alex Jamieson, AJ Financial Planning
Mark Lowe, Financial Services Partners
Karen McLeod, Ethical Investment Advisers
Justin Medcalf, Green Equity Management (GEM)
Andrew Melling, Next Generation Financial Planning
Jonathan Neal, Rise Financial
Adam Ordelman, Bridges King William Street
Richard Press, Wise Wealth Creation
John Ross, Ethos Financial Advisers
Evan Salt, Mango Money Management
Anne-Marie Spagnolo, Ethical Investment Services
Rodger Spiller, Money Matters (NZ) Ltd
Trevor Thomas, Ethinvest
Mark Tindale, Ord Minnett
Robert Vicary, Australian Unity
Bruce Warlow, Alliance Wealth Group
Richard Whan, Lighthouse Investments

The RI Academy is the world's first structured learning pathway for financial services, corporate and advisory professionals needing to understand how environmental, social and governance (ESG) issues are impacting investment decision making and ongoing access to investment and capital markets. The curriculum was released in 2011 by RIAA to address the significant and growing skills gap in the responsible investment sector.

Academy courses are delivered entirely online and include cutting edge interactive elements, self-testing, theory, case studies, investor tools, final examination, reward certificates and are designed to deliver maximum practical guidance and knowledge retention.

## RI Essentials

RI Essentials is the Academy's foundation course. It has been designed by industry leading professionals to provide the necessary tools for understanding and integrating environmental, social and governance (ESG) issues into financial decision making.

This preliminary course is used to map out how major ESG trends and themes translate into specific investment issues. The course uses financial modelling, case studies and interactive tools to deconstruct the relationship between ESG issues and the investment process, in order to build a practical knowledge base for responsible investment.

Whether you are new to the industry or an ESG professional, the RI Essentials course is an ideal platform to develop your responsible investment knowledge.

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RI Certificate 1 takes the lessons of RI Essentials and expands into an advanced, practical journey developed for professionals seeking strategic, best-practice, and industry specific methods to optimise investment opportunities.

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1. RI Essentials
2. Enhanced Financial Analysis
3. Climate Change Finance

## Benefits

At the RI Academy, we believe that training should deliver a tangible return on investment and promote genuine organisational improvement.

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- Smarter tools, templates and processes for ESG integration and transparency,
- Improved FUM, FUA, client acquisition and retention,
- Enhanced fiduciary, risk management and investment capabilities,
- Improved strategy, execution and reporting,
- Accelerated progress towards company-wide engagement with ESG risks and opportunities (including for management, boards and trustees),
- Enhanced market and brand positioning.

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Dinusha Peiris, Head of Research

Muhammad Bilal, Systems Analyst

Claudia Guinness, E-Marketing Co-ordinator

Kate Bell, Special Projects

# RIAA MEMBERSHIP DIRECTORY

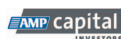
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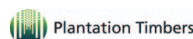
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