Tools for Advisers to have engaging ESG conversations with clients

Prepared by
FE fundinfo (Australia) Pty Ltd

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AGENDA

ESG IN THE MEDIA

Dominating conversations globally

One-in-five Australians say their adviser does not offer ESG

By Liam Cormican

INDUSTRY NEWS

About one in five Au adviser does not off investment options sacrifice their retur

The global research surveyed 8,550 indivi were from Australia, were not able to acc

About the same num should be actively er

ESG imbalance between client and adviser

By Laura Dew

11 November 2021

MONEY MANAGEMENT ORIG

There is an imbalance up the topic of environ investing.

Speaking to *Money Mar* Financial and a membe Australasia (RIAA) certi ESG only if the client de

He said: "According to t to ask them about ESG. necessarily raise the is

ESG uptake by asset managers reaches 95%

By Laura Dew

12 November 2021

INDUSTRY NEWS

Australian asset managers are catching up with Europe in their use of environmental, social and governance (ESG) investments at 95%, according to Russell Investments.

In a global study of 369 asset managers, 95% of those in Australia and New Zealand said they integrated ESG factors into their investment, only two percentage points behind the UK and Europe.

"Australia and New Zealand have not slowed from improvements seen in last year's study, trailing only the UK and Continental Europe in the percentage of managers integrating ESG into their investment practices. 95% of Australian and New Zealand managers surveyed

ASIC
Australian Securities & Investments Commission

What is "greenwashing" and what are its potential threats?

By Commissioner Cathie Armour

An ASIC review addressing the threat of "greenwashing" aims to improve governance and accountability in the market, writes Commissioner Cathie Armour GAICD.

APRA puts onus on directors to manage climate change risk

James Eyers
Senior Reporter

The prudential reg climate risks on th urging boards to e frameworks if clin

The policy will gui 2050 and is a resp

Ethical ETFs are a part of the big play

Christopher Niesche

Nov 17, 2021 – 5.00am

Save Share

Environmental, social and governance investing has traditionally been seen as the province of active fund managers, who have the resources and capability to explore ESG investments.

Closed 26 November 2021

Consultation on draft Prudential Practice Guide on Climate Change Financial Risks

The Australian Prudential Regulation Authority (APRA) has released for consultation its draft guidance to banks, insurers and superannuation trustees on managing th

NEWS

APRA outlines plans for climate risk prudential guidance and vulnerability assessment

ASIC
Australian Securities & Investments Commission

ANU Climate Update

Address by ASIC Commissioners Sean Hughes (Canberra, 7 February 2019) and Cathie Armour (Sydney, 21 February 2019 and Adelaide, 4 March 2019)

THE RISING CONSUMER DEMAND

Responsible Investment Association Australasia (RIAA)

90%

Australians expect their superannuation & other investments to be invested responsibly & ethically

83%

Of New Zealanders believe it's important that KiwiSaver funds consider environmental, social and/or ethical factors

9 in 10

Australians believe it's important their financial adviser provides responsible / ethical options

86%

Of Australians believe it's important their financial adviser asks them about their interests & values in relation to investments

87%

Of Australians feel comfortable discussing their interests & values in relation to their investments with their financial adviser

Research from RIAA (2020), From values to riches – Charting consumer attitudes and demand for responsible investing in Australia 2020.

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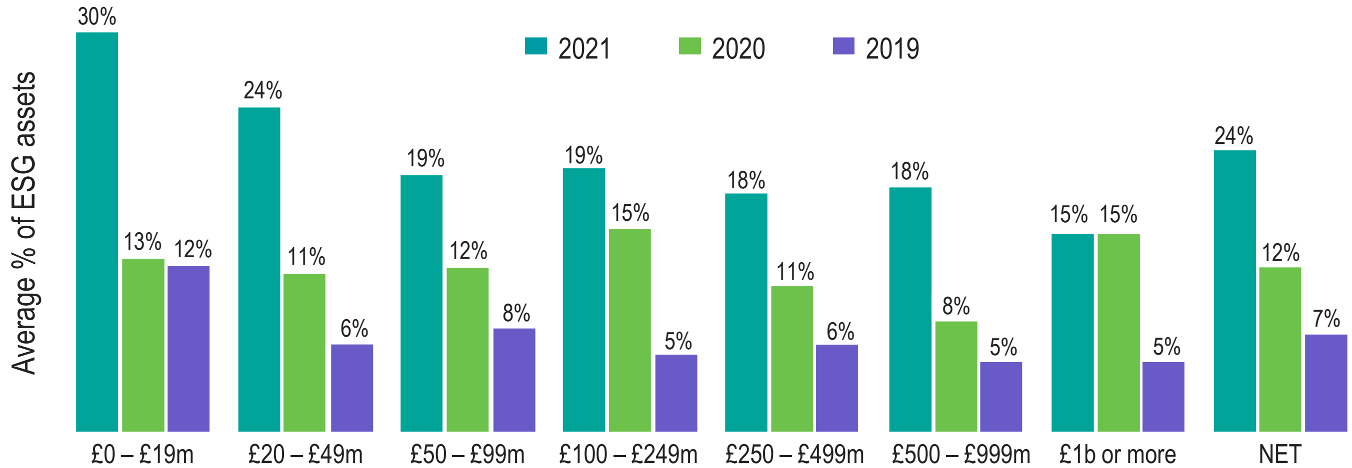
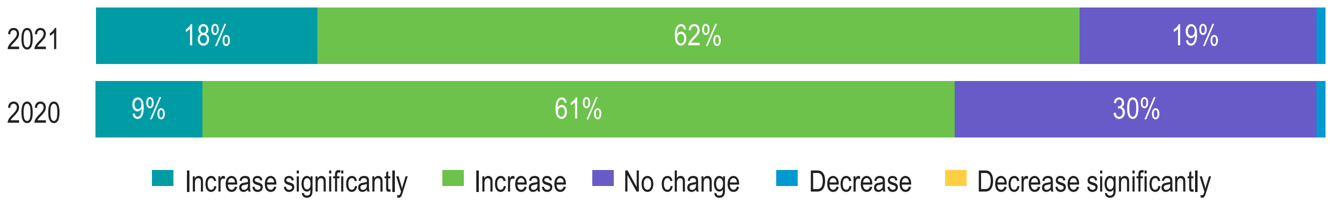
THE RISING CONSUMER DEMAND

NextWealth ESG Tracker Study

Approximate % of clients' **assets under advice in ESG**, ethical, impact or sustainable funds/portfolios



Anticipated change in the amount held in ESG, ethical, impact or sustainable investments **in the next 12 months**



Source: NextWealth ESG Tracker Study | Implementation of ESG principles in financial advice businesses.

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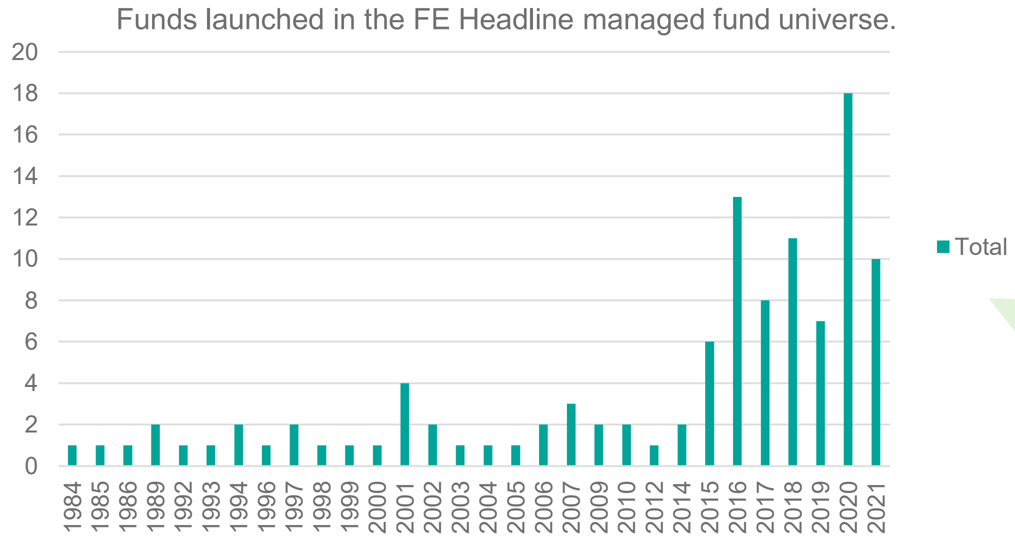
PRODUCT LAUNCHES OVER TIME

FE fundinfo data



RECENT GROWTH

In just a couple of decades the concept has grown from a **few disparate funds** largely concentrated in ethical or 'green' investments, to an industry in itself, in which large fund houses are investing billions in.

SUPPORTING DATA

Data from FE Analytics shows that there are **109 headline funds in Australia** that label themselves as Ethical / Sustainable / ESG, **49%** of them were launched **within the last 5 years**, and **32% within the last 3 years**.

RETURNS ON ESG FUNDS

Average growth of fund vs peer group

Same for international and domestic equities

Performance of responsible investment funds and mainstream funds (average, net of fees over 10 years)

Multi-sector growth funds	1 Year	3 Years	5 Years	10 Years
Responsible investment fund average - multi-sector growth funds*	7.2%	7.4%	7.9%	8.2%
Morningstar category: Australia fund multi-sector growth**	2.9%	5.3%	6.4%	6.9%
International share funds	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Responsible investment fund average - international share funds*	8.3%	11.0%	11.4%	10.1%
Morningstar category: Equity World Large Blend**	5.7%	9.5%	9.8%	11.7%
Australian share funds	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Responsible investment fund average - Aus/NZ share funds*	1.7%	5.3%	7.4%	8.1%
Morningstar category: Australia Fund Equity Australia Large Blend**	1.7%	5.5%	7.5%	7.0%
Responsible investment fund average - Aus/NZ share funds*	1.7%	5.3%	7.4%	8.1%
S&P/ASX 300 total return	1.7%	6.9%	8.8%	7.8%

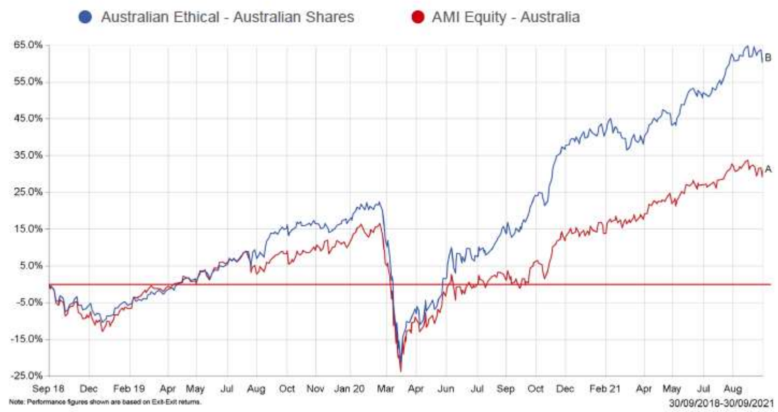
- Average responsible investment fund outperformed (+1%)
- Average responsible investment fund on-par with market (+/- 1%)
- Average responsible investment fund underperformed (-1%)

Note: Average performance of responsible investment funds was determined using the asset-weighted returns (net of fees) reported by survey respondents over one-, three-, five- and ten-year time horizons and compared to the mainstream fund performance from Morningstar Direct™.

*Data provided by survey respondents

**Data provided by Morningstar direct™

→ **Graph from RIAA's Responsible Investment Benchmark Report Australia 2021**



FE Analytics charts showing outperformance over a 5- & 3-year time horizon

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ADVISERS MANAGING DEMAND

ESG advice process

ADVISER TOOLS

- Client questionnaires (fact-finding)
- Ratings (mapping investment options)
- Reporting

TRANSPARENCY & DISCLOSURE

GLOBAL RATINGS PROVIDERS

MSCI | Climetrics The Climate Rating for Funds | ISS ESG

AUSTRALIAN RATINGS PROVIDERS

Zenith Investment Partners | Lonsec | Sustainalytics | Morningstar

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REGULATORY LANDSCAPE IN EUROPE

TCFD, SFDR & RTS

Task Force on Climate-related Financial Disclosures (TCFD)

- To **improve and increase reporting** of climate-related financial information
- Includes **risks and opportunities** presented by rising temperatures, climate-related policy and emerging technologies

Sustainable Finance Disclosure Regulation (SFDR)

- **Divides products** into different categories
- **Mandatory disclosure** is required as to how to incorporate sustainability risks into the investment decision making, the disclosure obligations vary based on the category

Regulatory Technical Standards (RTS)

- Template listing several **principal adverse sustainability impact indicators**
- **32 mandatory indicators** around climate and the environment, social, employee and human rights, anti-bribery and anti-corruption issues
- **Advisers must publish a statement on their website** saying how they select the products they recommend and how they use information available to them from product providers

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REGULATORY LANDSCAPE IN EUROPE

The European ESG Template (EET)

WHAT IS IT?

1 The EET is the official FinDatEx data exchange template for ESG data, as defined by applicable EU regulation (SFDR)

2 The EET will provide the required data set for all funds to explain the fund's ESG characteristics

3 There will be different levels of reporting depending on your fund definitions (article 6, 8 and 9)

WHY?

To facilitate the exchange of ESG data between market participants. **Necessary in order to comply with European financial market regulation.**

EU: SFDR + EET

The EET is part of the EU's **Sustainable Finance Disclosure Regulation (SFDR).**

SFDR specifically aims to **increase transparency** on how financial market participants (providers) and financial advisers **integrate sustainability risks** and factors into their investment decisions.

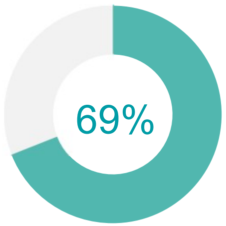
SFDR also seeks to eliminate '**greenwashing**' by enforcing additional disclosure requirements for the marketing of an ESG-related financial product or advice, and to create a clear classification scheme.

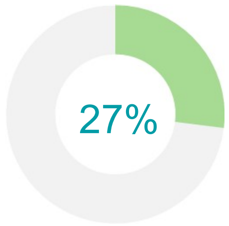
UK: TCFD + EET

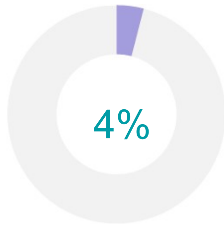
UK funds that are in scope of the **Task Force on Climate-Related Financial Disclosures (TCFD)** will also have the ability to enter relevant information in the EET.

WHAT'S IN SCOPE?

Article 6, 8 & 9 funds







Article 6 funds

funds which are not promoted as having ESG factors or objectives

22 fields out of 607 required

Article 8 funds

those funds that promote ESG characteristics but do not have it as the overarching objective

607 fields out of 607 required

Article 9 funds

those funds which specifically have sustainable goals as their objective

607 fields out of 607 required

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REGULATORY LANDSCAPE IN ASIA

Common Ground Taxonomy

ALIGNMENT OF EU & CHINA TAXONOMIES

1 Covers **61 activities across 6 sectors** and outlines overlap to improve interoperability between regions

2 Will enable **better data and more consistent regulation across jurisdictions** to produce relevant investor information

3 **Principles-based approach** to account for legal differences between jurisdictions

Source: ESG Investor, Alignment of Taxonomies "Critical" for Improving ESG Data

EU TAXONOMY

EU has largely been leading the way in terms of including ESG measures within its existing investment regulations.

The first regulatory benchmark to "help investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy".

Performance thresholds include:

- To sustainably contribute to one or more of the following six environmental objectives:
    - Climate change mitigation
    - Climate change adaption
    - Sustainable protection of water and marine resources
    - Transition to a circular economy
    - Pollution prevention and control
    - Protection and restoration of biodiversity and ecosystems
- Do no significant harm to any of the other objectives
- Comply with minimum safeguards.

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REGULATORY LANDSCAPE IN AUSTRALIA

The importance of disclosure


NEWS

APRA outlines plans for climate risk prudential guidance and vulnerability assessment

ESG DISCLOSURE IN AUSTRALIA

Voluntary VS Mandatory

No standardised templates or data sets (e.g. EET)

“Requiring disclosure falls beyond the scope of CPG 229, which is intended to provide guidance rather than set new requirements”

Corporation Amendment (Portfolio Holdings Disclosure) Regulations 2021

Another barrier to entry to increase the transparency for the industry

DISCLOSURE IN AUSTRALIA

Where is Australia headed

1 International Sustainability Standards Board (ISSB)

To sit alongside the International Accounting Standards Board (IASB)

Will provide **global benchmarking and streamlined frameworks**

Australia advised to “get on board” or risk reputational damage of financial market amid global capital markets

2 Alignment with TCFD

Regulators have recommended **alignment of ASX listed companies to TCFD**

3 ASIC’s Greenwashing review

Shows the **regulator understands the importance** of the emerging sector

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ESG REPORTING IN AUSTRALIA

Current reporting situation

In-depth analysis of ESG reporting across ASX200 companies by PwC found that ESG reporting is *"moving in the right direction, but not fast or far enough"*

70%

Of ASX200 companies have a sustainability strategy

21%

Of companies have sustainability as integral part of their core strategy

36%

Of companies have a Net Zero target

9%

Increase in the number of companies getting their ESG reporting externally assured

43%

Don't consider and disclose negative impacts of their value chains

38%

Provide short, medium and/or long-term timelines for ESG targets

Source: PwC ESG reporting in Australia – the full story, or just the good story?

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ESG REPORTING TOOLS

Centre for Social and Sustainable Products (CSSP)

yourSRI

ESG investment reporting and controlling solution (*Beta testing in Australia*)

- Fund level product screening
- Assess ESG & Carbon footprint of portfolios & mandates
- Multi-dimensional risk assessments at portfolio level
- Measure ESG & Carbon exposure relative to peers & benchmarks
- Simple upload of portfolios & generation of detailed investment overview

https://m.yoursri.com/

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TOOLS TO SUPPORT ADVISERS

Enabling meaningful client conversations

Fact Finding
ESG Client Questionnaires

Fact Sheets & Guides
Responsible Investment Association Australasia [Adviser Toolkits]

Ratings & Methodologies
Research rating methodologies & reporting across the APL

Investment Research & Portfolio Construction
e.g. FE Analytics

SUMMARY

> "ESG may not even exist as a theme in 10 years because it will become the norm and the industry will instead offer unique/thematic investment options e.g. exposure to fossil fuels"

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