

KPMG – Responsible Investment in KiwiSaver

Report summary, compiled by CFFC

Context

- Responsible investment includes environmental (climate change, resource depletion, waste, pollution, and deforestation), social (working conditions, child labour, animal welfare) and governance considerations (bribery and corruption, political lobbying and donations).
- Negative screening – excluding certain sectors, companies or practices from a fund or portfolio – is the most common selection method.
- Research over the past decade has shown that responsible investment is not less profitable.
- Public pension funds in many countries have been pioneers in responsible investment.

New Zealand context:

- Research suggests that those New Zealanders who are engaged in sharemarkets care about responsible investment; 72 per cent of respondents expect their investments to be made responsibly and ethically.
- In 2016, the New Zealand Herald revealed that \$152 million in KiwiSaver funds were invested in companies involved with cluster bombs, landmines, tobacco, nuclear explosives and human rights infringements.

The KPMG authors note several issues with the current framework of responsible investment in KiwiSaver, including:

- Ambiguous and inconsistent terminology which vary between and even within KiwiSaver fund providers and can confuse investors.
- Ambiguous policies on what is excluded.
- Some KiwiSaver funds present regulated exclusions, eg, investment in cluster munitions, as a voluntary market differentiator when they are not.
- Few KiwiSaver funds provide details about monitoring processes.
- There is a misconception that ESG issues are purely 'ethical', and may compromise financial returns.
- Lack of legislative guidance by the New Zealand government.

KPMG suggests the following recommendations to government:

- Establish clear and consistent definitions for responsible investment, including themed investments such as impact and green investment.
- Establish a clear and detailed classification system, or taxonomy, for responsible investment and encourage its uptake across New Zealand's financial system.
- Develop consumer-focused guidance on responsible investment.
- Require clear, consistent and transparent reporting on responsible investment.
- Establish labels for green financial products.