



# HOW TO MAKE YOUR ETHICAL INVESTMENT EFFECTIVE

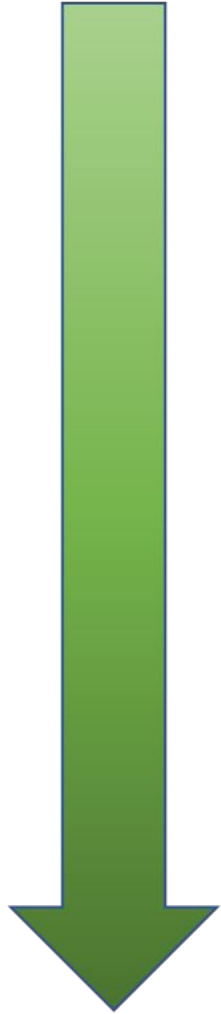
# Agenda: Omicron Investment Impact

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- Defining Ethics
- Effect on portfolio performance
- What are the options
- What are the pitfalls

# Ethical Investing: Some definitions

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- Sustainable investing
- Socially responsible investing
- Ethical investing

# Ethical Investing: Some definitions

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- **Environmental** criteria look at a company's energy use, waste, pollution, natural resource conservation and animal treatment
- **Social** criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates.
- **Governance** deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. .
- Together, they are commonly called ESG

# Ethical Investing: Some definitions

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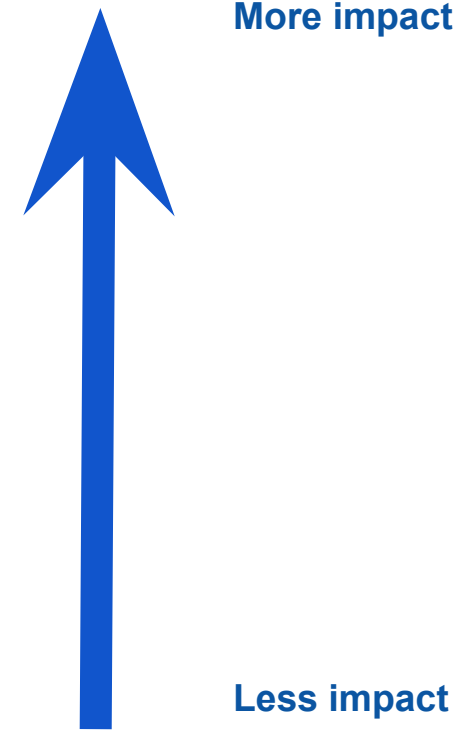
- **Positive Ethical screening** looks for companies that will make a difference
- **Best of Breed** benchmarks companies vs other companies in the same sector and then chooses the best on a relative basis
- **Negative Ethical screening** excludes companies from a portfolio that are in an unwanted sector or have too many governance red flags.

# Why do you want to invest ethically

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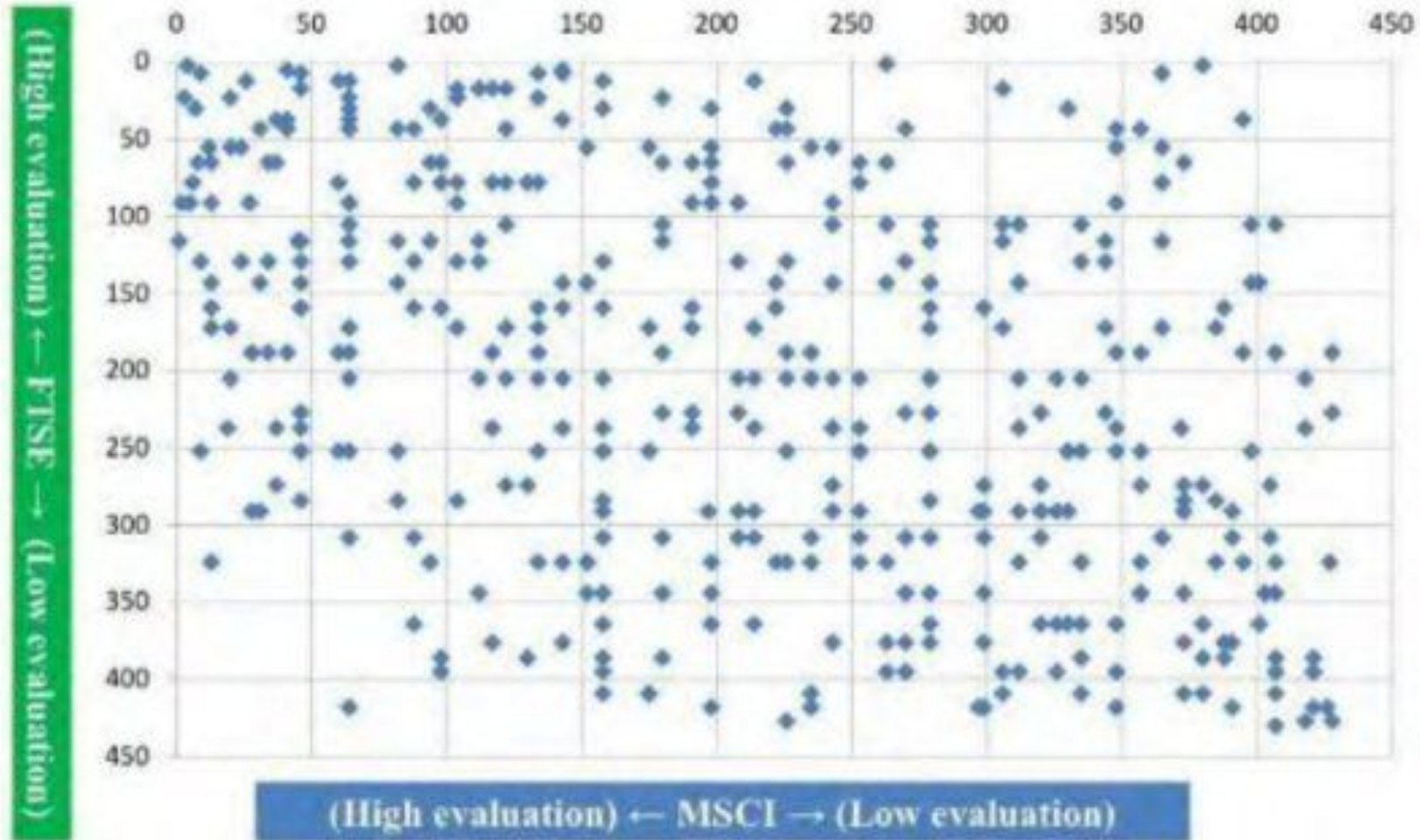
Should you be investing in ethical stocks at all?

- Make a donation
- Buy the product yourself
- Buy shares from the company in a capital raising
- Buy shares on the market



# Not a science

Comparison of ESG scores from FTSE and MSCI

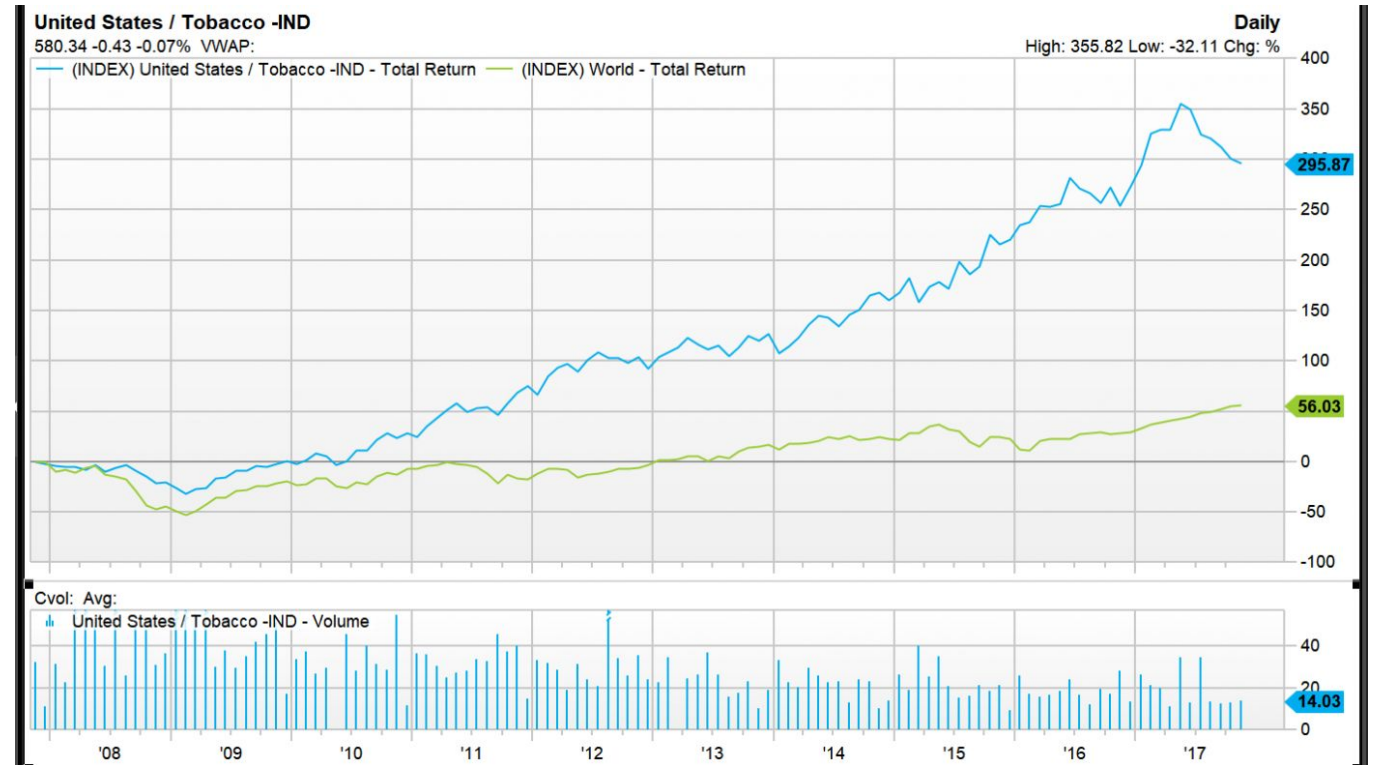


Source: CLSA, GPIF



# Effect on portfolio performance

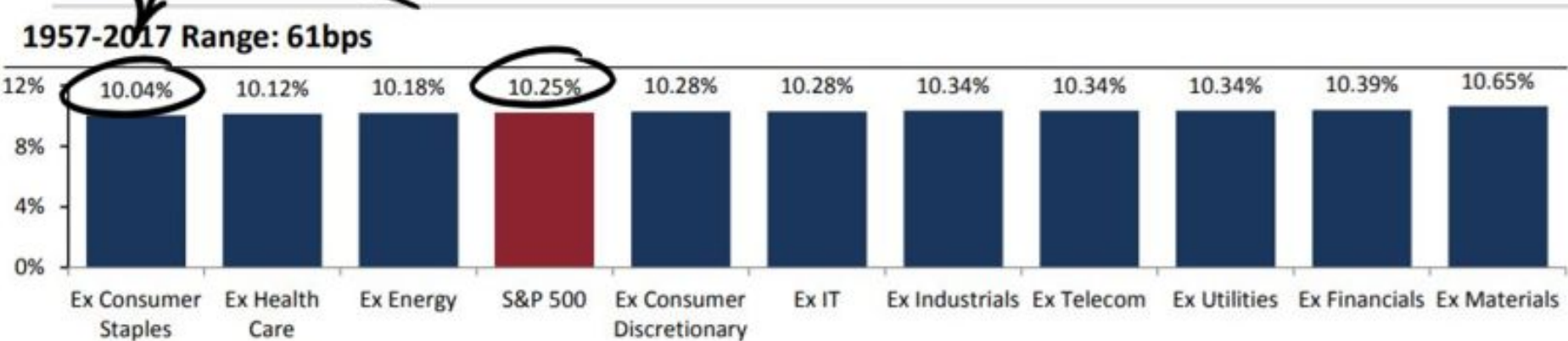
- Ethical reduces opportunity set = lower performance
- Don't get caught up in historical examples
- Key inputs (a) how many stocks excluded (b) how much skill do investment managers have
- 25% excluded stocks & some skill = 0.5% lower expected return
- Don't forget fees! Many ethical manager aren't so ethical with client fees



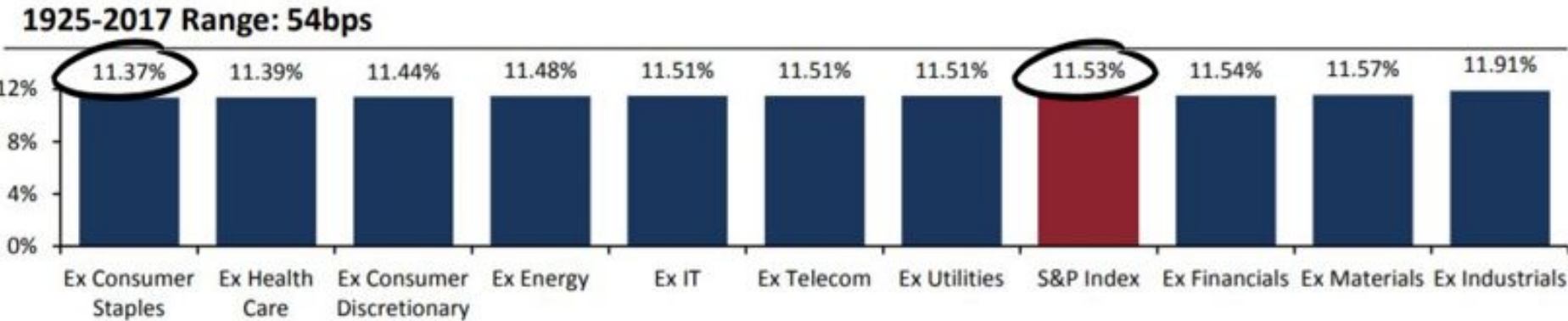


# Effect on portfolio performance

Cutting out an entire sector made at worst a 0.21% difference over 70 years



And even smaller if you go back further



as of 9/30/17  
Source: S&P, GMO  
Note: Prior to March 1957 the S&P 500 is represented by the S&P 90 Index

# Investment Options: Managed

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## BetaShares Global Sustainability Leaders ETF

### It Excludes



Fossil fuels



Tobacco



Nuclear energy (including uranium)



Human rights violations



Labour rights violations



Animal cruelty



Armaments



Alcohol



Gambling

xxx Pornography

# Investment Options: Managed

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*Funds with a focus on socially responsible investing are enjoying a record year of inflows in 2019. But many such portfolios aren't as clean as investors might expect.*

*Eight of the 10 biggest U.S. sustainable funds are invested in oil-and-gas companies, which are regularly slammed by environmental activists, according to a review of the funds' public disclosures.*

...

*Vanguard Group's FTSE Social Index Fund is meant to track an index excluding companies with "significant controversies regarding environmental pollution or severe damage to ecosystems." Both that fund and another large ESG fund operated by Xtrackers include Occidental Petroleum Corp. , which in 2015 paid Peruvian indigenous villagers an undisclosed sum to settle a suit accusing it of contaminating the Amazon.*

# Investment Options: Customised

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## Tailored Thematic Options?



# Investment Options: Customised

Climate Change

War

Human Rights

Health

Vices

Animal Rights

Religion

Asset Class

Thematic

## Climate Change

- ☐ No Fossil Fuels (Worst Offenders) ?
- ☐ No Fossil Fuels (Any) ?
- ☐ No Coal Seam Gas or Fracking ?
- ☐ No Nuclear Power ?
- ☐ No Old Growth Forest Logging ?

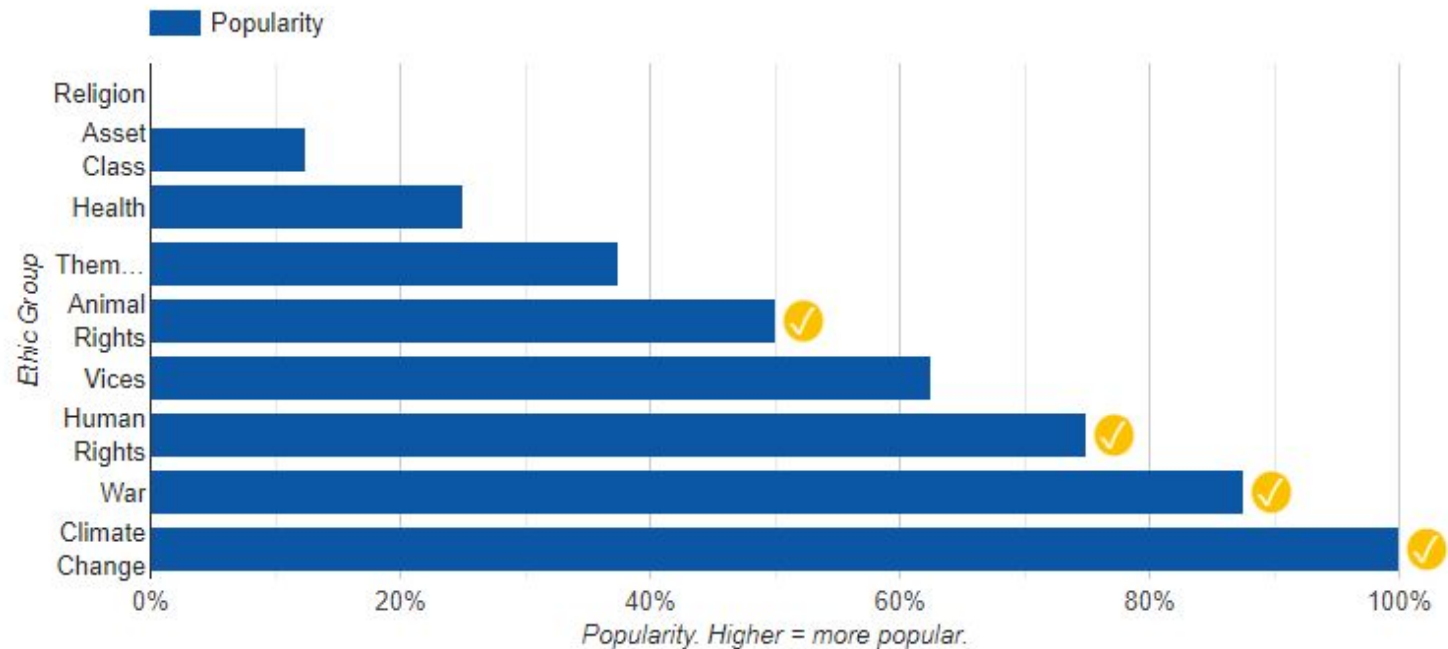
# Investment Options: Compare

## How do your ethics compare?

### All

The most chosen category is Climate Change, the least is Religion.

The 🟡 represents ethical screens you selected.





# Final Word

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- If you want to make the world a better place using your money, consider other ways first – would a donation be more helpful?
- If you want to ensure your investments don't make the world worse, then find a product that avoids stocks that align with your values or use one like the Nucleus fund that allows you to customise your ethical choices.
- If you buy free-range eggs, fair trade coffee etc, you don't expect a discount. Think of ethical investing the same way – expect to give up a little performance, and occasionally you will be pleasantly surprised when it outperforms.
- I'm sure there are plenty of jobs that you wouldn't do, regardless of how much more money you get paid. Why should your investments be any different?
- Check the fees. Please. If not for yourself then do it for me. Few things in the investment world irk me more than seeing ethical funds sold for unethical fees.



Viewer question of the week:

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**Which method of Ethical Investment would you choose?**

**Drop your answers in the comments**

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