

# Harbour Navigator

## Responsible Investment report confirms growth in ESG

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The Responsible Investment Association Australasia (RIAA) have published their annual benchmark report this week that details the size and growth of responsible investment in New Zealand. For the second year, Harbour (alongside HRL Morrison and Southern Pastures) was recognised as one of the three domestic asset managers employing a leading approach to Environmental, Social and Governance (ESG) integration in their broad responsible investing category.

The report also found that as at the end of 2016, responsible investment by New Zealand asset managers had grown 67% to \$131.3 billion since 2015. According to the report, this growth was mainly driven by consumer demand, combined with media and political pressure.

One of the factors the report identified as hindering responsible investment growth was a concern around effects on performance. Although data analysis was not conducted on the New Zealand sample, in the Australian research they found that in fact core responsible investment funds were outperforming equivalent Australian equity funds, over 3, 5 and 10 year time periods.

Our own internal analysis for New Zealand corporates over the last five years has been inconclusive as to consistent alpha generation from responsible investing. What we can confidently say is that there is no evidence of any detrimental alpha being generated through ESG integration. As a responsible corporate citizen, with a fiduciary duty to our clients, Harbour has an obligation to consider all types of non-financial risks and we believe our ESG integration strategy strengthens our investment decisions.

There are two different types of responsible investment defined by the RIAA; core and broad. Core responsible approaches are based on at least one of the following strategies: positive, negative or norms-based screening; sustainability themed investing; or impact investing. Broad responsible investment is defined by having an ESG integration approach.

Core responsible investment funds had the largest growth over 2016, rising from \$1.6 billion to \$42.7 billion. This growth was mostly attributed to KiwiSaver providers introducing negative screens on investments involving tobacco and controversial weapons.

Broad responsible investment had modest growth of 15% over 2016, but it still constitutes the largest portion of total responsible investment with \$88.6 billion in assets under management. Harbour utilises a broad investment approach by integrating ESG factors into our investment process. We collect a lot of this ESG data ourselves through our Corporate Behaviour Survey, which we conduct annually and often provides a catalyst for positive company engagement.

Harbour believes that it is important to consider all types of financial and non-financial information when analysing a particular investment, and this is why we choose to utilise an integrative approach to ESG. We also believe that companies which manage ESG issues well are more likely to create long

term shareholder value, with a lower risk profile compared to those that do not. We are confident that our ESG process enhances investment outcomes for our clients over the medium term. Harbour is a strong proponent of investing ethically and responsibly. We have been a signatory to the Principles for Responsible Investment (PRI) for almost seven years now, and have submitted annual reporting on our ESG practices for assessment. Our overarching approach to ESG has been consistently rated in the top quartile amongst our peers. Harbour is also a member of the New Zealand Corporate Governance Forum. As an investor, we also actively work to improve the standard of governance in the New Zealand market by actively engaging with companies on ESG issues which we believe need improvement.

We think the future outlook for responsible investment in New Zealand looks positive due to the rising awareness and demand for ESG strategies. This is likely to continue going forward, as investment organisations expand the number and size of their responsible investment products as they have done in the past few years.

[For further detail, you can view the full RIAA reports here.](#)

[More information on Harbour's approach to responsible investing can be found on our website.](#)

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