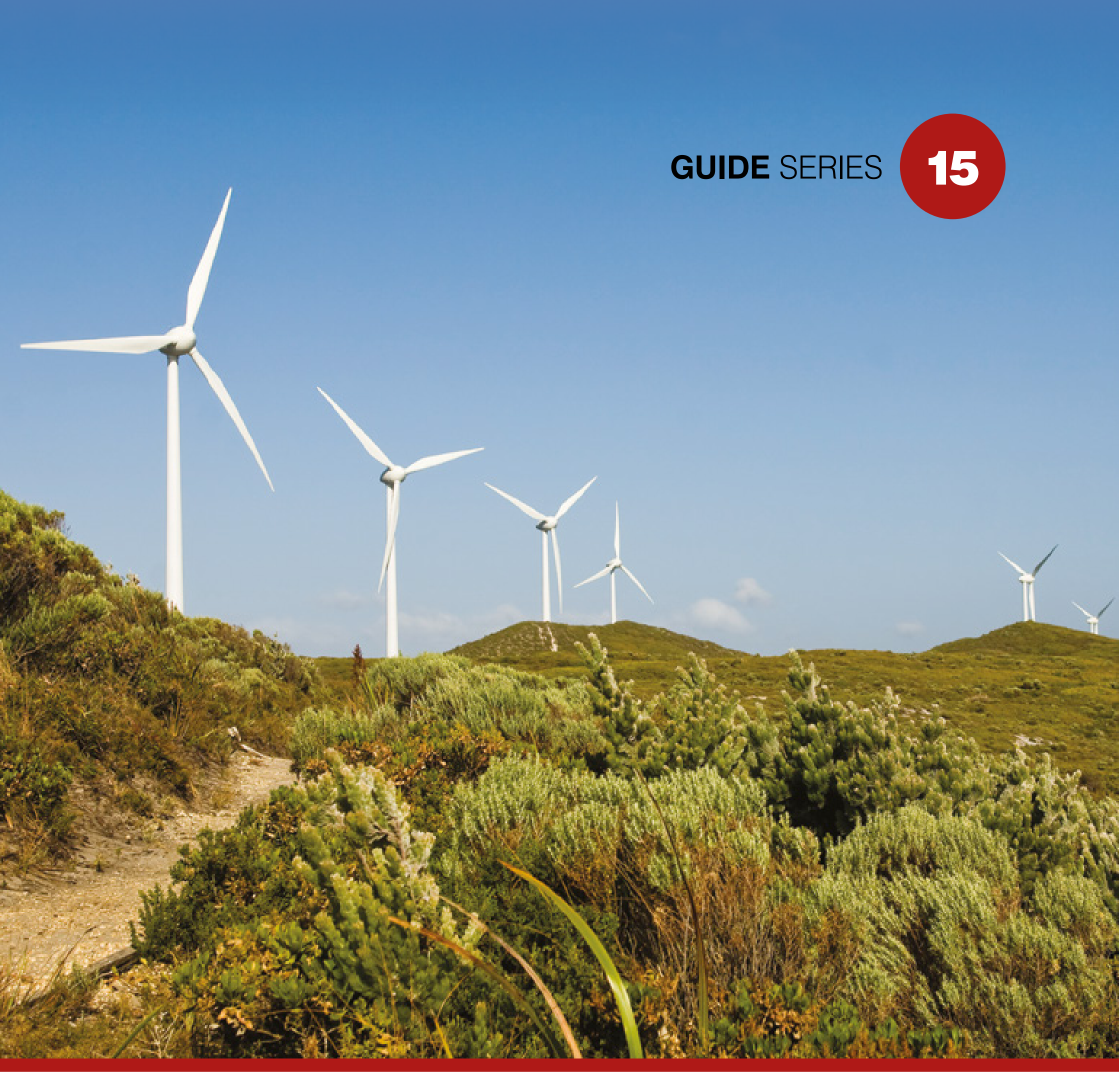


FINANCIAL STANDARD GUIDE TO

ESG Investing

Published by

FINANCIAL STANDARD.

Proudly supported by

AXA Investment Managers

Contents

FINANCIAL STANDARD.

Editor
Rachel Alembakis

Production Manager
Shauna Milani

Director of Media and Publisher
Michelle Baltazar

Group Managing Director
Christopher Page

Financial Standard
Level 7, 55 Clarence Street,
Sydney NSW 2000

T + 61 2 8234 7500
E info@financialstandard.com.au

www.financialstandard.com.au

Industry snapshot

Environmental, social and governance (ESG) investing is now part of mainstream financial conversation. The concept of systematically including ESG information in investment analysis is now a must-have for financial advisers.

As a result, the key issues that attract investor and consumer attention are becoming more central, more nuanced and complex, and the discussion of ethics and real world impacts is becoming more commonplace. The consumer case becomes simpler and clearer – they expect their money in super, banks and other investments to be invested responsibly.

Australia's continued uptake of ESG investing keeps it in the top ranks with global peers. The Global Sustainable Investment Alliance (GSIA) publishes a biennial Global Sustainable Investment Review, collating the results from market studies of regional sustainable investment forums in Europe, the United States, Canada, Japan, and Australia and New Zealand. In the most recent report in 2021, the review revealed that the global sustainable investment industry has grown to US$35.3 trillion.

Canada has the highest proportion of sustainably managed funds at 62% of total AUM, followed by Europe on 42%, Australasia at 38%, the United States at 33% and Japan on 24%.

Rainmaker has identified $444.7 billion in Australian-based ESG ethical and SRI investment managers as of the end of March 2022, while Plan For Life identified that responsible investment funds certified by the Responsible Investment Association of Australasia (RIAA) had grown to over $85 billion as of the end of March 2022. (This includes funds from Australia and Aotearoa New Zealand.)

Industry snapshot

At the same time, investors as well as regulators are focused on understanding that claims of ESG performance are matched by real-world action. Greenwashing is a key focus point for the industry. On the one hand, greenwashing represents a business risk for a fund manager or adviser who is not demonstrating that their actions are in line with their sustainability promises. On the other hand, authentic investment action is a key business opportunity.

Climate change is now clearly identified as a financial risk and opportunity as investors and markets turn to find solutions that will take the world to a net zero future. Whether voluntarily, or increasingly through regulation and legislation, climate change risks are explicitly evaluated, disclosed and managed by companies, and fund managers and advisers are integrating those issues when developing portfolios.

Modern slavery and human rights considerations are also strongly on the agenda, due to the Modern Slavery Act and tragedies such as Rio Tinto's destruction of significant cultural heritage at Juukan Gorge in May 2020.

The momentum of ESG investing and evaluating managers for their performance is a quickly moving and complex sector. There are no legal or regulatory requirements that compel advisers to be certified in ESG investing, but regulators in Australia and around the world are tightening their focus on greenwashing, while advisers continue to integrate the Financial Adviser Code of Ethics when it comes to implementing ESG investing into their practices.

The focus of this guide is to provide education and clarification for financial advisers to help you understand how to define ESG investing and how it integrates into your overall investment process. This guide also features real-life case studies and performance data that will shine the light on this increasingly important section of the investment management industry.

What is ESG investing?

“We see stewardship as the responsible allocation, management, and oversight of capital to create long-term value for our clients. Ultimately, our goal is to power a just and green transition to a more sustainable future. Through our stewardship, as in all our business endeavours, we are guided by our purpose – to act for human progress by investing for what matters.”

Marco Morelli, AXA IM Executive Chair

ESG investing covers a wide variety of approaches discussed in this guide. The foundation of ESG investing – the integration of environmental, social and corporate governance data - is about considering a holistic concept of financial value, not moral/ethical values.

However, it is increasingly common for advisers to address client values as part of an evolving business practice and in shaping how the investment discussion is constructed.

ESG issues cover a wide spectrum of activity: on the environmental side, this includes climate change, biodiversity, water use and water scarcity, and waste management, including the use of plastics. Social issues include modern slavery risks in company supply chains, labour rights, wage theft, and a wider consideration of human rights in general. Governance issues include executive remuneration, board diversity on gender and other grounds, corporate culture and conduct, transparency, accountability, and ethics. Other issues include animal welfare and safety.

What is ESG investing?

The evolution of ESG investing has been heavily dependent on the growth and expansion of data covering the spectrum of ESG issues, as well as the way in which fund managers evaluate that data, the ways in which fund managers construct portfolios and products based on that data, and the ways in which financial advisers can analyse which fund managers are providing the products that are most fit for purpose for clients.

ESG information, which had heretofore been considered "non-financial", is increasingly being reflected in publicly disclosed corporate and financial reporting because of its impact on both risk and opportunity on long-term financial returns. Nowhere is this more obvious than in the push by the International Foundation for Reporting Standards' International Sustainability Standards Board (ISSB), which has been crafting general accounting standards for broad sustainability metrics and climate disclosure since being announced at COP26 in Glasgow in 2021.

Nowhere is this more evident than in the ways in which climate change and climate risk is measured and integrated, and the way that retail and institutional investors are addressing the climate challenge in their investment decisions.

There are a number of ways in which active and passive funds can be constructed to eliminate companies that perform poorly on ESG grounds, or include companies that perform better on ESG metrics. This data has also been extended to encompass a range of asset classes, which will be discussed later in the guide.

Beyond integration of ESG data in financial consideration, ESG investing is bound up with the principles of asset stewardship - responsibly managing an asset on behalf of the beneficial owners. It is linked with legal and professional fiduciary obligations, and it is rooted in being an active owner as owners of shares in listed companies – using shareholder rights such as voting at annual general meetings as part of a suite of advocacy tools to improve corporate governance and the long-term value of a company. As many investors are long-term holders of shares and assets, one of the key strategies for managing investments is engaging with companies, a strategy discussed later in the guide.

Key benefits and opportunities

ESG investing is rooted in traditional portfolio management theory – the risk and return of a combination of assets to generate the highest expected rate of return on an investment for a specific level of risk. ESG investing fundamentally expands the scope of information for consideration and analysis in a values-neutral fashion faction. This should result in the generation of longer-term return while minimising portfolio risk.

ESG investing strategies and investment decisions that integrate ESG data can also lead to improved financial return.

When it comes to managed funds, through the 2021-22 financial year, the Rainmaker ESG Diversified index delivered -3.9%, while the corresponding regular index delivered -4.9%. Over three years the ESG effect was just as pronounced – the Rainmaker ESG Diversified index delivered 4.5% pa but the corresponding regular index delivered -4.0%.

The following table compares data from Rainmaker Information, rating median performance of the top workplace superannuation ESG options versus benchmark growth and balanced indexes.

	One year	Three year	Five year	Seven year	10 year
Workplace superannuation ESG options	-7.5%	3.5%	5.7%	6.4%	7.7%
Rainmaker Information Growth Index benchmark	-8.7%	2.9%	5.7%	6.6%	8.4%
Rainmaker Information Balanced Index	-6.8%	2.6%	4.8%	5.7%	7.1%

Source: Rainmaker Information data to 30 September 2022

Key benefits and opportunities

Beyond the financial return, being familiar and competent with the strategies of ESG investing is increasingly a part of engaging authentically with your clients.

The top workplace superannuation ESG options in the Rainmaker Information database range across growth, balanced and other options.

Beyond the financial return, being familiar and competent with the strategies of ESG investing and being able to have conversations about how clients' values influence their financial choices is increasingly a part of engaging authentically with your clients and meeting their investment needs.

According to RIAA four in five Australians expect their money in super, banks and other investments to be invested responsibly, with 17% of Australians already investing in ethical and responsible products.

RIAA's *From Values to Riches 2022: Charting consumer demand for responsible investing in Australia* report found that 72% of people surveyed said they are concerned with greenwashing and 74% would consider moving to another provider if they found out their current fund was investing in companies engaged in activities inconsistent with their values.

Further, research from Investment Trends in 2022 found that consumers ranked ability to provide advice on ethical and socially responsible investment as the fourth-highest criteria when selecting an adviser, behind tax, managed funds and direct shares. While considerations like high fees and lack of trust and not being aligned to financial goals rank highest for people likely to stop using or switch their adviser in the next two years, not being able to provide advice on ethical or responsible investments is rising up the agenda as an unmet advisory need for clients.

Challenges and risks to ESG investing

As the full spectrum of ESG investing has gained in prominence and assets under management in Australia, it is experiencing the challenges of a rapidly maturing sector of the financial services industry.

To begin with, some ESG investing options can be more expensive than mainstream options, particularly in the active management space, where additional research, analyst and portfolio construction resources are needed to construct and monitor ESG funds.

Another challenge is in finding adequate supply of products that fit in with your clients' ESG and ethical investing and financial considerations. Rainmaker Information has identified 32 super funds as leaders on ESG principles and strong investment performance as part of the 2022 Rainmaker ESG Superannuation Taxonomy Study. Rainmaker calculates that ESG super funds oversee $1.8 trillion being 71% of Australia's market for institutional (APRA-regulated) superannuation, for example.

There has also been growth in retail products, in areas like the managed accounts space as well as ETFs and other active and passive strategies, but this does not necessarily promise full alignment with clients' needs.

A third challenge to the industry is the fact that while the sources of ESG data are growing quickly, there are still limits around transparent, comparable and verifiable environmental and social issues, and it can be difficult to separate out noise and signal. Further, it can be very hard to compare ESG data from research provider to provider, and it can be hard to compare ESG methodology between fund managers. There is still work to be done around broad education on the definitions in this space, which is why we have written a glossary of key terms that appear at the end of the guide.

Challenges and risks to ESG investing

These feed into one of the larger concerns facing the ESG investing space: the issue of greenwashing – the idea that a fund, manager, or adviser doesn't "walk the walk" when it comes to applying ESG data to investment choices. This can take a variety of forms, such as ostensibly being a "green" investment fund or manager, only to be discovered to be allocating funds to companies in the fossil fuel sector. We will talk more about the legal and regulatory questions around greenwashing later in the guide, but in addition to those questions, there is also a reputational consideration for advisers to bear in mind.

Assisting clients who have a desire to invest with goals of maximising investment return while integrating ethical or ESG-based aims – or ESG-based aims can be a very tricky line to walk – because of the frequent confusion over (financial) value versus (moral/ethical) values, an adviser or planner firm needs to articulate a clear definition and policy around the ways in which ESG investing is applied, and then that policy needs to be clearly communicated to clients, and then clearly implemented in the investment and product decision-making process.

All of these considerations come as markets have experienced turmoil, including rising inflation, the impact of the Russian invasion of Ukraine and its knock-on effects on energy security and supply chain issues as well as other considerations.

Types of strategies

There is a broad spectrum of strategies that fall under the ESG investing umbrella. These strategies can be – and frequently are – combined, and can be applied to both active investing strategies and passive investing strategies. Here are some of the most commonly used strategies.

ESG integration is the strategy that has become most mainstream – RIAA's 2022 benchmark report identified $752 billion in assets under management that use ESG integration. ESG integration means considering how material environmental, social and corporate governance could impact on an asset's risk and return profile and making investment decisions based on those impacts. It is worth pointing out that ESG integration could result in deciding to invest in an asset that is not "green", or an asset with poor performance on social or governance metrics if the portfolio manager feels that the risk is compensated for by return.

Negative screening/exclusion is the strategy of removing potential investments in companies and/or sectors that are deemed as posing risk on ESG metrics. Common exclusions include tobacco, controversial weapons, nuclear power, gambling, alcohol, fossil fuels, and human rights. Some of these screens are norms based, like not investing in companies that produce weapons that contravene the UN Convention on Cluster Munitions.

The benefit of this approach is that it is easy to communicate what isn't acceptable from an ESG perspective and it can be calibrated to eliminate what isn't wanted. The drawback is that negative screens can concentrate portfolios, leading to additional, unwanted risk, or excluding companies that potentially could enhance return.

Positive screening/inclusion is the obverse of negative screening - increasing investments in companies and/or sectors that are deemed to have stronger performance on ESG metrics. This can take a variety of forms. For example, best of sector funds will assess which companies in a given sector perform the best on ESG metrics and include top quartile performers. This allows investors to have exposure across sectors, but reduce risk for poor performance against ESG indicators, such as removing heavy carbon emitting companies from the mining and extraction sector, but still remaining invested in better performing mining and extracting companies.

A second example are funds and indices that measure company performance against the Sustainable Development Goals – 17 global environmental, social and economic goals designed to improve people and planet by 2030, and invest in companies that align to SDG targets and accomplishments. Other examples include funds that invest in renewable energy, healthcare, or technology.

Positive screens can also be norms-based to include criteria developed through international bodies such as the UNGC (United Nations Global Compact), ILO (International Labour Organisation), UNICEF (United Nations Children's Fund) and the UNHRC (United Nations Human Rights Council).

Negative and positive screening are strategies of both passive and active managers. Many index providers have indices built to various screens that can be the basis of quantitative strategies and exchange traded funds (ETFs). Meanwhile, fundamental qualitative analysts will use ESG data to construct various portfolios that have either negative or positive – and sometimes both screens applied.

Types of strategies

Engagement is the process of communicating with invested companies' management and boards with the aim of a.) increasing knowledge for analysis and investment decision-making and b.) informing companies of investor expectations on performance, specifically on ESG grounds. Engagement is a wide-spread tool in Australia, particularly for funds that own a diversified universe of Australian companies, or an index. The composition of the ASX200 includes companies that have exposures to a broad range of environmental, social and corporate governance risks and opportunities, and most investors will hold a swathe of the ASX200. Therefore, engagement becomes a tool by which investors can assess and contribute to long-term investment return and corporate growth for investors who are universal owners.

Impact investing is investments that explicitly target positive performance on social and/or environmental metrics as well as financial performance. This is an emerging and relatively small piece of the overall ESG investing universe.

The Global Impact Investing Network estimates the size of the worldwide impact investing market to be US$1.164 trillion as of 2022, the first time the sector surpassed the US$1 trillion mark globally. This is, however, a relatively small figure overall; the managed funds sector in Australia alone is more than $3 trillion.

However, this space is a source of great interest by family offices, endowments, foundations and high-net-worth investors who are interested in seeking values as well as value.

These identified strategies can be combined together. In particular, engagement is generally a tool used by investors across strategies. Fund managers will inform companies of their views on their ESG performance and cite their research as justification for why they are positively or negatively screened out of a process.

These identified strategies can be found across asset classes as well, although the application of ESG data can vary from asset class to asset class. For example, ESG data can be applied as a tool to assess return

One sector that has also shown particularly strong growth has been green, sustainability-linked and social bonds.

and risk in an equity portfolio. In a bond portfolio, one of the primary risks is the issuer's ability to pay, which means that there is a different balance of materiality between the E, the S, and the G. However, an increasing number of bond managers are using engagement to speak with issuers and banks at the time of issuance to shape outcomes including interest rates linked to sustainability outcomes.

One sector that has also shown particularly strong growth has been green, sustainability-linked and social bonds. Green bonds are bonds whose use of proceeds explicitly fund activities like building renewable energy infrastructure, low-carbon public transport and other areas.

Sustainability-linked bonds are bonds that are linked to a defined set of activities at a company, such as decarbonisation, increasing gender diversity, enhanced protection of culturally sensitive heritage sites for Indigenous and First Nations people and other corporate activities that lead to enhanced ESG performance.

Social bonds are bonds that are explicitly linked to achieving social aims, like reducing homelessness, recidivism, public health and other aims.

According to the Climate Bond Initiative (CBI), a global organisation that certifies categories of green bonds and also tracks green, social, sustainability, sustainability-linked (SLB) and transition bond volumes reached US$152.3 billion in the third quarter of 2022, while year to date issuance of that category of finance was US$635.7 billion by the end of the third quarter. CBI noted that more than half of the total came from green bonds, while sustainability bonds supplied 22.4%, social 14.8%, SLBs 10% and transition comprised the smallest share at 0.5%.

Best practice approach to ESG investing

Best practice in ESG investing is grounded in a decision-making process that is commonly agreed on and can cross direct investment and portfolio construction and oversight, and external manager selection and oversight.

It is important to start with research. Platforms are increasingly including ESG funds, options, and stock-level data. There are also fund research houses and data terminals that provide ESG data as well. Third party research providers also provide subscription-based sources of ratings.

Developing your approved product list is also important, which means looking to your dealer group, and assessing what other options are available on platforms. Dealer groups are increasingly including ESG investing options, and platforms are a source of choice and research as well.

Best practice approach to ESG investing

Asking the right questions is important as well, and this goes both ways. In the first instance, you will need to assess external fund managers for how they design, perform and disclose ESG investing factors. The United Nations Principles for Responsible Investment (UN PRI) and RIAA both have guides to help advisers design their questionnaires with regards to manager selection and oversight.

In addition, CFA Societies Australia has launched an ESG investing certification for Australia, for those advisers who wish to pursue further education on the topic.

The CFA Institute Certificate in ESG Investing in Australia offers investment professionals the benchmark knowledge and skills they require to integrate ESG factors into their investment processes.

The certificate will enable the industry to evolve by placing sustainable practices at the forefront of investment considerations and will also help to address the lack of ESG skilled investment professionals, CFA Societies Australia has said.

For Wholesale Clients only

Your actions could lead the way

Invest for the planet

AXA IM offers a range of responsible investing strategies that are designed to help clients target specific sustainability goals around issues such as climate change, while capturing long-term growth potential.

01

Discover our Sustainable Equity Strategy

- Where investment decisions are guided by ESG themes
- Invest in large-cap equities focusing on climate change
- Favour companies with a robust ESG profile

Sustainable Equity

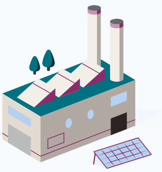
Companies are having to adapt to their customers' higher expectations around sustainable practices, which is backed by governmental and regulatory support to incorporate sustainability measures into company information.

Our Sustainable Equity strategy is an actively managed global equity strategy following a factor-based investment approach with a focus on the Low Volatility and the High Quality factors – while actively investing in a sustainable way.

02

Discover our Green Bonds Strategy

- With the goal to support a low-carbon economy
- With our own assessment framework to drive responsible investments towards authentic green projects
- Alongside, looking to raise the standard of the green bond market



Green Bonds

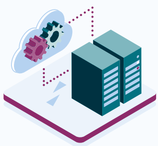
Green bonds have increasingly attracted the attention of investors engaged in the decarbonisation of their assets. It can provide a transparent tool to finance environmentally-friendly projects at no additional cost.

Our Green Bonds strategy is a purist approach which combines our extensive resources in global, active fixed income investing with our proprietary green bond framework and ESG scoring methodology.

03

Discover our Clean Economy Strategy

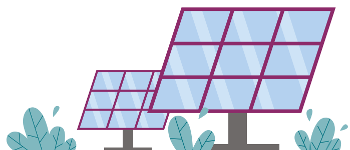
- Invest in a rapidly growing universe of companies whose activities improve resource sustainability and support energy transition
- Seeks to identify high-quality, growth-oriented companies operating across key investment areas impacted by the finite amount of natural resources



Clean Economy

Consumers are demanding more of companies and governments as concerns over the sustainability of human civilization on earth deepen. We believe businesses that are prepared to adapt should have a sustainable, competitive advantage over the long-term.

Our Clean Economy strategy refers to companies who seek to have a positive environmental impact, by developing new technology across areas such as energy efficiency, smart grids, clean energy and sustainable resources.



Case study 1:
Exploring the ESG spectrum with clients

Environment and climate change are the top concerns for many clients that come to Ethical Investment Services (EIS), according to chief executive Michelle Brisbane.

Brisbane notes that the first meeting with clients incorporates an ethical profile to identify the activities clients either want to support or avoid with their money. Clients rank their preferences on a scale of strongly agree, agree, or neutral.

"Portfolio construction is based on the nuances of the clients' preferences and our role is to present a portfolio that truly meets their ethical objectives," Brisbane said.

After years of managing direct share portfolios for clients, EIS developed its own separately managed account (SMA) which now has a track record of over 10 years. This portfolio is actively managed and offers a fossil free, full portfolio solutions for suitable clients.

EIS leverages the relationships it has developed over its more than 30-year history when probing managers for greenwashing.

"We have a deep and ongoing relationship with many of the managers we use," Brisbane said. "If we see anything that we know won't wash with our clients, we'll say 'your fund is great except for these holdings, can you do something about it?'."

EIS clients are a "spectrum" in terms of their approach to meshing their values to their portfolios, and the majority are "realistic and pragmatic, Brisbane said.

In recent years, clients' environmental concerns have led them to a new interest in 'green minerals' which are required for electrification and other climate change initiatives, especially production and transmission of renewable energy.

Case study 1: Exploring the ESG spectrum with clients

"Lithium is a popular conversation topic and clients are enthusiastic about renewable energy solutions," Brisbane said. "We are now having conversations with clients about certain types of mining that may be acceptable in their portfolios."

"We do as much research as we can, including down the chain aspects and try to find the best operators we can, hopefully, avoiding anything with unacceptable practices."

Although 2022's market performance favoured fossil fuel stocks and market volatility has impacted certain responsible and ethical investment strategies, EIS clients have stuck with their investment choices and taken a longer-term view, riding through this cycle, Brisbane said.

"The types of investments we look at are areas that really have a long-term sustainability outlook and are going to be around for many market cycles," she said. "You might look at non-renewables like an oil and gas company, their lifespan and long-term prospects are likely much shorter than a renewable energy operator. What we do and the funds we invest on behalf of clients is money that is invested for the next three years or the next generation, not the next three months."

Case study 2: A new business model

When it comes to client concerns about investing in the spectrum of ESG products, the top questions are performance and greenwashing, says Simon Lewis of Arrow Private Wealth (Arrow).

Arrow has a range of ESG-related funds on its APL and has managed a socially responsible investment separately managed portfolio (MP) for five years. That portfolio had approximately $20 million in assets under management as of November 2022, Lewis says.

"The question about performance is really about education and explaining to investors and clients that you can get good outcomes and you would expect to get these good outcomes because ESG centric businesses are the businesses that are going to be the biggest in the next 10 to 30 years," he says.

"Greenwashing is an issue for everyone in the whole industry. You get it everywhere."

Arrow has an SRI Philosophy Framework that incorporates its core values, underlying philosophy, guiding principles, criteria and key manager qualities including sustainability, stewardship, transparency, and accountability.

Arrow also evaluates fund managers and products against five investment approaches: positive or best in class screening, sustainability themed investment (including Greentech, clean energy and sustainable agriculture among other thematics), impact investing, ESG integration, and negative screening.

One of the points of discussion for clients is whether they're making a fresh investment allocation or switching from one fund to another, which brings to the fore questions like taxation.

Case study 2: A new business model

"If you have new clients come in and you talk to them about the SRI MP they'll turn around and say 'let's do that', but if they're already invested a certain way, it can be more difficult to get them to change," Lewis says. "There's the tax situation and changing the portfolio over."

To address those concerns, Arrow purposefully raises the topic of SRI with clients and prospects and supports this conversation by increasing the amount of educational material available to clients, including communication in newsletters, information on their website and video based communications.

In 2022, Arrow also launched a digital investment solution that's aimed at meeting the needs of younger clients and incorporates an ethical managed portfolio called Better World, Lewis says.

"With all our managed portfolios, the key objective doesn't change," he says. "We're trying to create a diversified portfolio that's going to form the core part of some of our clients' portfolios and meet their risk return objectives."

The Better World portfolio looks to allocate across Australian and international equities, direct and listed property, private equities, bonds and corporate debt.

Compliance

One of the biggest challenges when it comes to ESG investing is that there is no one way to do it, no one way to disclose ESG related investment activity, and no definition at the moment in legislation or regulation. However, there is concern, both regulatory and reputationally about one big issue: greenwashing.

The Australian Securities and Investments Commission (ASIC) defines greenwashing as "the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical."

"Greenwashing distorts relevant information that a current or prospective investor might require in order to make informed investment decisions. It can erode investor confidence in the market for sustainability-related products and poses a threat to a fair and efficient financial system."

ASIC's definition of greenwashing comes from Information Sheet 271 and is directed at managed funds, corporate directors of corporate collective investment vehicles (CCIVs), and super fund trustees and is the result of a review into greenwashing that ASIC conducted into the wealth management industry.

In Information Sheet 271, ASIC emphasises the use of clear labels, definitions of the sustainability terminology used and how sustainability considerations are factored into investment strategy, and also recommended "keeping up to date with regulatory developments and ensuring disclosures are also reflected correctly."

For its part, the Australian Competition and Consumer Commission (ACCC) has stated it is "actively monitoring" green claims and won't hesitate to take enforcement action if consumers are being misled or deceived by greenwashing.

Compliance

There is a lot of work being done in Australia and around the world to create a consensus to support the drive to more consistency, clarity and comparability in ESG disclosures.

The Task Force on Climate-related Financial Disclosures (TCFD) has emerged as an increasingly common way for entities to report on their climate risks and how they measure and manage their potential future impacts.

IFRS' International Sustainability Standards Board (ISSB) is creating a set of accounting standards for sustainability and climate change. When finished, the standards are likely to be adopted by the Australian Accounting Standards Board (AASB), which sets accounting practices for disclosure.

Further developments are underway to find standards for disclosing biodiversity impacts and dependencies via the Taskforce on Nature-related Financial Disclosures (TNFD).

The European Union has disclosure regimes for labelling of sustainable financial products via the Sustainable Finance Disclosure Regulation (SFDR), while the US Securities and Exchange Commission (SEC) is considering rules changes for similar disclosure of financial products.

The industry-led Australian Sustainable Finance Institute is developing a taxonomy designed to facilitate investors to direct more capital to companies and assets that will drive the transition to net zero in Australia.

Fund managers that are members of the Financial Services Council have a mandatory asset stewardship code that is compulsory for its fund manager members, but that is a voluntary industry body.

RIAA offers a Responsible Investment Certification process for financial advisers and investment products. RIAA evaluates financial advisers based on criteria relating to commitments to offering responsible and ethical advice to all clients, experience in offering specialist advice, and the presence of responsible investment products on the approved product list.

The future

The case for integrating ESG information and strategies in investment processes is robust, as evidenced by material financial and non-financial issues, consumer demand, and regulatory momentum. Data suggests that companies that perform well on material ESG issues show risk adjusted return, even in volatile markets, and funds that utilise ESG investment strategies as part of their investment process outperform peers.

ESG investing shows no signs of dwindling in the Australian market, or indeed around the world. The industry is going through a period of reckoning, but a maturing market will respond to the risks of greenwashing seriously and proactively.

Consumers are increasingly seeking investments that provide investment value and align with their personal values, and it is becoming a part of sound business strategy for financial advisers to be able to respond to these questions with information, product choice and services. We hope that this guide has assisted in providing greater information to assist you in your decision-making and your business.

Glossary

Active Ownership: The process of engaging with invested companies and exercising proxy votes at AGMs.

Asset Stewardship: Responsibly managing an investment on behalf of the asset's owners.

Environmental: How and why the physical environment materially impacts investments and decisions. Issues include climate, waste, water, natural capital/natural resources, etc.

Engagement: The process of communicating with invested companies' management and boards with the aim of a.) increasing knowledge for analysis and investment decision-making and b.) informing companies of investor expectations on performance, specifically on ESG grounds.

ESG Integration: The ways in which material ESG information is analysed and included in the investment process to mitigate risk and enhance return.

Ethical Investing: Utilising ESG metrics in an investment process that includes taking an asset owner's or investor's moral views into consideration when designing a portfolio.

Governance: How and why the ways in which institutions are managed impact on risk and return. Board and executive decision making, human capital management, executive remuneration, diversity and inclusion, corporate culture, etc.

Greenwashing: A term originally meaning conveying a false impression or providing misleading information about a product or service's environmental performance. It has been extended to be a blanket term for claims around sustainability-related performance.

Impact Investing: Investments that explicitly target positive performance on social and/or environmental metrics as well as financial performance.

Negative Screening: Removing potential investments in companies and/or sectors that are deemed as posing risk on ESG metrics.

Net Zero (aka carbon neutral): A target to eliminate an amount of greenhouse gases produced by a set time/date. Actions include reducing consumption of carbon-intensive resources through abatement activities, avoidance activities and using carbon offsets to eliminate any additional balance.

Positive Screening: Increasing investments in companies and/or sectors that are deemed to have stronger performance on ESG metrics.

Responsible Investment: A term that encompasses a full spectrum of activities that utilise ESG information to design portfolios and investments that have an enhanced view of financial risk and return.

Social: How and why members of societies materially impact on risk and return. Issues include human rights, social license to operate, community engagement, future of employment, financial inclusion/exclusion, etc.

For Wholesale Clients only

AXA IM's Key Responsible Investing (RI) figures

Our ambition is to be the world's leading responsible investor. We expect the global economy will move to a more sustainable model over the coming years, and we want to be an active partner for clients as that transition takes place.

20+ Years

of RI experience

87%^

of our total assets under management classified as Article 8 & 9 under SFDR

29 Dedicated Specialists

putting responsible investing to work in our strategies

Recognised

as a Responsible Investment Leader 2022 by the Responsible Investment Association Australasia (RIAA)*

*Responsible Investment Association Australasia, as at September 2022.
^AXA IM, as at 30/06/2022, AUM within Equities, Fixed Income and Multi-Asset

Published by

FINANCIAL STANDARD

Proudly supported by

AXA Investment Managers