



Responsible Investment  
Association Australasia



# RESPONSIBLE INVESTMENT SUPER STUDY 2023

INDUSTRY PARTNER

P I M C O

## Contact us

### RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

Level 2, 696 Bourke Street  
Melbourne, VIC 3000  
Australia

Tel: +61 3 7068 9456  
info@responsibleinvestment.org  
responsibleinvestment.org

© Responsible Investment Association Australasia, 2023

Creative Commons Attribution 4.0 Australia Licence: Where otherwise noted all material presented in this document is provided under a Creative Commons Attribution 4.0 Australia licence: <https://creativecommons.org/licenses/by/4.0>

Licence conditions are on the Creative Commons website as is the legal code for the CC BY 4.0 AU licence: <https://creativecommons.org/licenses/by/4.0/legalcode>

The suggested citation for this report is Banhalmi-Zakar, Z., O'Callaghan, E., Parker, E. 2023. *Responsible Investment Super Study 2023*, Responsible Investment Association Australasia, Melbourne.

## Disclaimer

This report was produced based on information provided by survey respondents and desktop audits. RIAA does not guarantee that the data included in the report, or the report itself, is accurate or complete. RIAA is not responsible for any loss incurred if this report or any information within it is relied upon. The information in this report is general in nature and does not constitute financial advice, an offer for the issue, sale or purchase of any financial products, or any recommendation to invest in any investment product. It does not take into account particular investment objectives, financial situations or investment needs. Individuals should always seek independent professional advice before making any investment decision.

# CONTENTS

<b>CONTENTS</b>	<b>3</b>	<b>FIGURES</b>	
<b>THANK YOU</b>	<b>4</b>	<b>FIGURE 1</b> Total assets of super funds covered in this study, by category	10
Industry Partner	4	<b>FIGURE 2</b> Client accounts by super fund category	10
Data Provider	4	<b>FIGURE 3</b> Proportion of not-for-profit and for-profit super funds	10
Acknowledgements	4	<b>FIGURE 4</b> Percentage of assets managed internally by survey respondent super funds (n=16)	11
<b>RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA</b>	<b>5</b>	<b>FIGURE 5</b> Holdings disclosure among super funds	11
About this report	5	<b>FIGURE 6</b> Number of women and men trustees on super fund boards in 2021 and 2023	12
<b>EXECUTIVE SUMMARY</b>	<b>7</b>	<b>FIGURE 7A</b> Gender composition of trustee boards	12
<b>KEY FINDINGS</b>	<b>8</b>	<b>FIGURE 7B</b> Share of assets governed by boards with different gender composition	12
<b>INTRODUCTION</b>	<b>9</b>	<b>FIGURE 8</b> Gender composition of boards by fund category, and total assets	12
Industry overview in 2023	9	<b>FIGURE 9</b> Average scores of Responsible Super Fund Leaders on RIAA's Framework of Good Responsible Investment Governance, 2021 and 2023	16
Disclosure of portfolio holdings and external managers	11	<b>FIGURE 10</b> Share of total assets between Responsible Super Fund Leaders and non-leaders in 2019-2023	16
Gender representation on boards	11	<b>FIGURE 11</b> The top three drivers for responsible investment among survey respondent super funds	17
Key policy developments	13	<b>FIGURE 12</b> Weighted Average Carbon Intensity of RIAA certified super fund products and non-certified products, products of Responsible Super Fund Leaders and non-leaders	18
<b>RESPONSIBLE SUPER FUND LEADERS IN 2023</b>	<b>15</b>	<b>FIGURE 13</b> Top issues super funds engaged on or advocated for in 2021 and 2022	18
<b>RESPONSIBLE INVESTMENT TRENDS AMONG SUPER FUNDS IN 2023</b>	<b>17</b>	<b>FIGURE 14</b> Percent of super funds with an explicit responsible investment or ESG policy and percent of assets (2018-2023)	20
RIAA certified super fund products	18	<b>FIGURE 15</b> Proportion of super funds that mandate specific targets (2021 and 2023)	22
Carbon intensity of RIAA certified products and Responsible Super Fund Leaders' products	18		
Responsible investment super funds and MySuper performance	19		
<b>FINDINGS BY PILLAR</b>	<b>20</b>	<b>TABLES</b>	
1. Accountability and governance	20	<b>TABLE 1</b> Super fund categories used in this report	6
2. Responsible investment commitment	21	<b>TABLE 2</b> Responsible Super Fund Leaders 2023	15
3. Responsible investment implementation	23	<b>TABLE 3</b> RIAA's Framework of Good Responsible Investment Governance	15
4. Measurement and outcomes	24	<b>TABLE 4</b> Average net return of MySuper products of Responsible Super Fund Leaders and non-leaders and growth in client account	19
5. Transparency and responsiveness	25		
<b>APPENDICES</b>	<b>26</b>		
Appendix 1: Research methodology	26		
Appendix 2: RIAA's Framework of Good Responsible Investment Governance	26		
Appendix 3: Abbreviations	26		
Appendix 4: Funds included in this study	27		
<b>DISCLAIMER</b>	<b>28</b>		
<b>ENDNOTES</b>	<b>28</b>		

# THANK YOU

## Industry Partner

P I M C O

PIMCO is a global leader in active fixed income with deep expertise across public and private markets. We invest our clients' capital across a range of fixed income and credit opportunities, drawing upon our decades of experience navigating complex debt markets. Leadership in sustainable investing is essential to deliver on our clients' financial objectives while sustainable long-term economic growth is essential to maintain healthy markets. In our commitment to clients we strive to integrate ESG factors into our broad research process and engage with issuers on sustainability goals, including climate change and related risks, to help drive long-term investment value for clients seeking sustainable benefits for the economy, the environment and society. As of September 30, 2023 we managed US\$1.74 trillion on behalf of our clients.

## Data Provider



Sustainable Platform is Australia's leading provider of sustainability data and metrics to institutional investors. Since our inception in 2013, and official launch in 2017, we've remained committed to empowering asset owners and fund managers with up-to-date insights into social and environmental impacts and risks. Using the Sustainability Classification Standard (SCS®) and the UN's Sustainable Development Goals, we enable fund managers to develop genuinely sustainable strategies. With a foundation grounded in a decade of research and innovation by our team of sustainability experts and engineers, we offer a unique methodology. This methodology ensures accurate company indexing and delivers timely risk metrics, drawing directly from company information and reports. Sustainable Platform is dedicated to enhancing sustainable investment outcomes through the provision of robust, current data. For more information, please contact us at [info@sustainableplatform.com](mailto:info@sustainableplatform.com).

## Acknowledgements

This report has been researched and authored by Zsuzsa Banhalmi-Zakar and Elizabeth O'Callaghan, with data and data processes provided by APRA, and the 53 funds covered in the report.

RIAA heartily appreciates the support of PIMCO, which has enabled us to resource this research project. RIAA is grateful to Sustainable Platform for providing data for this study.

We are also grateful to the super funds that responded to our requests for information. The data, information and feedback they contributed provided the basis for the research and this report.

# RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

**The Responsible Investment Association Australasia (RIAA)** champions responsible investing and a sustainable financial system in Australia and Aotearoa New Zealand. It is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

RIAA has more than 500 members and represents US\$29 trillion in assets under management (AUM), making it the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Our membership includes super funds, KiwiSaver providers, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

RIAA achieves its mission through:

- providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets;
- delivering tools for investors and consumers to better understand and navigate responsible investment products and advice, including running the world's first and longest-running fund certification program and the online consumer tool Responsible Returns ([www.responsiblereturns.com.au](http://www.responsiblereturns.com.au));
- supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation;
- acting as a hub for our members, the industry and stakeholders to build capacity, knowledge and collective impact; and
- being a trusted source of information about responsible investment.

## About this report

The *Responsible Investment Super Study 2023* builds on research RIAA published in 2016, 2019<sup>1</sup> and 2021 to map the array of responsible investment approaches used by Australia's largest super funds and other large asset owners. It complements the *Responsible Investment Benchmark Report Australia* series and provides insights into changes in practice between the end of 2021 and 30 June 2023. The project's longitudinal research focus extends back to 2016 and

it seeks to articulate the evolution of responsible investment among super funds to highlight leading practices and drive continuous improvement.

The *Responsible Investment Super Study* is designed to:

- track trends in the superannuation sector's engagement in responsible investment practices;
- help super funds better understand the range of practices in responsible investment, including what constitutes leading practice; and
- help consumers understand how super funds function, engage and are practised to achieve responsible investment goals, allowing consumers to make informed decisions regarding their superannuation.

## Research universe

The *Responsible Investment Super Study 2023* covers 53 asset owners: 52 super funds and Australia's sovereign wealth fund, the Australian Government's Future Fund. The study covers the 50 largest superannuation funds in Australia regulated by the Australian Prudential Regulation Authority (APRA) and Future Super, a smaller ethical fund and State Super (SAS Trustee, governed by the Treasurer of NSW) and Emergency Services and State Super (ESSSuper), a Victorian Government super fund. The last two funds are not regulated by APRA as they are public-sector super funds. This study does not cover self-managed super funds. A full list of asset owners is included in Appendix 4.

We distinguish four types of super funds: industry, retail, corporate and public sector super funds. **Note that our definition of 'retail' super fund and 'public sector' fund are different to those used by APRA. Please refer to Table 1 for the definitions used in this report.**

Fourteen out of the 53 funds (26%) completed the online survey. At 30 June 2022, the funds included in this research managed 96% of all APRA-regulated super fund assets (excluding the Future Fund and State Super), representing \$2.2 trillion in assets under management an increase from \$2 trillion in 2020. All amounts expressed in this study are in Australian dollars (A\$) unless otherwise indicated.

**TABLE 1 Super fund categories used in this report**

Fund category	Description	Profit status	APRA-regulated?	Examples
<b>Industry super fund</b>	A super fund run to benefit members only (as opposed to also benefitting external shareholders)	Non-profit	Yes, all	Active Super, AustralianSuper, Aware Super, UniSuper
<b>Retail super fund</b>	A fund that is developed by a financial institution or insurance company to cater for anyone interested in investing and saving for retirement	For profit	Yes, all	Australian Ethical Super, BT Funds Management, Mercer Super
<b>Corporate super fund</b>	A fund that is only available to employees of a particular corporation and, in some cases, to former employees or relatives of current employees	For profit or non-profit	Yes, all	ANZ Staff Super, Qantas Super
<b>Public sector super fund</b>	Funds catering only for current and former government/public sector employees	Non-profit	Some yes, others no	State Super (NSW), ESSSuper (Vic.), Commonwealth Super Corporation, Future Fund

### Super fund stakeholders

RIAA acknowledges that all super funds have a key stakeholder group: their beneficiaries. However, different funds have different labels for this group. Retail funds tend to have 'clients' or 'customers', corporate and industry funds have 'members' and public/non-regulated funds have 'members' or 'beneficiaries'. A sovereign wealth fund such as the Future Fund identifies these beneficiaries as 'future generations of Australians'. In this report, the terms 'clients' and 'members' is used to refer to the key stakeholder groups.

# EXECUTIVE SUMMARY

## **Regulatory changes have significantly impacted the superannuation industry in Australia since 2020.**

First, the Your Future, Your Super legislation has contributed to reshaping the sector, driving strategic consolidation within the industry, resulting in fewer, larger super funds in the Australian market. Despite this, total assets owned by Responsible Super Fund Leaders continued to rise and have reached a record \$783 billion. Through the identification, temporary and eventual closure of funds that fail the Australian Prudential Regulation Authority (APRA) performance test, Your Future Your Super has led funds to review their business models, with many deciding to merge with other funds often in an effort to cut costs. Mergers have taken shape in different ways, for example, one fund can be acquired by another fund (e.g., Christian Super merged with Australian Ethical Superannuation), or two or more funds merge to create one new fund (e.g., Brighter Super emerged from the merger between LGIA Super and Energy Super). This has meant fewer super funds have been identified as Responsible Super Fund Leaders this year (10 in 2023 compared to 13 in 2021), while the total assets owned by Leaders increased by \$40 billion over two years.

Secondly, mandatory portfolio holdings disclosure (albeit with exceptions), effective from 2022, empowered fund members, stakeholders and investors to scrutinise and assess sustainability claims. The amendment brings Australia closer to global best-practice disclosure requirements. Not surprisingly, all APRA-regulated super funds assessed through this research now disclose portfolio holdings. This is a significant win for transparency, as, in 2021, just 23% disclosed their portfolio holdings in full and the majority (62%) of funds only disclosed the top 20 holdings. By allowing for scrutiny of claims of exclusions and sustainable investment promises made by the industry, portfolio holdings disclosure is key to monitoring potential greenwashing.

Amidst this change, short-, medium-, and long-term financial performance data for FY2022 confirms that returns do not have to be sacrificed to do responsible investment well. The MySuper products of Responsible Super Fund Leaders performed, on average, as well, or better than, non-leaders. Responsible Super Fund Leaders also gained slightly more (+2%) new members in FY2022 than non-leaders – a finding that aligns with RIAA's research that consumers are increasingly keen to align their investments with their values.

Many super funds have strengthened their commitment to addressing climate change and other ESG considerations, in line with the evolution of responsible investment standards and practices globally. They are deepening their commitments to climate change response and capabilities in ESG issues.

For example, super funds with an explicit ESG or responsible investment policy now own 96% of assets (APRA-regulated entities). Today, most (62%) super funds employ staff dedicated to ESG or responsible investment functions, compared to just 36% in the previous reporting period. Most progress has been made in addressing climate change related risks. Forty-two percent of super funds have portfolio targets aligned with the Paris Agreement or net zero by 2050 commitments, compared with just 34% in 2021. Setting non-financial targets is also on the rise, with over a third (36%) of super funds setting outcomes-focused targets.

Recent data from an independent third-party reveals RIAA certified super fund products have just one-fifth (21%) of the weighted average carbon intensity of non-certified funds when counting scope 1, 2 and 3 emissions. While products offered by Responsible Super Fund Leaders have a 60% lower weighted average carbon intensity compared to non-leaders, when counting scope 1, 2 and 3 emissions. The results indicate that RIAA certified funds have robust climate change targets and also deliver superior outcomes. Responsible Super Fund Leaders also achieve stronger low carbon emission outcomes than non-leaders.

At the same time, finding information about super funds' ESG ambitions and actions has never been easier. The vast majority (87%) of super funds now publish ESG information on their websites and many also publish comparison tools that allow the public to compare features of traditional and socially responsible investment options. There is of course room to improve, for instance, only 30% of super funds publish voting records and even fewer publish their voting intentions before voting.

Overall, this study found that Australia's superannuation sector continues to improve responsible investment practices amidst significant regulatory change and sector consolidation. ESG considerations have been mainstreamed, transparency has improved and climate considerations have taken centre stage.

# Key findings



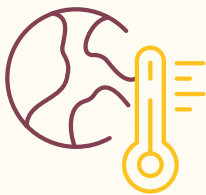
Responsible Super Fund Leaders hold a record \$783 billion, increasing by \$40 billion compared to 2021.



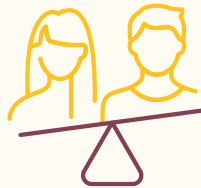
Following new laws, 100% of super funds now disclose portfolio holdings, a significant increase from the 23% of funds that disclosed more than the top 50 holdings in 2021.\*



62% of super funds employ staff dedicated to responsible investment or ESG, an increase on just 36% in 2021.



Climate change emerges as the key ESG risk that super funds seek to manage. 42% of super funds have portfolio targets aligned with the Paris Agreement (net zero by 2050), compared with just 34% in 2021.



Major strides in gender equity, as more large super funds report gender balanced boards. However, 38% of boards still have less than 40% women, compared to 6% with less than 40% men.



10 Responsible Super Fund Leaders are named for 2023, decreasing from 13 in 2021, primarily due to super fund mergers.



RIAA certified super fund products have a mere 1/5 (21%) weighted average carbon intensity of non-certified funds when counting scope 1, 2 and 3 emissions.



Responsible Super Fund Leaders' products have a 60% lower weighted average carbon intensity compared to non-leaders when counting scope 1, 2 and 3 emissions.



Performance of the MySuper products of Responsible Super Fund Leaders is on par or better than non-leaders.

\* Under government regulations introduced in 2022, super funds are not required to disclose the names of assets in certain asset classes (e.g., cash, fixed income, and externally managed unlisted equity, property, infrastructure, alternatives). See Corporations Act 2001 Volume 6, Schedule 8D.

# INTRODUCTION

## Superannuation funds are among the largest asset owners

both in Australia and globally (see the box 'Asset owners explained'). Total superannuation assets represent close to \$3.4 trillion, at 30 December 2022, which includes government super funds not regulated by APRA and self-managed super funds (SMFS) in addition to APRA-regulated superannuation funds. Employees in Australia are typically entitled to compulsory superannuation contributions from their employer, set at a guaranteed rate of their ordinary earnings, to which employees can also add some of their own earnings if they so choose. This makes super funds immensely important in Australia's financial system and society. The 53 super entities included in this study own some \$2.2 trillion in assets and comprise more than 19 million client accounts (at 30 June 2022, which is the most recent annual data available from APRA).

Similar to other key players in the finance sector, the superannuation industry is highly regulated, and funds accumulated in superannuation can only be withdrawn upon retirement or in other specific circumstances (e.g., in relation to member health issues, or financial hardship as a result of the COVID-19 pandemic). APRA and the Australian Securities and Investments Commission (ASIC) are among the key regulators. APRA publishes the *Superannuation Fund-Level Statistic*, which is an important resource for this study.

## Industry overview in 2023

The number of superannuation funds in Australia has been steadily decreasing, resulting in few super funds holding most assets. Super funds are merging at an unprecedented rate, likely due to the increased scrutiny of super fund performance, spurred on by the Your Future, Your Super regulations, which has resulted in large numbers of mergers within the industry. APRA-regulated entities amounted to 76 super funds or trustees in 2022, compared with 167 in 2020. Of the 76 super funds published December 2022 (referring to June 2022 data), six have merged in the last 12 months and another five have announced they are undergoing mergers in 2023 or 2024 (see Appendix 4).

Conexus Institute's deep dive into APRA's Annual Superannuation Statistic June 2022 provides insights into the sector. It highlights that just 14 super funds control 80% of industry assets.<sup>2</sup> The two biggest super funds are AustralianSuper and Australian Retirement Trust, with more than \$250 billion worth of assets. They are followed by five funds with more than \$100 billion in assets, and seven with more than \$50 billion in assets. Net inflow into super funds in FY 2022 is estimated to be \$52 billion. Around 1.4 million people are in the retirement phase of their super, which represents nearly half a trillion dollars, or 22.3% of industry assets. The seven largest funds, in terms of accounts, make up about 71% of all industry retirement accounts.

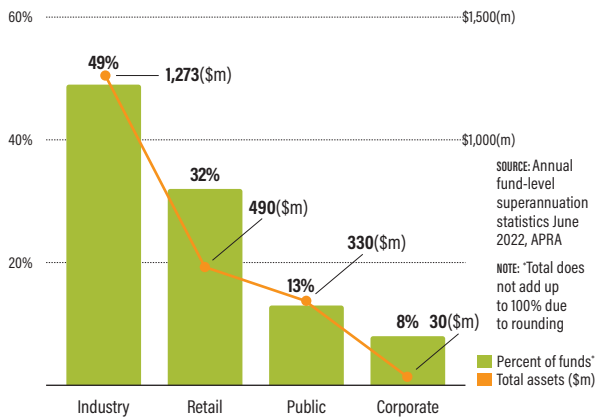
### ASSET OWNERS EXPLAINED

Asset owners are also often called 'end-investors' as well as 'clients' by investment manager firms. In Australia, most asset owners are superannuation funds. But asset owners also include sovereign wealth funds, pension funds, insurance companies, foundations, endowments and, in some cases, individual investors. As asset owners, investors are ultimately responsible for their assets.

### SOVEREIGN FUNDS AND AUSTRALIA'S FUTURE FUND EXPLAINED

Sovereign funds are state-owned funds that invest in a wide range of assets to benefit the nation's people and economy. Australia's Future Fund is an important asset owner, with a unique mandate to invest over the long term for the good of future generations of Australians. It includes six separate mandates: The Future Fund, the Medical Research Future Fund, the DisabilityCare Australia Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the Future Drought Fund and the Emergency Response Fund (collectively referred to as the Future Fund for the purposes of this report). The Future Fund operates independently of government and is not regulated by APRA. It is governed by a board of guardians rather than directors or trustees (see the box 'Trustees explained'), and it held \$194.4 billion in assets (as of 30 June 2022).

**FIGURE 1** Total assets of super funds covered in this study, by category

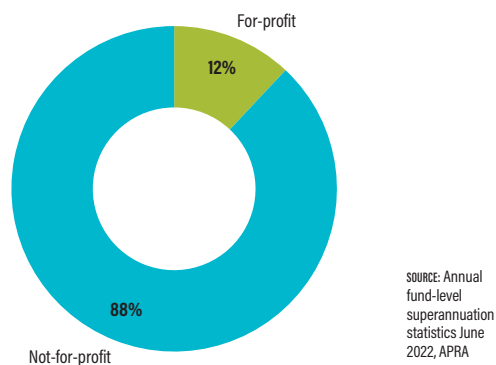


Almost half (49%) of the super funds included in this study (the ‘research universe’) are industry super funds, followed by retail (32%), public (13%) and corporate (8%) funds, as shown in Figure 1. Not surprisingly, most assets are also managed by industry super funds (60%), followed by public (23%), retail (16%) and corporate funds (1%).

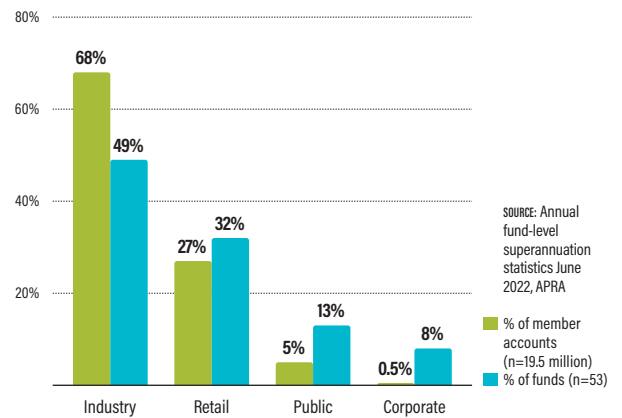
Industry funds also manage the most member accounts (69%), followed by retail funds (27%), public (13%) and corporate (0.5%) (Figure 2). The Future Fund, a large asset owner in the public sector category, is not a super fund; rather, it is a sovereign wealth fund that holds \$194.4 billion (as of 30 June 2022) % of public sector assets and 9% of total assets in the research universe but does not have any member accounts. This impacts the share of member accounts by public funds in Figure 2.

The majority (68%) of super funds in Australia continue to be not-for-profit funds (Figure 3), which is a drop of 20% from 2021. Not-for-profit status means all profits are used to benefit members. Only retail super funds have a for-profit status, whereby the profits benefit external stakeholders (shareholders).

**FIGURE 3** Proportion of not-for-profit and for-profit super funds



**FIGURE 2** Client accounts by super fund category



APRA collects information about board composition and remuneration of trustees (see the box ‘Trustees explained’ for an overview of boards and trustees). While board size varies, the average number of trustees on boards is nine. The smallest boards in the study have four trustees, while the largest super fund has 15, somewhat fewer than in the previous reporting period.

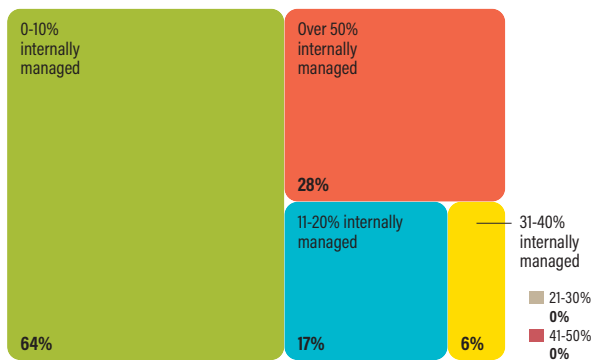
Many super funds increase the proportion of internally managed assets. The volume of assets managed internally continues to grow among funds that have identified this as their path forward. Two-thirds (64%) of the 18 super funds that responded to the survey or disclosed this data, managed less than 10% of their assets internally (Figure 4). Over a quarter (28%) managed more than half of their assets internally, most of them are among the largest super funds. Internal management can be one way to reduce costs for large funds, where scale allows for in house investment management teams. Survey respondents manage, on average, 35% of their investments internally, with cash the most common asset class managed this way. But still, the vast majority of super funds (96%) continue to rely on investment managers to administer assets on their behalf. Internal versus external management becomes important when assessing the responsible investment practices of super funds.

**TRUSTEES EXPLAINED**

Superannuation funds are governed by boards, the members of which are known as trustees or directors. These individuals are equally and legally responsible for operating the fund for the benefit of the super fund members, solely for purposes specified in the trust deed and relevant legislation. They make decisions that affect members’ retirement interests and may be personally liable for the outcomes of decisions made.

Several trustee companies exist in the superannuation industry, and they are the entities that are regulated by APRA. This study does not assess trustee companies but rather the underlying super funds.

**FIGURE 4** Percentage of assets managed internally by survey respondent super funds (n=16)



## EXTERNAL MANAGERS AND ASSET CONSULTANTS EXPLAINED

External managers and asset consultants provide numerous services to asset owners, such as super funds that do not have capacity to manage all their assets internally. External managers refers to investment managers, also called asset managers, who are independent of asset owners such as super funds. Most super funds engage external investment managers to administer some or all their assets on their behalf. This means they are expected to manage assets according to the asset owners' goals and needs, and are engaged to manage a range of securities, such as real estate, bonds and shares.

Asset consultants provide advice to asset owners, such as super funds, on asset-class strategy and management. They have specialist knowledge about several types of assets.

When substantial proportion of assets are managed externally, the question of how super funds instruct investment managers to act on their behalf becomes a key issue. **As a result, this study aims to identify how and to what extent super funds can ensure that their responsible investment goals and policies are delivered through the external organisations they engage, in addition to their internally managed assets.**

## Disclosure of portfolio holdings and external managers

Portfolio holdings disclosure by super funds has been a legal requirement in Australia since 31 March 2022<sup>3</sup>, which brings Australia closer to global practices for pension funds. As a result, 100% of funds disclosed portfolio holdings in this reporting period, a complete turnaround from 2021 when the majority (62%) of super funds disclosed only a limited proportion of holdings (ranging from none to the top 20 holdings). Under current requirements, super funds must disclose information about their investments held by the trustee, an associated entity or pooled superannuation trust, including the identity, value and weightings of their investments. Portfolio disclosure allows individual investors to pinpoint which companies and assets their capital is invested in. This information is available on individual super fund websites in a downloadable format (Excel or .csv). External managers are typically listed on super funds' website.

## Gender representation on boards

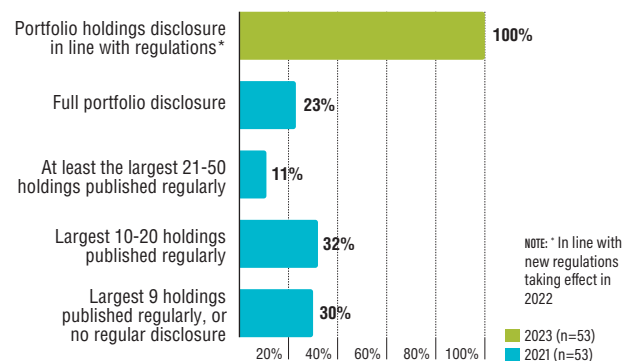
It is well established that company boards in general lack diversity across several criteria – gender, race, ethnicity, disability and socio-economic status – even though board diversity has been shown to lead to better company outcomes. To improve gender balance, several initiatives have been launched, such as the 40:40 Vision initiative, led by HESTA, the 30% Club initiative and the Australian Government's own 50% target for female representation.

Data for the following figures has been sourced from APRA, which only includes male and female genders in its reporting. RIAA recognises that boards may comprise people outside these binary gender identities.

## HOLDINGS DISCLOSURE EXPLAINED

Holdings disclosure refers to identifying the companies or assets that super funds have invested in and the amount (or proportion) of capital invested. Public disclosure of holdings is important for transparency. Portfolio holdings disclosure has been a legal requirement in Australia since 31 March 2022.

**FIGURE 5** Holdings disclosure among super funds



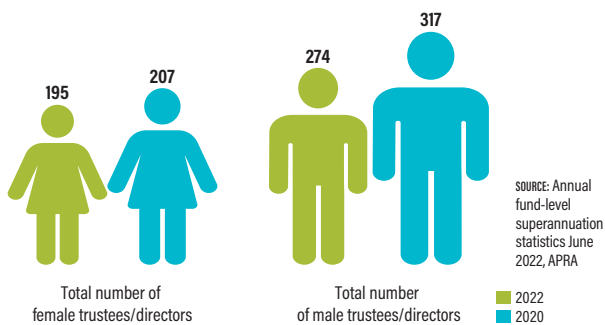
Despite progress, board representation is still skewed towards men. In terms of overall numbers, 58% of the 469 trustees are men and 42% are women, which represents less than a 2% increase in the number of women trustees since 2020 (Figure 6). More than a third (38%) of the 53 super funds under consideration still have less than 40% female representation on boards, with almost a quarter (23%) having less than 30%. The highest percentage of male trustees on a board is 97%, while the highest percentage of women trustees is just 67%.

There are, however, some encouraging developments. For example, more than half of all boards are gender balanced, meaning neither gender represents less than 40% (Figure 7a). And while the proportion of boards with more men than women trustees is still greater than half (53%), it has decreased substantially from 66% in 2020.

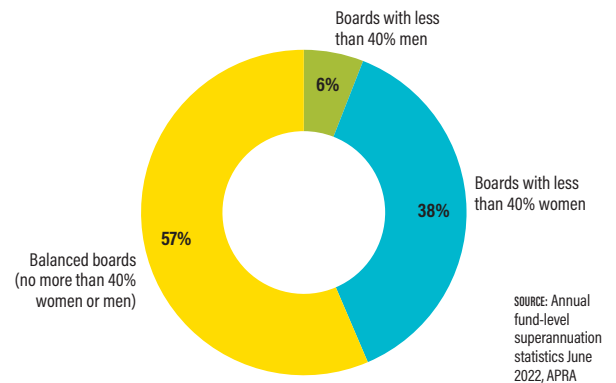
Inequality also translates to the value of assets controlled by boards of differing majority representation. We found that male-majority boards govern a fifth (20%) of total assets, while female-majority boards oversee just 2% of super fund assets (see Figure 7b). The trend towards balanced boards is visible, as these boards govern the majority (79%) of assets. In other words, women appear to be on the boards of bigger super funds, so exert more influence on super fund governance than in the past.

Average remuneration of board members is a function of total assets of super funds (moderate correlation) based on our calculations. When we compared average remuneration across boards of differing gender composition, we found that members on balanced boards have the highest average remuneration at \$99,000 p.a., close to what was reported in 2020. However, trustees on female-majority boards now earn nearly \$37,000 more than they did in 2020 (\$97,000 in 2022 compared to just \$60,400 in 2020). Male-majority boards earn the least on average (\$69,000 in 2022 compared with \$76,636 in 2020).

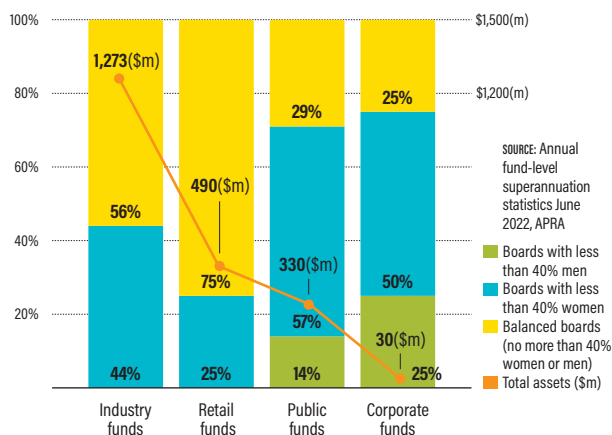
**FIGURE 6** Number of women and men trustees on super fund boards in 2020 and 2022



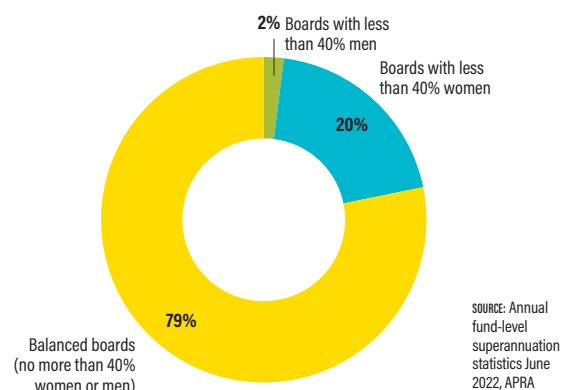
**FIGURE 7A** Gender composition of trustee boards



**FIGURE 8** Gender composition of boards by fund category, and total assets



**FIGURE 7B** Share of assets governed by boards with different gender composition



## Key policy developments

Since January 2021, the superannuation industry has been the subject of significant attention from government and policymakers. A number of these interventions have reshaped the market, the superannuation industry itself, while others have had impact on those who incorporated responsible investment.

### From best practice to a mandatory regime

A crucial development since the last, *Super Study* report has been the move by both Australian and New Zealand Governments to formalise industry and policy through legislation.

The Australian Government has also picked up the pace. Setting clear expectations of industry, it is developing a comprehensive sustainable finance strategy that will “improve transparency, deepen Australia’s green finance markets, and seize opportunities presented by surging global momentum in sustainable finance”.<sup>4</sup> The Australian Government has consulted twice on designing a climate-related financial disclosure framework that will set standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities. While markets and industry await the release of the strategy before the end of 2023, the Australian Government has also progressed the regulation and standardisation of sustainable finance through a range of other avenues.

This focus on a deeper policy engagement by government around sustainable finance follows extensive industry work to embed concepts of sustainability into finance, as was demonstrated through the Australian Sustainable Finance Roadmap released in November 2020. Notably, in 2023, the Australian Government funded work to progress one of the key recommendations in the roadmap: developing an Australian sustainable finance taxonomy which is now underway.

A review, in 2023, of Australia’s progress on the roadmap concluded that it is moving rapidly from laggard to ‘early follower’ – advancing development of a sustainable finance taxonomy, moving to introduce mandatory climate disclosure for Australian firms from 1 July 2024, and developing a framework to issue Australia’s first sovereign green bonds, announced in the May 2023 federal budget.

### A focus on greenwashing

Regulators in Australia and New Zealand have been active in developing standards and ramping up enforcement action against greenwashing. Similarly, the Australian Securities and Investment Commission (ASIC) has released guidance on how to avoid greenwashing, to assist issuers in complying with existing misleading and deceptive provisions in Australian corporate law.

Several regulatory actions have already been undertaken, including a review of disclosure by the FMA in 2022, which found that the managed-fund sector issuing integrated financial products with sustainability claims had an immature approach to disclosure; overall, it was vague, loose and inconsistent. In 2023, the FMA has sharpened its focus in this area, coinciding with the first reporting period of the mandatory climate-related disclosure.

In Australia, the corporate regulator has taken action in the corporate sector, as well as in asset management relating to net zero statements and targets; the use of terms such as ‘carbon neutral’, ‘clean’ or ‘green’; fund labels; and the scope and application of investment exclusions and screens. Notable actions relevant to the super sector include:

- an infringement notice to superannuation trustee Diversa Trustees Limited for statements made on the website for one of its superannuation products, due to concerns that the statements may have been false or misleading by overstating investment screens;
- civil penalty proceedings against Mercer Superannuation (Australia) Limited for allegedly making misleading statements about the sustainable nature and characteristics of some of its superannuation investment options; and
- civil penalty proceedings against LGSS Pty Limited (Active Super), alleging misleading conduct and misrepresentations in relation to exposing its members to investments it claimed to restrict or eliminate.

In 2023, the Australian Government provided additional funding to ASIC for further enforce action on greenwashing.

### Mandatory reporting of climate-related financial information

While New Zealand is awaiting its first reports under its mandatory climate reporting standards, Australia has focused on international efforts to develop disclosure standards. Since 2022, the Australian Government has supported the development of the International Sustainability Standards Board (ISSB) of the IFRS Foundation. Following extensive consultation in 2022, the ISSB issued, in June 2023, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* to create a common language for disclosing the effect of climate-related risks and opportunities on a company’s prospects.

The Australian Government has also passed law to allow the Australian Accounting Standards Board (AASB) to develop sustainability-related financial reporting requirements in Australia. Following consultation on the approach and suitability of the draft IFRS standards, AASB issued, in October 2023, Exposure Draft ED SR1, *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*, which proposes three draft Australian Sustainability Reporting Standards (ASRS):

- ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, developed using IFRS S1 as the baseline but with a scope limitation to climate-related financial disclosure;
- ASRS 2 *Climate-related Financial Disclosures*, developed using IFRS S2 as the baseline; and
- ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service standard.

The consultation continues until March 2024.

## Your Future, Your Super

Your Future, Your Super (YFYS) refers to a range of measures passed in 2021 that aimed to increase member engagement, reduce fees, increase performance and hold trustees accountable for the decisions they make. The measures were:

- stapling funds to allow a super fund membership to follow an employee to a new employer;
- annual performance testing of MySuper (and limited other products), with assessment results reported publicly on APRA's website and consequences for failing the performance test;
- development of a YourSuper comparison tool for MySuper products to empower members to make informed decisions; and
- modifying the existing duty of, best *financial* interests, (emphasis added) for superannuation trustees, requiring trustees to focus on the best financial interests of members and on trustee accountability.

In July 2022, the Australian Government consulted on the YFYS regime to review the measures and operational law, pausing its performance test for 12 months. A number of concerns were raised in the review, including impact of the performance test on investment decisions, administrative burden and compliance costs.

In April 2023, the Australian Government published proposed changes to YFYS. These included increasing the testing period from eight to 10 years and calibrating key benchmarks to ensure funds are not unintentionally discouraged from investing in certain assets. Crucially, it proposed the performance test be extended to 'values-based' products. RIAA has been engaging with the government on industry concerns with this change, including the potential for it to compromise other policy goals relating to climate change and sustainability, and unintended consequences of reducing trustees' ability to make long-term capital allocation decisions for fear of failing the performance test.

Separate but related, in 2023 the government consulted on codifying the objective of superannuation into law: "to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and *sustainable way*" (emphasis added).<sup>5</sup> The government explained that "sustainable signifies that the system should be robust to demographic, economic and social change, and should be cost-effective for taxpayers in achieving retirement outcomes".<sup>6</sup> Whilst RIAA has been supportive of this objective, we have also recommended that the definition of 'sustainable' within the legislation and supporting explanatory memorandum is broadened to include the consideration of those external social and environmental sustainability challenges that have the potential to have a great impact on the nature of the retirement of Australians.

## Updates to APRA guidance

In 2023, APRA updated guidance to superannuation trustees on how to meet their obligations under Prudential Standard SPS 530 *Investment Governance* (SPS 530) in Prudential Practice Guide SPG 530 *Investment Guidance* (SPS 530). Following extensive consultation since 2021, SPG 530 now includes APRA's expectation on how trustees would "consider material environmental, social and governance (ESG) risk factors as part of their overall investment risk management".

### Portfolio holdings disclosure

As noted earlier, in November 2021, the Australian Government introduced portfolio holdings disclosure regulations, effective from 31 March 2022 and occurring every six months thereafter. These require super funds to disclose information about their investments held by the trustee, an associated entity or pooled superannuation trust, including the identity, value and weightings of their investments. Portfolio holdings disclosure is a key tenet of leading practice responsible investment, bringing Australia closer to global expectations.

### Development of industry definitions

In November 2023, the CFA Institute, the Global Sustainable Investment Alliance (GSIA) and Principles for Responsible Investing (PRI) issued a paper to improve consistency in terminology used in responsible investment, specifically:

- screening,
- ESG integration,
- thematic investing,
- stewardship, and
- impact investing.

The collaboration was inspired by calls from regulators for voluntary standard setters to develop common terms and definitions to ensure consistency throughout the global asset management and wealth management industries. Promoting the consistent and precise use of terminology contributes to efforts to address greenwashing.

# RESPONSIBLE SUPER FUND LEADERS IN 2023

In 2023, 10 super funds were assessed as Responsible Super Fund Leaders (Table 2). This represents 19% of super funds, fewer than in 2021, when 13 out of 53 asset owners (25%) demonstrated leading practice, and 2019, when the number was 14 out of 57. Assessment is based on RIAA's Framework of Good Responsible Investment Governance, like in previous years.

**TABLE 2 Responsible Super Fund Leaders 2023**

Fund name
Australian Ethical Super
AustralianSuper
Aware Super
CareSuper
Cbus Super
HESTA
Future Super
Rest
Telstra Super
UniSuper



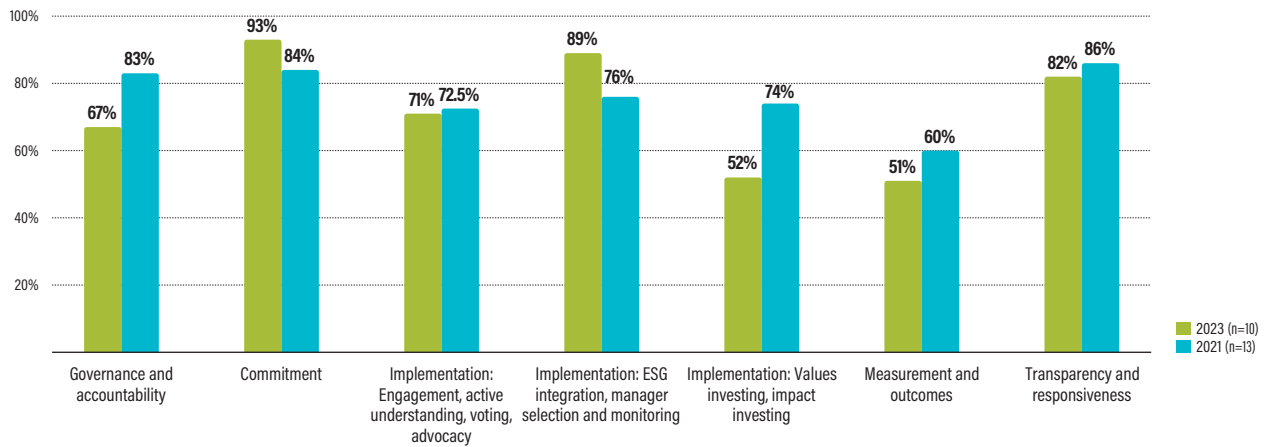
RIAA's framework, which was developed in consultation with RIAA super fund members, comprises five pillars that capture how responsible investment can fit within a fund's broader investment beliefs and processes (Table 3). The pillars cover the main elements of asset owners' good governance, from commitment through to implementation, measurement, reporting and review. Noting the many styles of responsible investment – from ESG (environment, social, governance) integration to ethical approaches to a focus on stewardship responsibilities – the framework is agnostic with regards to specific responsible investment style. Rather, it invites funds to describe their own approach to responsible investment and demonstrate how it is consistent with the five pillars of good governance.

**To be named a Responsible Super Fund Leader**, a fund had to demonstrate a comprehensive responsible investment approach across the five pillars of the framework by achieving an overall score of 70%. It appears this proved more difficult for super funds in this reporting period than earlier periods. Figure 9 shows that current leader average scores are higher only on the 'commitment' pillar and one 'implementation' pillar. Leaders' average score dropped on 'governance' and 'accountability' and 'measurements and outcomes'. This may be because several funds are undergoing mergers or restructures, which can result in a lack of clarity over ESG processes (coverage of policies, protocols) and missing information (such as current ESG or responsible investment policies, corporate engagement or stewardship data).

**TABLE 3 RIAA's Framework of Good Responsible Investment Governance**

Pillar	Name	Description	Maximum score
1	<b>Governance and accountability</b>	Board-level buy-in to responsible investment, supported by formal accountability processes	7.5
2	<b>Commitment</b>	Extent and breadth of responsible investment approach and coverage aligned with investment and responsible investment beliefs	7
3a.	<b>Implementation</b>	Engagement, active understanding, voting, advocacy (as applicable)	12
3b.	<b>Implementation</b>	ESG integration, manager selection and monitoring (as applicable)	9-12
3c.	<b>Implementation</b>	Values investing, impact investing	5
4	<b>Measurement and outcomes</b>	Systems and metrics to track and manage responsible investment performance internally and externally; ways for measuring success	5
5	<b>Transparency and responsiveness</b>	Disclosures that build member confidence and broader stakeholder trust in the super fund's governance of responsible investment (as applicable)	9.5
<b>Total possible score = 58</b>			

**FIGURE 9** Average scores of Responsible Super Fund Leaders on RIAA's Framework of Good Responsible Investment Governance, 2021 and 2023



The average score for leaders also declined for 'implementation' regarding values investing and impact investing, which indicates less action towards ensuring super fund assets build sustainable impacts or are value driven. It is also possible that some super funds withdrew public disclosure of responsible investment commitments, practices and outcomes in response to ASIC's recent actions against super funds and investment managers on greenwashing (or 'greenhushing').

Asset owned by Responsible Super Fund Leaders grew to a record \$783 billion by the end of 2022, even though there only 10 Leaders this year, representing just 25% of APRA-regulated asset owners. Due to the mergers, our research universe, which focuses on the largest 50 funds, now covers more assets than ever before, at \$2.1 trillion (see Figure 10). This means that some of Australia's largest asset owners demonstrate leading responsible investment practices.

All 10 Responsible Super Fund Leaders have appointed women to at least 30% of trustee roles, while eight have more than 50% female representation on their boards.

Eight of the Responsible Super Fund Leaders are industry funds and two are retail funds. No corporate or public sector funds were assessed to be leaders in 2023, as per 2021. This is perhaps not surprising, as these categories have the highest number of funds.

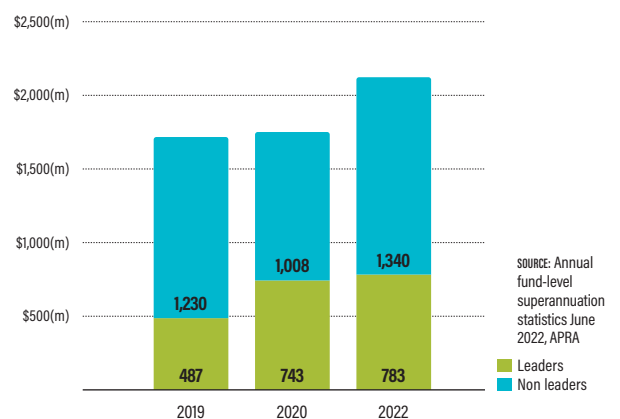
**GREENWASHING**

According to ASIC, greenwashing in investment "... is the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical".<sup>7</sup>

**GREENHUSHING**

There is not yet a generally accepted definition of greenhushing, but it is widely recognised as deliberately keeping quiet about sustainability or climate ambitions and actions in an effort to avoid scrutiny.<sup>8</sup> Some consider it to be a form of greenwashing.

**FIGURE 10** Share of total assets between Responsible Super Fund Leaders and non-leaders in 2019-2023



SOURCE: Annual fund-level superannuation statistics June 2022, APRA

# RESPONSIBLE INVESTMENT TRENDS AMONG SUPER FUNDS IN 2023

**RIAA is the leading membership body working to grow the uptake and deepen the impact of the wide-ranging ESG issues that comprise responsible investment. In this context, this report aims to improve clarity and definition of the constituent parts of super funds' responsible investing approaches, to enhance the performance and sustainability of the superannuation sector. By benchmarking leading practice, we help members and the industry more broadly progress towards meeting the changing expectations of beneficiaries and regulators regarding managing material ESG risk and opportunity.**

## AT A GLANCE

- ▶ Expectations of long-term financial returns and risk mitigation, and retail investor demand were the top drivers of demand for responsible investment among super funds.

## ASSET ALLOCATION EXPLAINED

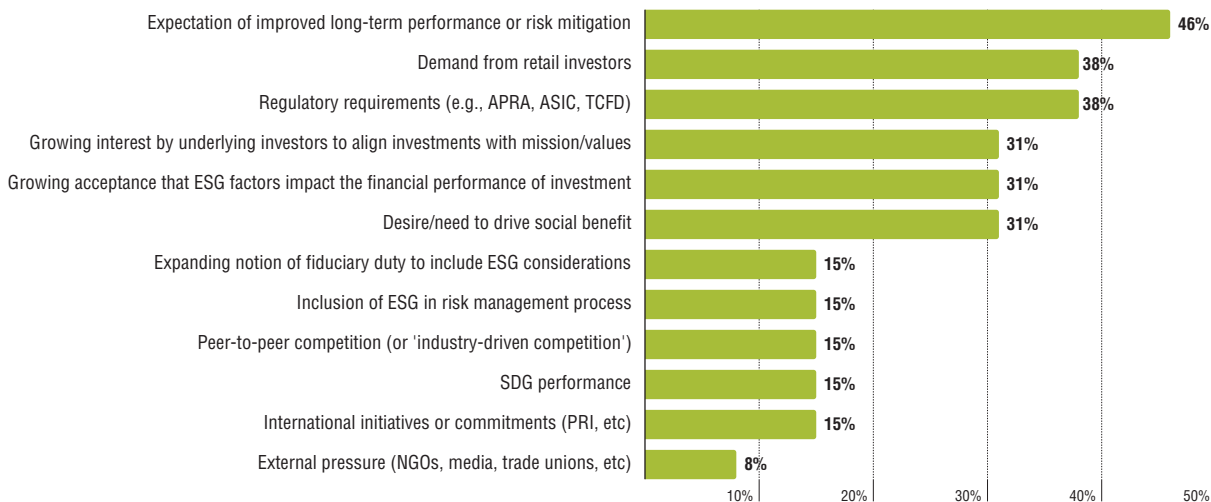
Asset allocation is an important strategy used to balance risk and return in an investment portfolio. It is fundamentally influenced by an investor's risk appetite, investment targets and the investment period, as the underlying principle is that diverse types of assets perform differently over time and can complement each other to provide a smoother, less volatile investment experience. Strategic asset allocation refers to a long-term asset allocation strategy, where the allocation is rebalanced periodically.

ESG integration and active ownership are the two most prominent responsible investment strategies used by asset owners in Australia. Negative/exclusionary screening is also important for several funds. Only a small proportion of funds target sustainability-themed investment, and only one targets positive/best-in-class screening and one impact/community investing. For consistency across global definitions of responsible investment practice, RIAA aligned its language and assessment approach with other global frameworks, including the *PRI Reporting Framework* and Global Sustainable Investment Alliance's (GSIA) seven strategies for responsible investment:

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

When asked to identify the top three drivers for engaging in responsible investment, 46% of respondents noted expectations of improved long-term performance or risk mitigation, while 38% cited demand from retail investors and regulatory requirements. Although the questions differed this year, these results are similar to 2021, with the exception of retail investor demand for responsible investment, which more than doubled from 2021, when it was just 14%.

**FIGURE 11** The top three drivers for responsible investment among survey respondent super funds



## RIAA certified super fund products



CERTIFIED BY RIAA

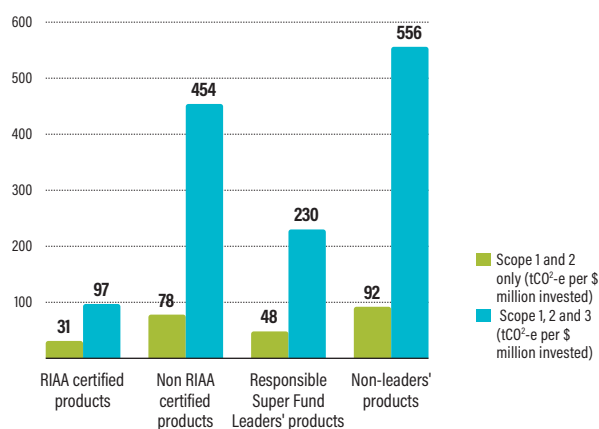
RIAA's Certification Program is the only independent third-party verification of investment and banking products, including those offered by super funds. The program continues to grow and by the end of 2022, some 151 financial products were certified. Twenty-five RIAA certified products (17%) are super fund products, and this includes two MySuper products.

## Carbon intensity of RIAA certified products and Responsible Super Fund Leaders' products

Climate change is an increasingly recognised risk to the financial industry, which APRA identified as a priority issue in 2020. APRA plans to conduct assessments to ensure the financial impacts of climate change and the transition to a low-carbon economy are properly considered by all entities and disclosed to investors. Sustainable Platform (SP) has developed a tool to determine the level of alignment of investments with climate change scenarios. SP assessed the carbon intensity of 47 super fund products. Thirteen (28%) of the super fund products are certified by RIAA, 21 (45%) products are labelled as 'ethical' or 'sustainable' and 29 (62%) are offered by super funds identified as Responsible Super Fund Leaders in this report. Figure 12 shows that **RIAA certified super fund products have the lowest weighted average carbon intensity for Scope 1, 2 and 3 emissions, followed by Responsible Investment Super Funds** (these include RIAA-certified and non-certified funds). The difference between weighted average carbon intensity is particularly significant when Scope 3 emissions are also included. Carbon intensity of non-certified funds is more than four times that of RIAA-certified funds, while the carbon intensity of super fund products by non-leaders is more than twice that of funds designated as Responsible Super Fund Leaders.

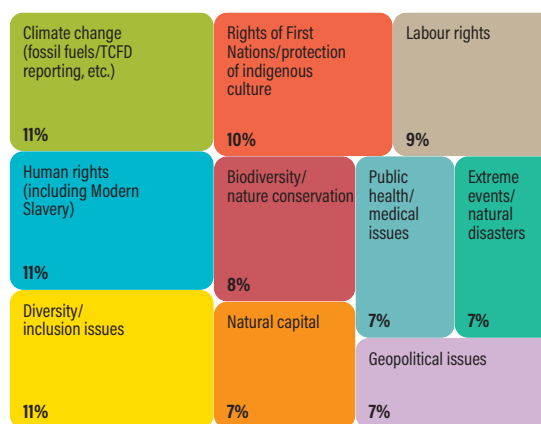
Survey respondents indicated that they advocated for a wide range of topics over the past two years (see Figure 13). Engagements on climate-related topics was just as prominent as engagement on human rights issues, diversity and inclusion and the rights of first nations and protection of indigenous culture. Figure 13 reveals how complex engagement practices have become both in terms of the diverse range of issues that are now covered under the phrase 'ESG' but also because many of these issues are complex and interconnected.

**FIGURE 12** Weighted Average Carbon Intensity of RIAA certified super fund products and non-certified products, products of Responsible Super Fund Leaders and non-leaders



NOTE: SP uses the Bank of England Stress Test tool as well as its own company-level fossil fuel data. SP compares the current (average) investment exposure to fossil fuels (as at 2020) and measures alignment of portfolios by type of fossil fuel to scenarios (1.5°C, 2°C, >2 to 4°C and >4°C temperature increases above pre-industrial levels by 2100).

**FIGURE 13** Top issues super funds engaged on or advocated for in 2021 and 2022



### MYSUPER EXPLAINED

MySuper products are government-regulated accounts, characterised by lower fees and restricted in terms of the types of fees that can be charged. Most MySuper funds offer a single diversified product, often called 'balanced', with around 70% invested in higher risk growth assets and 30% in lower risk defensive assets. The risk/return profile remains at medium-high throughout the client's working life (with estimated negative returns between three to five years of more than 20 years, on average).

MySuper accounts that use a 'life cycle' or 'life stage' approach are becoming more popular. These products automatically move savings from 'growth' investments when the client is younger to more 'defensive' investments as the client approaches retirement.

### RESPONSIBLE SUPER FUND LEADER OR RESPONSIBLE INVESTMENT CERTIFICATION?

Being a Responsible Super Fund Leader recognises a super fund's whole-of-organisation attributes. In contrast, RIAA's Responsible Investment Certification Symbol is used to differentiate quality, true-to-label responsible investment products that meet the Australian and New Zealand Responsible Investment Standard.

**TABLE 4** Average net return of MySuper products of Responsible Super Fund Leaders and non-leaders and growth in client account

Investment performance	Past 3-year net return average	Past 5-year net return average	Past 8-year net return average	Growth in no. of client accounts*
Responsible Super Fund Leaders	7.65%	6.09%	6.75%	8%
Non-leaders MySuper	7.54%	5.67%	6.30%	6%

NOTE: Current as of October 2023, based on a balance of \$50,000. Data does not include Future Super and the Future Fund.  
 SOURCE: ATO YourSuper comparison tool and \*APRA annual MySuper statistics, June 2022.

## Responsible investment super funds and MySuper performance

**Super funds that embrace responsible investment practices continue to perform on par or better than their peers.** At the product level, the average net return of MySuper products for Responsible Super Fund Leader was better than non-leaders in all three timeframes (see Table 4). Super funds offer many distinct investment choice options to meet the varying investment needs and goals of clients. The mix of assets in a product generally varies, depending on how close a client is to retirement, because different assets are associated with different risk-return profiles (e.g., high growth, growth, balanced, etc.). Since MySuper products have similar characteristics (see the box 'MySuper explained'), comparison of its products' performance provides insight into how individual super funds perform across a single, similar product. In 2023, only one super fund had a MySuper product certified by RIAA: Australian Ethical Super.

On average, Responsible Super Fund Leaders also gained slightly more clients (2%) than non-leaders over the 12 months to 30 June 2022. While the reasons for changing super fund providers are manifold, the data suggests that super funds with a leading responsible investment approach may be providing what clients are looking for.

# FINDINGS BY PILLAR

## 1. Accountability and governance

Accountability refers to a fund's demonstrable understanding of the stakeholders to whom it is accountable. Governance provides the structures (processes and delegations) necessary for the responsible investment strategy to be effectively implemented. A key aspect of governance is acknowledgement of key stakeholders' role in the fund's strategy vision, mission and investment beliefs. Clients tend to be a fund's key stakeholder group, but a fund may consider others as well; e.g., broader society, future generations, the environment or government/regulators.

### AT A GLANCE

- ▶ 96% of assets (of APRA-regulated super funds) is covered by an explicit ESG or responsible investment policy.
- ▶ The majority (62%) of super funds employ staff dedicated to responsible investment or ESG, an increase on just 36% in 2021.

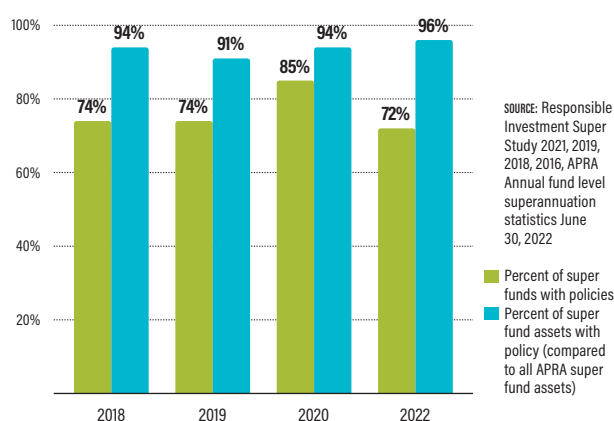
### KEY ASPECTS USED TO ASSESS ACCOUNTABILITY AND GOVERNANCE

The super fund:

- ▶ is committed to responsible investment across its fund strategy and has internal structures in place to drive this;
- ▶ has and discloses appropriate responsibilities and accountabilities to provide for responsible investment;
- ▶ identifies, engages and considers stakeholders in the development and continuous review of its investment beliefs and responsible investment strategy; and
- ▶ has incentives in place to perform duties consistent with responsible investment strategies and to benefit key stakeholders.

More assets are covered by an explicit ESG or responsible investment policy than ever before, when considering APRA-regulated super funds. While, due to several super funds merging since 2021, the proportion of total number of super funds that have such policies dropped to 72%, from 85% in 2021, and is low when compared to previous years (see Figure 14). Some 45% of funds have a specific responsible investment or ESG policy, signed off at trustee, Chief Investment Officer or investment committee level. Almost 6% of funds make a responsible investment statement on their websites but do not

**FIGURE 14** Percent of super funds with an explicit responsible investment or ESG policy and percent of assets (2018-2022)



have a formal policy. The drop in percentage of funds with an explicit policy may be explained by the many mergers in the industry, as several super funds that exhibit leading responsible investment practice, including ESG policies, have merged since 2021. Some funds have also changed their names, resulting in new websites. We noticed that some 'new' funds have limited information about themselves and their policies, or else outdated information published on their websites.

Accountability for responsible investment within funds can sit at several levels. At 70% of funds, responsibility is allocated to the level of trustees (boards), but it is also common to delegate this role to subcommittees, such as an ESG committee or working group, or to the investment committee. The manner in which trustees actively consider responsible investment issues, including climate-related financial risk, remains patchy. For 10 super funds in this study, nine of which are Responsible Super Fund Leaders, ESG issues are a standing item on the board meeting agenda, or else are systematically considered during dedicated trustee subcommittee meetings.

In our *Responsible Investment Super Study 2021* we identified that a dedicated team specialising in responsible investment or ESG is an essential resource for super funds. In fact, we reported that a team of three or more specialist staff appeared crucial in embedding and maintaining leading responsible investment practices. We can now report that having a

dedicated ESG staff member or team is the norm among the largest Australian super funds. Our best estimate is that at least 62% of funds have a dedicated ESG team or staff member, up from 36% in 2021. All Responsible Super Fund Leaders have dedicated ESG teams, compared with 92% in 2021.

Despite the trend of inhouse specialist staff, many funds reported that responsible investment is outsourced to asset consultants and investment managers, which, in many cases, have dedicated responsible investment teams. This is not represented in the statistics given here.

Leading super funds, in particular, recognise this and engage their responsible investment or ESG staff strategically in investment decision-making, such as in asset class and external manager reviews and in assessment of internally managed assets.

## 2. Responsible investment commitment

This relates to a fund's statements and activities around communication of responsible investing, both within the fund and to its relevant market. Statements and activities include public statements (by way of a policy and underlying guidelines) to formalise a fund's responsible investment beliefs and informing stakeholders about its commitments.

Responsible investment beliefs ordinarily contained in policies include ESG themes and key approaches for implementation (e.g., ESG integration, positive/best-in-class screening), as well as a statement about the policy's coverage (over certain asset classes or the whole of the fund). Policies are formal documents endorsed by executives and directors at the highest level of a fund. Responsible investment commitment also includes activities such as engaging and communicating with staff and clients on relevant issues, as well as industry activities such as investor initiatives, memberships and involvement in industry associations.

### AT A GLANCE

- ▶ 45% of super funds set some type of responsible investment targets in their investment and/or responsible investment policies.
- ▶ 42% of super funds mandate targets for portfolio alignment with the Paris Agreement or net zero by 2050, compared with just 34% in 2021.

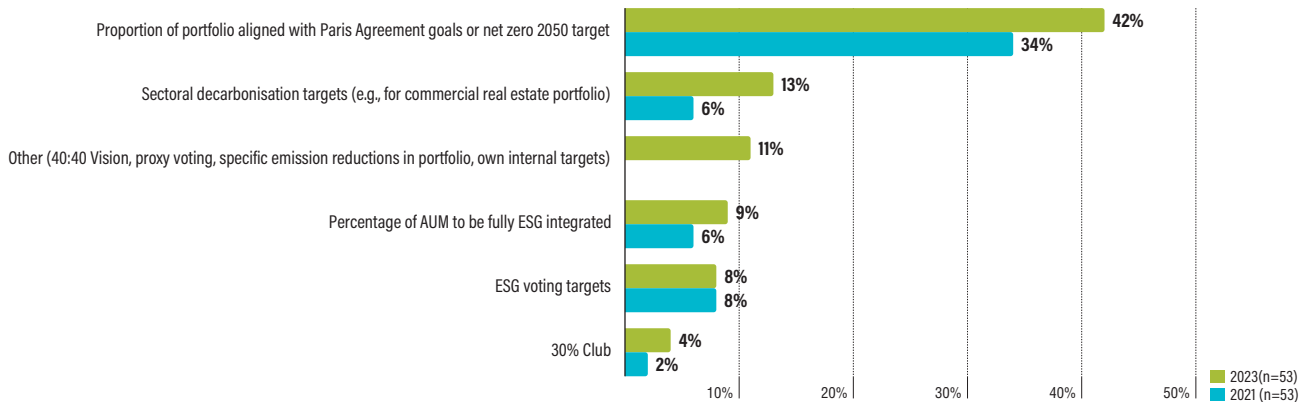
### KEY ASPECTS USED TO ASSESS RESPONSIBLE INVESTMENT COMMITMENT

The fund:

- ▶ makes a public commitment to responsible investment that is endorsed at the highest level of the organisation (policy and/or guidelines);
- ▶ has a policy with elements that ensure it can be put into action, including ambitious but specific and achievable targets and KPIs; and
- ▶ has a responsible investment policy that covers the total portfolio and asset classes.

Target-setting is on the rise and it is one key way that funds can demonstrate their commitment to responsible investment. In 2022, 45% of the super funds surveyed disclosed some type of target on their websites, slightly higher than in 2020, when this figure was 42%. The majority of funds that set targets (93% or 42% of the 53 super funds assessed), align their portfolio with the Paris Agreement or net zero by 2050 (see Figure 15). Sectoral decarbonisation targets are also common, 13% of super funds set such targets. It is becoming increasingly common for funds to set their own targets (not aligned with specific initiatives). Eleven percent of funds set such ESG targets, such as proxy voting targets or a 40:40 Vision target or their own internal climate-related targets. ESG integration, ESG voting or 30% Club targets are pursued but to a lesser extent.

**FIGURE 15** Proportion of super funds that mandate specific targets (2021 and 2023)



**VOTING EXPLAINED**

By exercising voting rights, super funds express their views regarding a company’s strategy, leadership and activities, ranging from remuneration to mergers and acquisitions, ESG practices to disclosure. Super funds can exercise voting rights in different ways, including:

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

Quality professional advice and information is essential for investors to navigate the increasingly complex area of corporate governance and environmental and social issues. However, it is not feasible for super funds to vote if their international equities portfolio is managed by a large index/quant fund with many thousands of clients and if there is no capacity to enact individual client voting instructions.

More than half the super funds in the research universe have a voting policy (or proxy voting policy) that is available to the public, which has fallen from 85% of funds in 2021.

The rise in passive investments is one of the key emerging challenges in accountability and stewardship facing the super fund industry. It is expected that a professional industry should be able to support this significant and important task, as proxy advisers play a crucial role supporting investors with advice and information. In its most recent report, the Australian Centre for Corporate Action (ACCR) noted the growing importance of shareholder resolutions as a key active stewardship measure, as well as the increasing rate at which Australia’s largest super funds are supporting the majority of ESG proposals.<sup>9</sup> ACCR reported that in 2021 aggregate support for climate-related proposals among the largest 30 super funds surpassed that for lobbying-related proposals, with 40% and 37% support respectively.

More than one-third (38%) of super funds are signatory of ACSI’s Asset Ownership Code, and 11% are a member of the Financial Services Council. Most Responsible Super Fund Leaders define (or contribute to defining) specific objectives for their engagement activities. Fifteen per cent of funds define specific objectives for all their engagement, while 13% define specific objectives for most of their engagement activities.

### 3. Responsible investment implementation

The implementation pillar considers the operationalisation of the responsible investment policy and beliefs. Strong responsible investment implementation starts with the fund's investment beliefs and follows a systematic and thorough internal process. It must involve key external stakeholders, such as external managers and asset consultants, to the extent they are involved in managing or advising on assets. For example, if one of the investment beliefs is 'we aim to be active owners', then evidence on the process to deliver active ownership behaviours (such as company engagements, proxy voting policies and disclosures) should be prioritised as a significant aspect of successful implementation, particularly where it has been emphasised over other responsible investment approaches.

#### AT A GLANCE

- ▶ Responsible Super Fund Leaders tend to formally require investment managers to act in accordance with existing responsible investment policies and/or consider, analyse and report on specific ESG issues.
- ▶ Responsible investment continues to influence strategic asset allocation and has become predominantly focused on climate change.

#### KEY ASPECTS USED TO ASSESS RESPONSIBLE INVESTMENT IMPLEMENTATION

The fund:

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

#### STRATEGIC ASSET ALLOCATION EXPLAINED

This refers to decisions about how funds are allocated between i) different asset classes, ii) assets in different locations (markets) and iii) weighting of different sectors. It is also the process where specific issues can be identified as risk and can also impact on asset allocation decisions.

Most super funds (over 90%) rely on investment managers to assist with managing their assets, while a smaller proportion (at least 15% of super funds is our best estimate) also engage asset consultants. The primary responsible investment/ ESG conditions or considerations that super funds include in investment management agreements or contracts are for investment managers to:

- act in accordance with fund engagement and voting policy;
- incorporate specific or general ESG factors into investment decision-making;
- act in accordance with the fund's responsible investment policy, strategy and reporting requirements; and
- perform ESG analysis, monitoring and reporting.

It is common practice for Responsible Super Fund Leaders to include all these considerations in their investment management agreements. Data on engagements conducted by investment managers or external providers is often included in super funds' own engagement or stewardship reports. In some cases, super funds will provide a link from their website to the service provider's engagement report (e.g., ACSI).

All the super funds that identified themselves as engaging asset consultants appoint consultants that have comprehensive, or at least some ESG experience. Of these funds, more than half conduct ongoing dialogue and monitoring of regarding responsible investment issues, while a smaller proportion does this on a casual basis.

In 2021, we reported that responsible investment influenced asset allocation for more than half the super funds (55%) for the first time. In this reporting period, it has dropped to 28%, although for the majority of these funds (93%) responsible investment influences most or all cases or portfolios. Fifteen percent of super funds also formally assess managers' performance on responsible investment specifically, and another 13% do this informally.

Climate change has become a key consideration in strategic asset allocation, with scenario testing of portfolios becoming common practice. Several funds also described the differing ways they consider climate change as part of their annual systematic reviews. Survey respondents revealed that responsible investment considerations influence super funds' asset allocation in several ways, including through:

- the annual review of investment strategy and asset allocation by the board or trustees;
- ESG factors integrated into portfolio construction, and investment manager selection, appointment and monitoring;
- stress-testing against different climate scenarios and forward-looking scenarios (e.g., Network for Greening the Financial System);
- incorporating climate change into long-term capital market assumptions (expected returns);
- physical and transition risk analysis as input that results in adjusting the weighting;
- implementing the use of climate-related benchmarks; and
- negative screening or additional restrictions associated with certain types of assets or options.

As a result, several funds have adjusted the weighting of different asset class allocations in their overall portfolios or specific products. Others have incorporated geographical considerations in their assessments and revised their investment manager mandates or selection processes.

## 4. Measurement and outcomes

Measurement and outcomes refer to the practice of tracking progress on responsible investment implementation against a defined target or set of success measures, as well as the outcomes of investment practices on environmental, social, governance, sustainability and ethical issues. There are growing expectations from clients and other stakeholders that super funds benchmark, measure and report on both stewardship and the real-world outcomes of responsible investment strategies.

### AT A GLANCE

- ▶ 36% of super funds seeks independent, third-party verification of responsible investment performance and outcomes.
- ▶ 32% of super funds set outcomes-focused targets, and more than half of these funds conduct regular measurements.

### KEY ASPECTS USED TO ASSESS RESPONSIBLE INVESTMENT MEASUREMENT AND OUTCOMES:

The fund:

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

A quarter of super funds (25%) set non-financial targets to measure ESG or engagement outcomes. The majority of these funds measures against their own environmental objectives (e.g. carbon intensity of the portfolio) (59%) and their alignment with their own Responsible Investment or ESG Policy (52%). Forty-seven percent of these funds also measures against governance objectives, such as reporting in alignment with the TCFD.

More than a third of funds (36%) also seeks independent, third-party verification of responsible investment performance and outcomes at the fund or product level. In most cases these refer to RIAA certified super fund products.

## 5. Transparency and responsiveness

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

### AT A GLANCE

- ▶ 87% of super funds publish ESG related information on their websites.
- ▶ 30% of funds make their voting record public after they voted.

### KEY ASPECTS USED TO ASSESS TRANSPARENCY AND RESPONSIVENESS:

The fund:

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

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

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

Transparency around responsible investment or ESG intentions remains high. Seventy-two percent of super funds disclose information about their ESG or responsible investment commitments on their websites. Only seven of the 53 super funds (13%) did not publish any information on their ESG or responsible investment intentions or strategies publicly. Websites remain the primary source of information about responsible investment activities and outcomes. Information can be found under companies' 'responsible investment' or 'ESG' or 'sustainability' tab, often found under the 'About' section. Super funds also publish their reports on their websites and it is increasingly common for them to include up to date responsible investment information in Annual Reports, Stewardship Report, Impact Reports or company Sustainability Reports. Some funds also provide links to PRI Transparency Report (PRI signatories only). An increasing number of funds publish stand-alone 'Responsible Investment Reports'. Retail funds tend to publish reports at the group level, which often makes it difficult to discern what activities relate to the superannuation products, portfolios or practices specifically. Several super funds include ESG or responsible investment information in newsletters, which are distributed to members, or provide updates.

By 2022 super funds have developed a general practice of showcasing different superannuation products on their website in a way that allows for comparison across main features. Many funds that have so-called SRI (or Socially Responsible Investment) options also include these in the comparison tool.

Thirty percent of super funds make all their voting records public, and this practice is prevalent among Responsible Super Fund Leaders (85% of Leaders). Public disclosure after voting has taken place is the norm, with only one fund reporting regularly disclosing voting intentions (prior to voting) in 2022.

We have little insight into how ESG and responsible investment are dealt within funds' internal marketing teams. The for the majority of respondents (75%) promotion of responsible investment/ESG or SRI options is through a dedicated marketing team. The other 25% of survey respondents indicated that their central marketing team was regularly and proactively involved in promotion.

# APPENDICES

## Appendix 1: Research methodology

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

This report covers the period 1 January 2021 to 31 December 2022. There are some exceptions to this, chiefly data sourced from participants' websites and third-party AUM. Secondary data came from publicly available sources such as corporate websites (comprising, for example, policies, guidelines and annual reports); RIAA's Responsible Investment Certification Assessment Program; and other publicly available information, including news and media. Primary data was collected from super funds through an online survey sent to them between March and May 2022.

Super fund responses were collected in May 2023 and the data was analysed using Excel. The scoring was based on RIAA's Framework of Good Responsible Investment Governance (Appendix 2), with responses assigned scores according to the framework. Leading super funds are those that achieved 70% or more overall. Data was analysed for each question through quantitative or qualitative means. Four questions were not applicable to all funds because they related to funds that engage external investment managers and asset consultants. If a question was not applicable to a fund (i.e., n/a), it was removed from the total score to yield a maximum possible score for each fund. However, if the response was zero or if a response was not provided, it was included in the maximum potential score. The Future Fund was assessed using the framework, but independently; as the only sovereign wealth fund in the study, it represented its own category.

## Appendix 2: RIAA's Framework of Good Responsible Investment Governance

The assessment framework was modelled on similar initiatives globally, specifically the Dutch responsible investment pension fund survey, which the Dutch Sustainable Investment Organisation has issued annually since 2006. The framework consists of five pillars and 57 questions (see p.X), with the 'implementation' pillar divided into three subcategories to cover the different possible approaches of funds, agnostic of asset owner business approach. The framework and questions were revised in 2023 to reduce the complexity of the survey. Maximum possible scores for each pillar and for each category in the implementation pillar was calculated, for a total of maximum score of 58.

## Appendix 3: Abbreviations

<b>AASB</b>	Australian Accounting Standards Board
<b>ACCR</b>	Australasian Centre for Corporate Responsibility
<b>ACSI</b>	Australian Council of Superannuation Investors
<b>AIST</b>	Australian Institute of Superannuation Trustees
<b>APRA</b>	Australian Prudential Regulation Authority
<b>ASFA</b>	Association of Superannuation Funds of Australia
<b>ASFI</b>	Australian Sustainable Finance Initiative
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASRS</b>	Australian Sustainability Reporting Standards
<b>AUM</b>	assets under management
<b>ESG</b>	environmental, social and governance
<b>EU</b>	European Union
<b>FUM</b>	funds under management
<b>GSIA</b>	Global Sustainable Investment Alliance
<b>IMA</b>	Investment Management Agreement
<b>KPI</b>	key performance indicator
<b>PRI</b>	Principles for Responsible Investment
<b>RIAA</b>	Responsible Investment Association Australasia
<b>SDGs</b>	Sustainable Development Goals
<b>SP</b>	Sustainable Platform
<b>SRI</b>	Socially Responsible Investment
<b>YFYS</b>	Your Future, Your Super

## Appendix 4: Funds included in this study

Fund name	Registrable superannuation Entity name	Mergers/notes
Active Super	LGSS Pty Ltd	Local Government Super
Alcoa Super	Alcoa of Australia Retirement Plan Pty Ltd	
AMP Super	N. M. Superannuation Proprietary Ltd	Trustee is N.M. Superannuation Proprietary Limited for AMP Super Fund
ANZ Staff Super	ANZ Staff Superannuation (Australia) Pty Ltd	
Australian Ethical Super	Australian Ethical Superannuation Pty Ltd	Merged with Christian Super
Australian Retirement Trust (ART)	Australian Retirement Trust Pty Ltd	QSuper, SunSuper, and Australia Post Super Scheme merged, AvSuper merging in 2024
AustralianSuper	AustralianSuper Pty Ltd	AustralianSuper
AvSuper Fund	AvSuper Pty Ltd	Merging with ART in 2024
Aware Super	Aware Super Pty Ltd	
Bendigo Super	Bendigo Superannuation Pty Ltd	
Brighter Super		Merger of LGIASuper Trustee and SPSL Ltd
BT Super		Undergoing merger with Mercer Super
BUSSQ	BUSS (Queensland) Pty Ltd	
CareSuper	CARE Super Pty Ltd	Merging with Spirit Super in 2023/24
Catholic Super	Togethr Trustees Pty Ltd	Catholic Super merged with Equip Super
Cbus Super	United Super Pty Ltd	Merged with Media Super in April 2022
CFS Super	Avanteos Investments Ltd	Trustee is Avanteos Investments Limited
Clearview Wealth Foundations Super	ClearView Life Nominees Pty Ltd	
Commonwealth Bank Officers Super	Commonwealth Bank Officers Superannuation Corporation Pty Ltd	Merging with ART in 2023
Commonwealth Superannuation Corporation		
EISS Super	Energy Industries Superannuation Scheme Pty Ltd	Merging with Cbus Super in 2023
Equip Super	Togethr Trustees Pty Ltd	Catholic Super merged with Catholic Super
ESSSuper		Emergency Services and State Super (VIC) Not APRA-regulated
First Super	First Super Pty Ltd	
Food Super	Meat Industry Employees Superannuation Fund Pty Ltd	Formerly AMIST Super
Future Fund		Not APRA-regulated

Fund name	Registrable superannuation Entity name	Mergers/notes
Future Super	Diversa Trustees Ltd	
GuildSuper	Guild Trustee Services Pty Ltd	
HESTA	H.E.S.T. Australia Ltd	Mercy Super merged in 2022
Hostplus	Host-Plus Pty Ltd	Hostplus (merged with Statewide Super and Maritime Super)
I.O.O.F. Super	I.O.O.F. Investment Management Ltd	IOOF (Insignia Financial)
Legal Super	Legal Super Pty Ltd	
Macquarie Investment Management	Macquarie Investment Management Ltd	
Maritime Super	Maritime Super Pty Ltd	Merged with Hostplus in 2023
Mercer Superannuation (Australia)	Mercer Superannuation (Australia) Ltd	Merging with BT Funds
Mine Super	AUSCOAL Superannuation Pty Ltd	Formerly AUSCOAL Superannuation
MLC Super	Nulis Nominees (Australia) Ltd	
Netwealth Superannuation	Netwealth Superannuation Services Pty Ltd	
NGS Super	NGS Super Pty Ltd	
OnePath/OneAnswer	OnePath Custodians Pty Ltd	OneAnswer super fund products, Insignia Financial Group
Perpetual Super	Perpetual Superannuation Ltd	
Prime Super	Prime Super Pty Ltd	
Qantas Super	Qantas Superannuation Ltd	
Rei Super	Rei Superannuation Fund Pty Ltd	
Rest	Retail Employees Superannuation Pty Ltd	
Australian Catholic Superannuation and Retirement Fund	SCS Super Pty Ltd	
Spirit Super		MTAA and Tasplan merged, merging with CareSuper in 2023
State Super (NSW)		Not APRA-regulated
T W U Super	T W U Nominees Pty Ltd	Currently under merger with Mine Super
Telstra Super	Telstra Super Pty Ltd	
Russell Investments Master Trust	Total Risk Management Pty Ltd	Russell Investments
UniSuper	Unisuper Ltd	Completed merger with Australian Catholic Superannuation in 2022
Vision Super	Vision Super Pty Ltd	To merge with Active Super, fund also known as Local Authorities Superannuation Fund

## Disclaimer

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

The information in this report is general in nature and does not constitute financial advice. Past performance does not guarantee future results, and no responsibility can be accepted for those who act on the contents of this report without obtaining specific advice from a financial adviser. RIAA does not endorse or recommend any particular firm, fund manager or super fund to the public.

## Endnotes

- 1 The report was formerly titled *Super Fund Responsible Investment Benchmark Report*.
- 2 Bell, D. 2023. *State of Super 2023*, The Conexus Institute <<http://www.theconexusinstitute.org.au/wp-content/uploads/2023/03/State-of-Super-Booklet-FY2022-final.pdf>>.
- 3 See Corporations Act 2001 Volume 6, Schedule 8D.
- 4 Chris Bowen and Stephen Jones, 12 Dec. 2022 (joint media release), 'More transparency and more investment in cleaner and cheaper energy,' Australian Government, <<https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/more-transparency-and-more-investment-cleaner-and>>.
- 5 Australian Government, 2023, 'Superannuation (Objective) Bill 2023 - Draft Exposure,' <<https://treasury.gov.au/consultation/c2023-438526>>.
- 6 Australian Government, 2023, Explanatory Notes, <<https://treasury.gov.au/consultation/c2023-438526>>.
- 7 ASIC, 2022, *How to avoid greenwashing when offering or promoting sustainability-related products*, <<https://asic.gov.au/regulatory-resources/financial-services/how-to-avoid-greenwashing-when-offering-or-promoting-sustainability-related-products/>>.
- 8 Joe Longo, 2023, *ESG: Major change is underway, and we need to be ready*, <<https://asic.gov.au/about-asic/news-centre/speeches/esg-major-change-is-underway-and-we-need-to-be-ready/>>.
- 9 ACCR. 2022. *Super Votes: How Australia's largest superannuation funds voted on ESG resolutions in 2021* <<https://www.accr.org.au/research/super-votes-how-australias-largest-superannuation-funds-voted-on-esg-resolutions-in-2021-full/>>.

