

THE GREEN ISSUE

Nine out of 10 Australians now expect their superannuation or other investments to be invested responsibly and ethically. But can investors make a positive impact without compromising on returns?

Story/ Sarah Simpkins

At the AMP annual general meeting last year, a man named Mr Sainsbury asked a question to ask of chairman Murray.

Asked in your address that you mentioned the environment and the change in your company's sustainability goals," he said. "I'm just wondering, Mr Murray, do you still believe that there's no correlation between global warming and the amount of carbon dioxide in the atmosphere?"

Murray has publicly renounced the change in the past, having made comments on ABC's *Lateline* in *The Australian Financial Review*, where he said carbon dioxide got nothing to do with pollution. In response to Mr Sainsbury, he did appear to change his stance. He had focused on the fact that the sustainability report was a company's, with the opinions of any one person being beside the point.

"I have my opinions about climate change but they are irrelevant," Mr Murray said. "The report is there. I think it's a report. And there are people in the community with different views about that. That's a healthy thing at the end of the day."

Earlier in the session, another man named Mr Vaughan took the stand and quoted a statement from the Reserve Bank of Australia deputy governor Guy Debelle: "Both the social and economic impact of climate change and the transition are likely to have a significant order economic effects."

Mr Vaughan, with the pseudonym 'Bleach' also took the stand, dressed in a hi-vis suit, plastic tiara, carrying gold dollar sign knucklers and black smudges on her face. She brought in a piece of coal and thanked Mr Murray for bulking up the pockets of billionaire coal miners.

Questions were asked of Murray about his position on the change during that meeting. All that were present were in part of those concerned with the environment, with Mr Murray giving a loud round of applause. He said he would take no more questions on climate change. The meeting appeared to be divided.

It was to be that as it were; shareholders, investors, wealth managers, financial institutions and advisers at large taking note of how the actions of the sector will impact environmental issues, as well as those of other social and ethical issues.

Looking at climate action in particular - earlier this year, Australia's largest insurer, QBE, was pressured by shareholders into withdrawing insurance from the coal industry and to cease its investments in coal. Wealth manager Australian Ethical had teamed up with advocacy group Market Forces to lodge that shareholder resolution, campaigning for shareholders to revolt.

In March, research from the Institute for Energy Economics and Financial Analysis revealed that more than 100 global financial institutions had restricted funding to the coal sector.

And as mentioned, the Reserve Bank has moved to act on climate change. It signed on with the Reserve Bank of New Zealand and seven other central banks in the Pacific in April to look at the impact of climate change on the region's financial systems, and how they are going to respond to it.

This has happened with the rise of financial products catering to value sets, with a boom in funds centred around environmental, social and governance standards (ESG). A BetaShares report found that in the last four years, ESG-oriented ETFs in Australia grew by more than a factor of 10, from \$77 million in 2015 to \$844 million in 2018.

Around 63 per cent of total assets under management in Australia and New Zealand are using a responsible investment approach according to a review by the Global Sustainable Investment Alliance (GSIA).

The market for impact investing also quadrupled between 2015 and 2017, as shown by the Responsible Investment Association Australasia's (RIAA) *Benchmarking Impact* report.

The rise in the market has not come short of demand. Australians have been reported to not only want ethical investing; they now expect it.

An RIAA survey found in 2017 that nine out of 10 Aussies expect their superannuation or other investments to be invested responsibly and ethically.

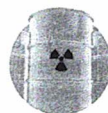
Half (49 per cent) of Australians expect their advisers to invest in funds that align with their values, RIAA found. The same research found around 63 per cent of Australians said they expect advisers to incorporate their values or consider the societal or environmental implications of particular investments.

A BetaShares report earlier this year also found that a quarter of



CLIMATE ACTION

Right now, climate action seems to be predominantly tied up around energy - in terms of investing in clean energy, fossil fuels and mining. The issue can be contentious for investors and shareholders to consider, which was evident at the AMP annual meeting this year. Many organisations in the financial sector are moving to lower their exposure to fossil fuels, particularly in coal. Australian Ethical avoids investing in airlines and cars because of their fossil fuel use. The company will also generally avoid investing in new large-scale hydro-electricity projects, because "they have some major disruptive risks to the natural environment".



SUSTAINABLE PRACTICES/NATURAL CAPITAL

How a company uses and manages its impacts on natural capital is important for some investors. This involves looking at a firm's use of water, its greenhouse gas emissions, along with other factors. Other concerns for investors in this area include forestry and palm oil production.



NUCLEAR POWER AND URANIUM MINING

Nuclear technologies and materials arise as an ethical issue as they can be used to make weapons, they can cause harmful radiation and also carry the risk of failure of nuclear power stations.

Australian advisers expressed interest in more education on socially responsible investing.

Adelaide-based adviser Andrew Gaston founded his business Accord Financial Strategies in 2008. He had come across the RIAA, went through its certification process and then became a member of the Ethical Advisers' Co-op.

Mr Gaston has sat on the co-op's board for around five years. He leads the product and research working team, collating and distributing information for the group's approximately 35 members. The co-op was brought together by a number of advisers looking for a forum to exchange ideas and promote ethical investment.

"We have the Responsible Investment Association that's trying to shift the whole finance market across to ESG and to gradually build the ESG up," Mr Gaston says.

"Whereas for the Ethical Advisers' Co-op, the majority of members are members who have more active clients who are looking for a true portfolio that matches their ethics."

In Mr Gaston's role, he talks to portfolio managers about their funds, peeping what the investment houses are bringing to market. He says there has been a shift in the last three years, with more ESG products and a lot of them being a "darker green than they used to be", reaching a deeper degree of sustainability.

In his own business, he says he's seen his client base grow by around 25 per cent per annum.

"Clients have become better educated. Especially in the last two years, from my business perspective," he says.

"There's ESG in the media just about every day and clients are seeing that and they're asking questions, they're thinking about how they invest money, why they're investing money, where they're investing money."

In Melbourne, financial planner Alex Jamieson founded his business AJ Financial Planning around 10 years ago, with the firm centring its work around sustainable and ethical investing. The company is also a member of the Ethical Advisers' Co-op.

When Mr Jamieson started his business, he had come across a study that identified businesses performing strongly also had strong ethics around their organisations.

That struck him as significant in both a performance and an investment philosophy perspective. We largely considered the area of being involved in the area, but it'd always been these question marks around is there an actual trade off between ethics and performance. I guess that instilled a range of confidence from the academic study," Jamieson notes.

Our basic premise is we feel we straddle those two things to still meet the clients' retirement objectives and investment objectives, and performance objectives, but we don't think that we have to compromise." Mr Jamieson says the responsible investing sector has pivoted in the last decade. He recalls a recent investment management conference he attended in Hong Kong, where every speaker was asked at least one question around ethical investing. "When I first started in the industry and first started to go to these events, ethical investing or sustainability investing, those types of terms were often never raised," says.

"We're finding the number of investment products that are out there are really expanding, and also the general comments we see in the media, too, the landscape has mainly shifted in that space." Leah Willis, client relationship manager at Australian Ethical, says global momentum will keep driving international as well as domestic growth in responsible investing. "We know the demand for responsible or ethical investing is increasing year on year, both in Australia and overseas, and a lot of the data that came out from Morningstar indicates that in two dollars globally is already invested responsibly," Willis says.

"You're also seeing an emergence of regulation out of Europe, particularly, for investment managers to take account of climate-related risks, so you're seeing that underpin I think continued global growth. But the simple fact is, that the world's population growth, urbanisation and scarce resources mean that ultimately, we have to find better, more positive, more sustainable solutions, that we think will underpin the growth of responsible sectors and companies."



GMOs

Genetically modified food and other products have been argued to provide benefits, but some investors contend that there is not enough evidence to show they are safe or regulated thoroughly enough.



ANIMAL WELFARE

Issues come up around the treatment of animals in sectors involving live export and fish farming, which also have environmental impacts.



HUMAN RIGHTS

Can include considerations around discrimination, such as that within companies, in its supply chains or operations. Indigenous rights can also be considered. Another element under human rights concerns is offshore detention. The issues of child abuse, arbitrary and indefinite detention, the treatment of asylum seekers and transparency and effective monitoring come up. Australian Ethical feels that companies do hold a responsibility to respect human rights in their activities, independent of government policy.



ALCOHOL

Investors may have concerns around social, health and financial harms caused to individuals by alcohol, particularly around marketing and peer pressure.

How to advise ethically

Mr Jamieson of AJ Financial Planning says when a new client comes to him, he uses a screening approach where he eliminates what they define as unethical immediately. Some clients are more enthusiastic than others, in that they have certain issues or areas they care about and want to invest around.

"So, then it's just developing an approach from an investment perspective that really matches what they're trying to achieve, and obviously matches from a return profile that they're trying to achieve, as well," Mr Jamieson says.

"Sometimes it's stress testing some of those values a little bit. What I mean by stress testing is introducing different types of ideas and seeing their responses from a sector exposure perspective or from an individual investment perspective as well.

"That gives us an understanding about the level of depth, we call it the depth of green, so how important is that particular area and what sort of level of screening, how heavily screened out do they want to take from an approach perspective?"

AJ Financial Planning's team finds it has to screen out areas to keep a client's conscience clear from their perspective in regard to the assets they hold, achieving what it calls the 'sleep at night factor'.

"Some people are very determined around making sure that the investments that they hold, they're 100 per cent comfortable around the ethics of those organisations," Mr Jamieson says.

"Other clients might have a lighter ethical screen and just more at a headline level, want to stay away from the big nasty areas that they've identified."

Issues such as weapons are a simple issue to deal with from an investing view, but other areas can be greyer and can greatly vary in importance for different clients. Talking about a person's values and asking what they care about is complex and requires nuance; it dives deeper than the usual client-adviser interaction.

Mr Gaston of Accord says advisers need to make sure they have done their research, checking exactly what clients want to screen out or include in a portfolio, check with investment houses and seeing their exclusion processes as well as looking at other resources, including the RIAA and talking to an adviser from the Ethical Co-op.

"It is the question of what's a balanced fund? And it's depending on who you talk to; as to what that is," he says. "These clients that are seeking these sorts of things are very driven by mind and heart and if you're not 100 per cent correct you can do a lot of damage and lose a lot of standing with the client."

Matt Christensen, global head of responsible investing at AXA IM, says advisers will need to know what level of relationship they want to build with their clients, as traditionally they will not have discussed value orientations.

"Part of where the advisers have struggled, and it's not an easy one, is how to get that conversation about the values and value," he says.

"I think over time that conversation is going to become more nuanced. It'll go from, 'just make me money', to the adviser to then saying, 'How would you like your money made?' That question will shift the context."

The RIAA has a questionnaire, which advisers and investors can follow to determine what their values are for investing, which Mr Jamieson says is a good starting point.

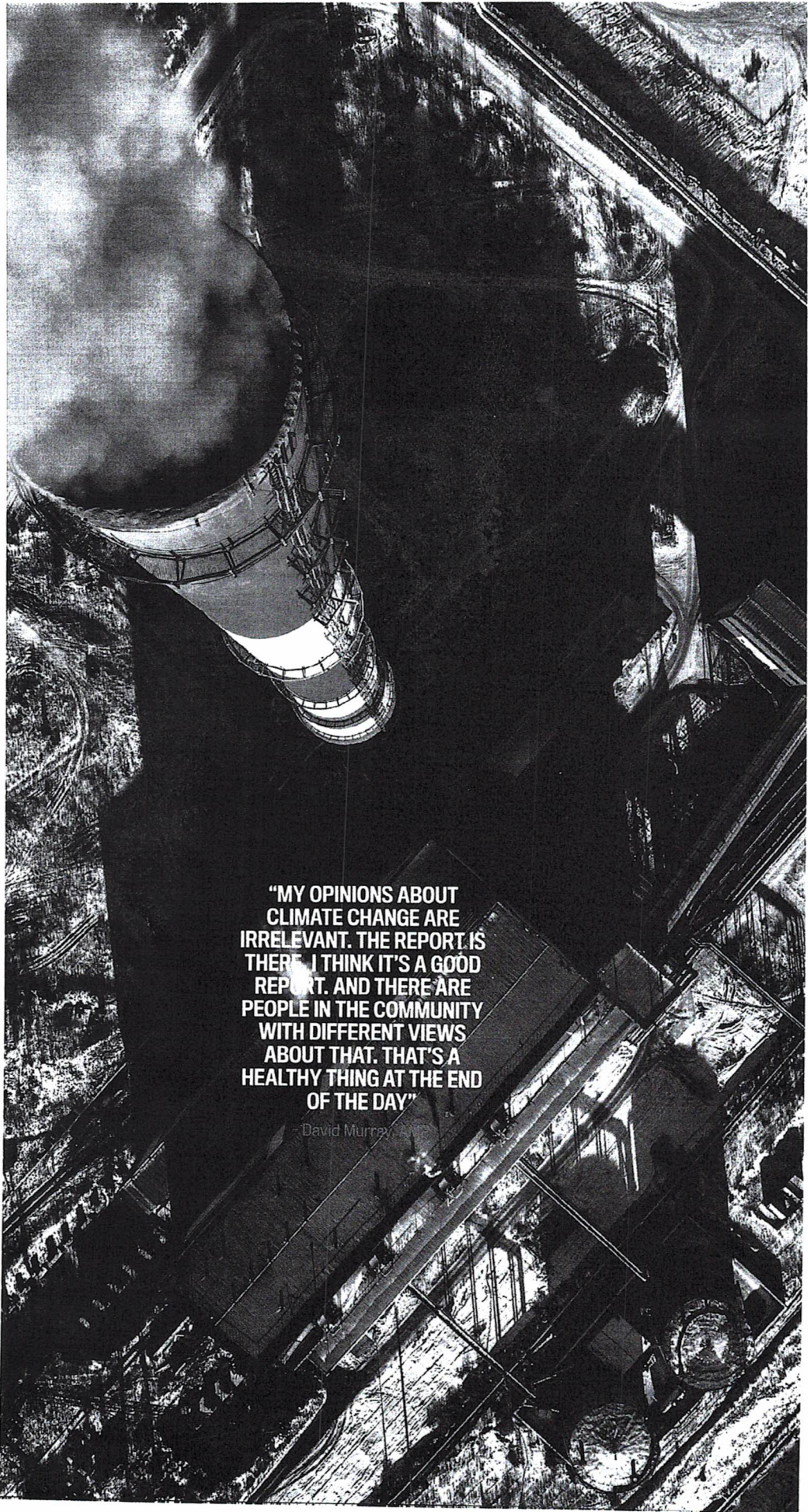
Although the responsible sector has grown, advisers in the space say they still run up against the perception from both consumers and their peers in the industry that ethical investing requires compromise on returns.

"I think it's not well embraced still. It's got a journey to go," Mr Jamieson says. "There's some great advisers in the industry that are doing some wonderful work in that space, but we're still in terms of the number of advisers, it would still be well and truly in the minority."

He adds that the average age of a financial planner is more on the later ends of their career rather than the commencement of the career. Instigating change can be hard, when they're more likely to take the approach they've always taken.

The future of advice, however, could see ESG integration become an industry standard within the next few years, and the same could eventually happen for other approaches in responsible investing, with younger consumers and advisers entering the market.

Mr Jamieson says, "If you've got a long runway in this career and certainly what we're seeing from a



"MY OPINIONS ABOUT CLIMATE CHANGE ARE IRRELEVANT. THE REPORT IS THERE. I THINK IT'S A GOOD REPORT. AND THERE ARE PEOPLE IN THE COMMUNITY WITH DIFFERENT VIEWS ABOUT THAT. THAT'S A HEALTHY THING AT THE END OF THE DAY"

David Murray

global perspective, attending global conferences and also what we're seeing from the younger investors, there is certainly a need around meeting those sort of requirements and for us, it's evolution."

Ms Willis of Australian Ethical says the industry should be looking at how consumers are wanting to invest ethically and adapting accordingly. She adds for advisers, the demand is there from not only new clients but also existing ones, for greater transparency and a deeper understanding around issues.

"I think it's a matter of advisers understanding that ethical or responsible investing is not a fad, it's not a trend, it's growing considerably year on year, and if we believe it's here to stay and it continues at the momentum that it is, it's something that advisers absolutely have to embrace," she says.

ESG v ethical

As mentioned, there has been a boom in the availability of ESG centred products. Currently, it is the dominant responsible investing approach in Australia.

The RIAA found in its 2018 *Benchmark Report* that investing undertaking a leading approach to ESG integration has around a total of \$679.3 million in AUM, making up 43.5 per cent of total assets under management in Australia. Asset managers, from large multi-managers through to small boutique managers as well as property and infrastructure managers, use ESG integration.

While it also seems conscience driven, ESG is fundamentally different from ethical investing.

ESG looks at drivers for company performance, examining issues that can impact reputation and shareholder returns. It drives investment decision making by accounting for criteria such as executive remuneration in corporate governance or pollution under environmental impact in financial analysis.

As described by the Australian Council of Superannuation Investors, ESG integration is a tool for managing financial risk. Ethical investing, in contrast, uses ethical or social principles as its primary filter.

"ESG is an input into our investment process, no doubt, but it's not the total picture, and we would see ourselves as going far deeper," Ms Willis at Australian Ethical says.

The company uses an ethical filter, which includes 23 positive and negative principles. Australian Ethical's aim is to invest in companies that support people, animals and the environment, without causing harm. The fund manager, ESG research screening is merely the first step. Other fund managers want to focus on ESG integration and the sustainability of a business' practices. Nick Nelson, portfolio manager at Stewart Investors, says his firm uses the word 'ethical', as its clients have different ethical views on different issues. Instead, the firm focuses on sustainability, which he says is not only matters in long-term investing, but it also grows naturally of the decision-making process. "If you're holding a company for plus years, you start to think a lot about the quality of the business," he says. "It doesn't matter if you're going to buy a share today and sell it next week, whether the balance of the company is good, or whether the managers are motivated properly, because it's not going to have an impact in that holding period. Obviously, the longer you hold a company the more that matters." Mr Nelson says sustainability of businesses is significant given context, particularly in emerging markets where supply chains and natural capital could be compromised or eroded in the future. How a business earns itself can also impact its returns and its viability in the long run. "We simply believe that a company which has a risk loving attitude, and tends to cut corners in its operations, maybe it cuts corners in a way aligned with pollution, and ends up causing an environmental damage. One of its plants, has the type of attitude of risk-taking which is likely to manifest itself in other things the company does," Mr Nelson says. Maybe that company, three years from now, will have to restate its accounts, and tell us that actually, it didn't make the profit that it said it because it had been taking this short term and short-cutting attitude to deal with its accounts." Mr Jamieson of AJ Financial investing also emphasises long-term performance within his ethical investing approach. "You just think on a simple level, from an investing standpoint, a long-run organisation that's run ethically tends to recruit people that want to work for it," he says.



CORPORATE GOVERNANCE

Gender diversity in the workplace, in leadership positions and on corporate boards has come up as a catchcry as of late. Another issue is workplace health, safety and wellbeing.



PORNOGRAPHY

Companies that produce pornography can be harmful in their exploitation of actors and others in production, but also in their showings, which can damage young people's attitudes to sex and relationships.



MILITARISM AND WEAPONS

AustralianSuper was recently called out for investing in Saudi weapons. As of December last year, the fund had more than \$7 million invested in Northrop Grumman, a company that has sold and still appears to sell arms to Saudi Arabia.



BANKING AND INSURANCE

The royal commission highlighted a number of issues in the finance sector in how it treats its customers. Investors are concerned about corporate governance.

"Not always, but in a lot of cases, so they attract the talent and that tends to lend itself to a more dynamic organisation, which tends to be more of a thought leader in the field that they operate in. That may lend itself to performing better than a peer that is making some short-term decisions around profit."

ESG integration has naturally spread to passive investing. BetaShares found earlier this year that one in three Australian ETF investors applied ESG in their investing over the last 12 months. The report showed the market cap for ESG-oriented ETFs has grown by about 10 times in three years.

"I would say Australia is definitely adopting ethical investments faster than the US," Alex Vynokur, chief executive of BetaShares, says.

"Australian institutions are also taking on ethical investments much faster than in the US. From almost a standing start four years ago, there are now 11 ESG oriented ETFs trading on the ASX with almost \$900 million in assets under management."

With the surge of ESG centred ETFs, Mr Nelson says problems can arise in that sustainability is not something that he thinks can be calculated numerically, or within an algorithm. ESG approved practices can also neglect to consider what a firm also actually produces or services, only considering its business practices.

"How would you analyse governance through an algorithm, it's quite difficult, because you could take into account for instance, the percentage of independent directors on the board," he says. "But that isn't necessarily going to capture everything, because sometimes, someone who actually is not independent is the person you're hoping is going to be the steward of the business. Those sorts of things don't really map out very well in passive investing.

"Often the companies which form the largest positions in things like the MSCI Sustainability Indices are the companies which are not the most sustainable, but they're those with the best marketing departments."

Investors wishing to screen against sectors based on moral or ethical stances may also find ESG ETFs leave them wanting.

Ms Willis of Australian Ethical says, "I'd bring out a couple of examples if you have a look at an ESG portfolio,

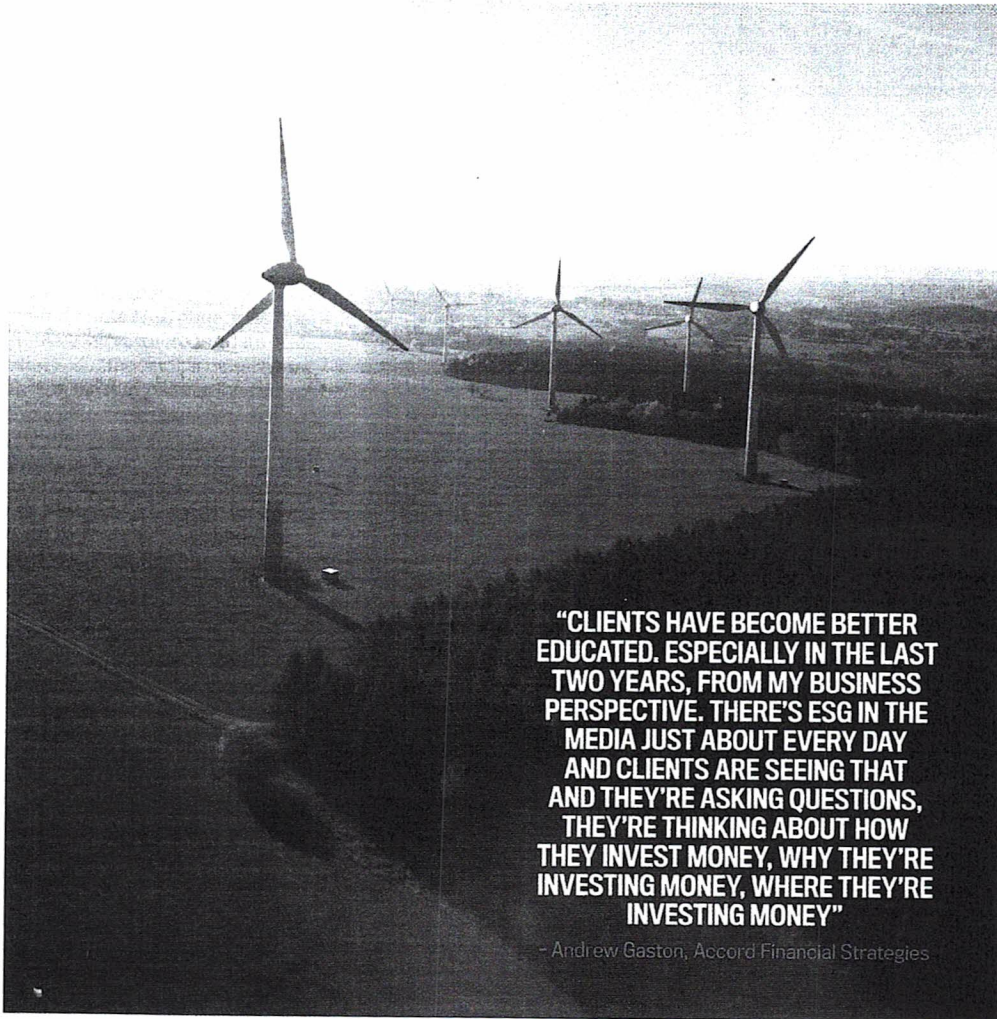


or even if you do a comparison with say, the Dow Jones Sustainability Index, which a lot of sustainable or ESG investors might benchmark themselves against, and you still have exposure to oil companies, to gambling, and tobacco companies."

Mr Gaston of Accord, likewise, says having the right screening for ETFs is where many "investment managers come undone". Following the royal commission, there has been backlash against investment managers for including the big banks in their portfolios.

"Their screening process or their limits are too high or not strong enough, and clients are saying, 'How did this company get through your screen? It shouldn't be in your screen,'" he says. "When you have an ethical fund saying it's an ethical fund but it has the four big banks, BHP, Rio, in there, clients are asking, 'How can they use the word ethical?'"

Mr Nelson gives an example of Colombia-based Grupo Nutresa, a food processing company, whose name means 'nutrition group'.



“CLIENTS HAVE BECOME BETTER EDUCATED. ESPECIALLY IN THE LAST TWO YEARS, FROM MY BUSINESS PERSPECTIVE. THERE’S ESG IN THE MEDIA JUST ABOUT EVERY DAY AND CLIENTS ARE SEEING THAT AND THEY’RE ASKING QUESTIONS, THEY’RE THINKING ABOUT HOW THEY INVEST MONEY, WHY THEY’RE INVESTING MONEY, WHERE THEY’RE INVESTING MONEY”

- Andrew Gaston, Accord Financial Strategies

three things are fossil fuels, gambling and tobacco. Probably 95 per cent of the time,” he says.

“Probably one that’s come to the fore over the last six to 12 months as a result of the royal commission is corporate governance.

“We’re seeing a huge shift, shifting clients away from those big four banks; they’re looking for the smaller, more client-focused bank to work with.”

Mr Gaston has seen the market adapt to client demand in his work with the co-op, having developed a document recommending screens for fund managers to use, based on client feedback. He says where older investment houses may find it difficult to adapt, newer managers without legacy issues are happy to issue new products with tougher screening.

A new evolved issue that clients are now asking about is supply chain.

“It’s no longer just, ‘What does the company do and how does it do it?’” Mr Gaston says.

“What does it supply? They’re looking at how do they source and who do they source their materials from.

“Also, some of them are starting to look at the next step, which is, when your product that you’ve produced is sold to the consumer, when it’s finished with, what’s left and how is it dealt with and what is its impact. This is all starting to come through and accelerate across portfolios.”

Mans Carlsson-Sweeny, head of ESG research at Ausbil Investment Management, says investors need to be mindful of supply chain given the potential for supporting exploitation.

UN agency International Labour Organisation has estimated that more than 40 million people are in slavery conditions globally, with around 25 million in forced labour. Around 15,000 victims were predicted to be in Australia.

The Financial Sector Commission on Modern Slavery and Human Trafficking has said the industry has a role to play in ending the issue.

“If a business model relies on underpaid workers, or even slavery, or weak regulation on social issues, current earnings will unlikely be sustainable. Also, brand damage can lead to loss of sales,” Mr Carlsson-Sweeny says. “When a company does not know its own supply chain or does not understand the risks of slavery, it begs the question: what else should we worry about?”

re company features often in the I Sustainability Indices, with a ainable looking logo and high losure around carbon and water ge, as well as its governance policy its audit committee. Nutresa has contributed to a number of social each programs.

However, none of that captures t the company actually produces. ch includes confectionery, biscuits meat cold-cuts, Mr Nelson says. It rned itself from Grupo Nacional hocolates, or ‘National Chocolate p’, to change its image.

hat doesn’t really do justice to ainability investing in our view use you can’t really do that out recourse to what the company tually making,” Mr Nelson says.

What are they doing? How are they tioned for sustainable development? he best sustainability companies e world, if you believe the indices ers, are Coca-Cola and Pepsi. y’re again fantastic at disclosure so on, but you’d be quite difficult to e that they’re truly sustainable in view, based on the actual products.”



ISRAEL/PALESTINE

Investors may divest from companies operating in the Gaza Strip and West Bank, following the UN and broad international consensus that they are illegally occupied. Other regions have come up as areas that should be avoided in investing, including North Korea.



TOBACCO

Investors are largely concerned around the health issues caused by tobacco.

What do investors care about?

Australians were seen to embrace ESG in a Legg Mason survey, with 43 per cent saying ESG factors strongly affect their investing decisions. Environmental considerations were cited as the most important factor for investors. Australian Ethical has found year on year in surveying its members that the top issues they care about are climate change, the environment and conservation.

“However, in last year’s report, we saw an increasing number of members actually rating human rights, social welfare and animal rights as being really important to their investment decisions,” Ms Willis says.

“That’s supported by the survey that RIAA also released last year, where human rights and animal welfare actually rated quite highly.”

Mr Gaston of Accord has what he calls the ‘big three’, the main issues that he finds clients do not want their money going towards.

“A lot of clients, when they come in, when I’m talking to clients the first

RESPONSIBLE INVESTMENT APPROACHES

Screening

Screening involves filtering potential sectors, companies, projects and practices based on a set of criteria:

- **Negative screening:** Excludes potential investments based on a checklist, such as a set of ESG or ethical values. Investors may bar industries such as tobacco, gambling, alcohol or arms dealing.
- **Positive screening:** Also known as best-in-class screening, seeks to back companies or projects based on positive or superior ESG or other values-based practices and performances relative to industry peers.
- **Norms-based screening:** Tests investments against minimum standards of business practice, as established by international norms such as UN benchmarks.

Sustainability themed investments

An approach with a focus on longer term, sustainability related themes as part of its investment strategy, favouring more forward-looking businesses, with sustainable practices, products and policies. An investment manager's definition of sustainability can vary.

ESG Integration

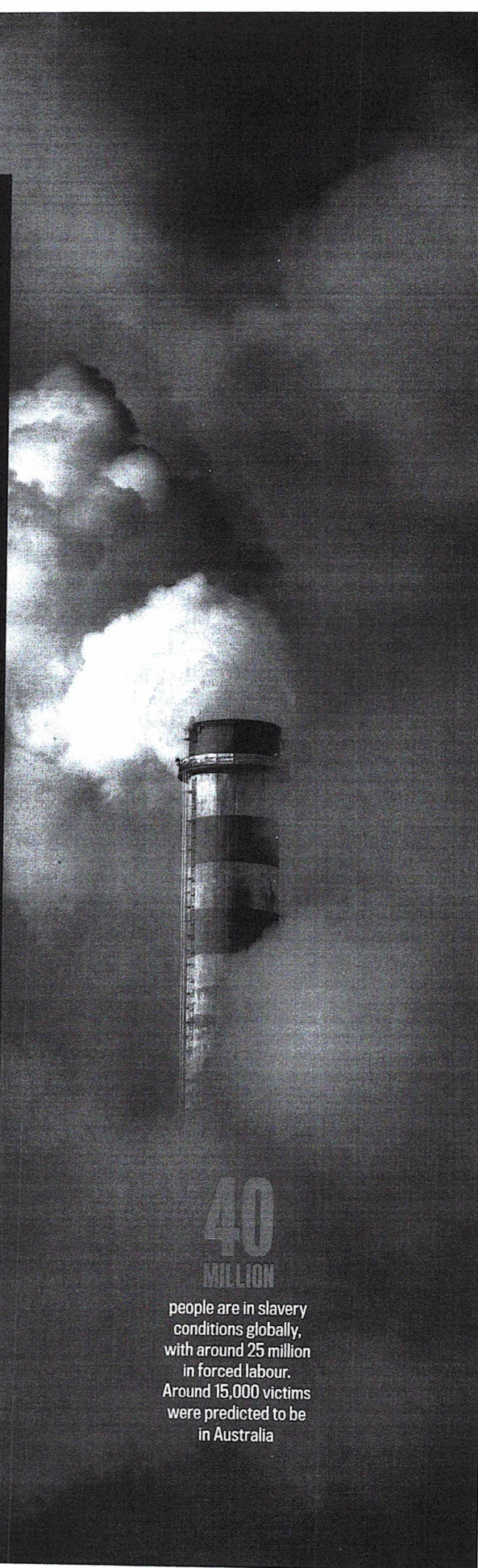
Involves the systemic inclusion of environmental, social and governance factors into financial analysis and investment decision making.

Impact investing

Targeted investments with an outcome in mind, usually aiming to solve or aid with social or environmental problems. According to RIAA, investors usually include high-net-worth individuals, institutional investors, charities, corporations and foundations.

Shareholder activism

This approach is centred around corporate governance in companies, wielding shareholder power to engage with management to change an aspect of the company's operation. It occurs through filing shareholder proposals and proxy voting. More recently, more shareholders have demanded action with environmental and social resolutions.



40
MILLION

people are in slavery conditions globally, with around 25 million in forced labour. Around 15,000 victims were predicted to be in Australia

"Also, damaged brands can be costly and time-consuming to restore and can also have inter impacts, such as staff engagement and distraction for management and the board."

The Australian market is unusual in that members of superannuation funds have discretion over where their cap invested, whereas in Europe, most of those decisions are made an investment committee level.

"I suppose the benefit of the Australian system is that member demands can feed through to the options that are offered quite quickly, because you've got fund who are ultimately in competition with one another, and they have to be responsive to the market," Mr Nelson of Stewart Investors says.

"If the market is in favour of more options which favours what the will invest in over time, hopefully more super funds will offer those as options going forward, and I think we do see that happening the demand is increasing."

Mr Christensen of AXA IM says ESG integration is now booming in Australia because of the competitive nature of the superannuation market.

"You don't have that setup anywhere in the same way. What means is that the way the market was setup years ago, decades ago is that you have a competitive environment to show distinction," he says.

"I think part of the interest in it is a differentiation of the way that superannuation schemes could distinguish themselves."

While the market is growing, Ms Willis of Australian Ethical notes there is a lack of transparency around products, leaving consumers unable to decide for themselves if a fund may align with their values.

"I would say that most retail or industry super funds would have some kind of option available to members, whether that exactly aligns to what those members deem as responsible, is an interesting question," she says.

"Because we know from Market Force's reports last year, or maybe even at the end of the previous year, that around 80 per cent of super funds aren't providing transparency of their stock listing

Drawing in younger investors

A Legg Mason Investment Survey found that more than 70 per cent of Millennials would invest in sustainable funds over funds that don't consider sustainability, in contrast with 21 per cent of Baby Boomers.

Natixis similarly found in 2017 that three in four Millennials believed it was important that their investments were doing social good.

Reflecting on his own clientele, Mr Jamieson says, "The younger investors are a lot more attuned to it."

"Certainly, we're finding that there's a general expectation that this is being done as opposed to I actively have to select this. So, I think there's that sort of shift from an Australian perspective, and with a younger generation investor, there's an expectation level where they think 'why would you actually invest in this thing?'"

Mr Jamieson has found a more mixed response from older clients, with the age bracket above 50 usually prioritising having enough for retirement.

"We do have obviously a cross section of clients in that demographic of 50+ that are particularly focused in on that area, but in terms of the general mix, it's probably not an expectation," he says.

Impact investing

What advisers are now seeing more of is impact investing, where capital may be actively placed in a business to drive a certain outcome, usually a specific and significant environmental or social challenge.

Currently underdeveloped in the Australian market, Mr Jamieson thinks impact investing will grow more over the next few years. He predicts it will open up from its typical participants now being high-net-worth individuals and institutions to being an average investor.

"That's probably the next progression that we're seeing with the story, with the parties saying, 'OK, let's just screen out organisations from an ethical [perspective], if it's not congruent to your value set,'" Mr Jamieson says.

"The next discussion then is, 'OK, how can we deploy capital to actually make a physical impact in these areas that you're wanting to have some focus in?'"

"That discussion is very different we find to a straight-out ethical screening approach."

"I think that's probably the biggest distinction, too, is you're making a conscious decision to allocate some capital for a physical purpose around a set benefit, as opposed to 'I just don't want to be involved in these sectors, and I want to have some exposure to these areas.'"

Mr Gaston backs this up with his own experience, saying in the last 12 months, more clients have asked about it and expressed interest, with most seeking social outcomes or looking to invest in sectors such as medicinal cannabis or artificial intelligence.

Shareholder activism

In a post-royal commission landscape, the finance sector in particular has seen what accountability from all stakeholders, including shareholders and investors, looks like.

Australia's major banks saw the wrath of its shareholders in its annual meetings last year, with all of the big four in addition to AMP incurring strikes. NAB suffered the largest protest vote in Australian corporate history, with 88 per cent of shareholders rejecting its remuneration report.

A broad consensus is that there is only going to be more pressure on companies to change their governance. Mr Jamieson in particular thinks investors will be less tolerant on ethical issues, estimating their leniency will diminish over the next five to 10 years.

Asset managers, owners or specialists may also build the case for companies to change, to better business sustainability or returns.

A recent survey of 1,100 financial professionals globally found that 81 per cent of the industry believed governance issues would affect share prices, 63 per cent said environmental issues would play on shares and 57 per cent believed social issues would have an impact.

"We spend a lot of time talking to companies about what we perceive as issues where the company could be doing more, or maybe doing something a bit differently," Mr Nelson says.

"Ultimately, the approach is not to be finger-wagging or to be telling a



GAMBLING

Similar to alcohol, investors are concerned around the financial, psychological and social harm caused to problem gamblers.



TAX AVOIDERS

Some investors may wish to avoid companies that have structured themselves and their transactions to avoid paying tax.



MEDIA

Australian Ethical retains the view that a reliable and diverse news and media sector is essential for a democracy to function. It excludes investment from News Corp because of 'serious reporting bias.'



SOCIAL MEDIA

Social media can be used for good, but it can also be harmful. It can break down barriers of distance, allow people to share information, connect with each other and start social movements. It can also amplify fake news, encourage bullying, polarise people and invade individuals' privacy. Investors may wish to limit their exposure or at least consider choosing particular channels.

company what they should do or act as though we're the experts.

"Ultimately, what we're saying is we're long-term shareholders, we think this is a long-term risk, we believe that there is space to address this, and we will not sell all our shares, if there's a short-term dip in profits, because you have to spend some money to address this issue."

The future of ethical investing

The market, having gone through three waves, is about to break into a fourth, Mr Christensen of AXA IM says:

He has called the socially responsible investing (SRI) market wave one, when ethical investing came about as an idea in the early 2000s. Wave two was the ESG integration movement, initiated in around 2006 to 2007, while the third wave is impact investing, which gained steam in 2013.

He thinks what's next is ESG integration will become the norm in asset management and there will be a shift to more activism and a merge between ESG and impact investing.

"ESG and impact are going to come together, and what you're going to have as a result of that mingling between more of a risk orientation and an outcome orientation is a heavier focus on activism. I think the activist culture, or activism, is going to be redefined in finance," Mr Christensen says.

Responsible investing in Australia grew by around 39 per cent last year according to the RIAA. Ms Willis of Australian Ethical puts it down to more ESG focused managers taking higher levels of screening.

"Globally and domestically you've seen exclusions broadly around armament, broadly around tobacco, and you are now starting to see a push as I referred to before, globally, in terms of climate change and other considerations," she says.

"So, I do think that that deeper part of the market, where you go beyond ESG, and enter into exclusions or screening will continue to increase."

"From our perspective, the key differentiator is not just the exclusions, but actually the positive approach that we take. That's where we would like to see more of the market even move to, to have greater impact, to be able to support those companies and sectors that actually have more positive, more sustainable solutions." ●

● PRACTICE PROFILE

Conscience driven

Alex Jamieson started his business 10 years ago, long before ESG was a buzzword. He says ethical and sustainable investing will only be more prominent for the future of advice

STORY/ Sarah Simpkins



process, or unfair labour practices.”
To Mr Jamieson, an investing approach that sought out companies which had ethical practices made sense: he had found research that showed these firms were more sustainable and giving more reliable returns in the long run.

And compared with when AJ Financial Planning started around a decade ago, when terms such as ethical or sustainability investing were rarely raised, the market for responsible investing has exploded.

Within Mr Jamieson's own firm, his client base has grown from around 10 to more than 300.

The business tailors its investing approach to each customer's financial goals, while also pinning down their individual value sets. Each client is different.

Mr Jamieson notes, everyone has differing value sets and degrees to which they want sectors and issues to be screened out from their investing.

“So, it's checking with them, what's really important for them,” he says.

“It's developing an approach from an investment perspective that really matches what they're trying to achieve, and obviously matches from a return profile that they're trying to achieve.”

Although he feels there is still a strong perception in the industry of ethical investing requiring

compromise on returns, it is likely the industry will see a normalisation of ESG integration and inclination towards ethical investing with younger consumers entering the market.

“There's some great advisers in the industry that are doing some wonderful work in that space, but we're still, in terms of the number of advisers, well and truly in the minority,” he says.

“The younger investors are a lot more attuned to it. Certainly, we're finding that there's a general expectation that this is being done as opposed to I actively have to select this.

“If you've got a long runway in this career and certainly what we're seeing from a global perspective, attending global conferences and also what we're seeing from the younger investors, there is certainly a need around meeting those requirements.”

The company's team consists of four staff, with Mr Jamieson acting as its principal planner, Ben Crowe another financial planner, Shaun Gilbert holding the role of para planner and Ms Jamieson working as AJ's administration assistant and marketing manager.

Although the firm has retained its small size over the 10 years, Mr Jamieson says that was deliberate, as an ‘alternative path’ for a business owner.

“A lot of organisations out there at the moment feel from a financial planning perspective that they need to grow to be this monstrous organisation, and I think

SNAPSHOT

- **Company name:** AJ Financial Planning
- **Dealer group:** Self-licenser
- **Clients:** 300
- **Total staff:** 4
- **Advisers:** 3
- **Platforms:** Interactive Brok varies
- **Software providers:** XPL Copper, Box, DocuSign
- **Research:** Morningstar, Re

with the recent changes, lot of those questions will be raised around thinking is that the right way to go Mr Jamieson says.

He cites a Harvard study that found that business go through a ‘U curve’ growth trajectory. Business were profitable as they were small and then became less profitable while they were trying to grow, only achieving greater returns with scaling.

“The main ideas around that is during the scaling process, a lot of your focus gets shifted elsewhere and there's a lot of costs associated with it,” Mr Jamieson says.

“You find a lot of these practices sit in this mid territory which is no man's land, and I think for a lot of businesses, especially in financial planning, they're that no man's land. Very actually get through to the other side, to that profitable side.”

“I think early on for our organisation, we looked at the different pathways and we felt that small for us and what we're trying to deliver was the pathway we were really wanting to go down.” ●

MELBOURNE-BASED Alex Jamieson and his wife, Suzy, had decided they wanted to build a company that made a positive social impact.

AJ Financial Planning is now a member of the Responsible Investment Association Australasia (RIAA) as well as the UN Environment Programme Finance Initiative and the UN Global Impact Network.

It is also a member of the Ethical Advisers' Co-op, an industry forum for responsible investing.

The firm pledges around \$10,000 annually towards environmental, humanitarian, cultural or community projects. It also powers its office with renewable power

and uses 100 per cent recycled paper.

Prior to founding the company, Mr Jamieson had already worked as a financial adviser at Westpac, JPM Investment Group and Freeman Fox.

“We've got two young kids and we didn't want to look them in the eye and say, ‘Look, we were part of the problem’ around whether it be environmental issues, or a range of different issues,” Mr Jamieson says.

“We wanted to make sure that we could deliver a financial planning solution to clients that could achieve everything that they were hoping to, but weren't demolishing the rainforest in the