rise financial

Take Control - With Your Independent Financial Adviser

SUSTAINABLE INVESTING ON THE RISE

Sustainable investing is not new, but in recent years it's moved from the green fringes into the mainstream. From climate change to animal rights and gender diversity, more people are interested in aligning their money with their values.

Last year alone, Australia's sustainable investment market increased 20 per cent to a record $1.5 trillion. According to its 2022 benchmark report, the Responsible Investment Association Australasia (RIAA) found sustainable investments now represent 43 per cent of total professionally-managed funds.[i]

In addition to traditional shares and fixed interest you can buy sustainable investments in a wide range of assets, including property, alternatives such as forestry and farmland, infrastructure, private equity and cash.

These days, most big super funds offer a sustainable investment option and some even offer this as their default option. You can also buy sustainable managed funds, including a growing list of exchange-traded funds (ETFs).

So what are sustainable investments and how can you tell?

Focus on people and planet

Sustainable investing is also known as ethical, responsible and ESG (environmental, social, governance) investing. But whatever the name, the focus is on people, society and/or the environment instead of an exclusive focus on financial returns.

Sustainable investments are selected using a variety of screening methods, including:

- Positive screening selects the best investments in their class
- Negative screening excludes harmful sectors, companies or activities such as arms, gambling, animal testing, tobacco and fossil fuels
- Norms-based investing screens for minimum standards of relevant business practices
- Impact investing has the explicit intention of generating positive social or environment impacts.[i]

Increasingly, the term ESG investing is used when a fund or company commits to sustainable investing in these three areas:

- Environmental, including air and water pollution, biodiversity and climate change
- Social, including child labour and labour standards, ethical product sourcing, gambling and human rights
- Governance, including board diversity, corruption, business ethics, corporate culture and whistle-blower schemes.

While climate change is a strong theme these days, the RIAA report found gender diversity and women's empowerment are gaining popularity.

Yet despite the focus on making the world a better place, sustainable investing is not all warm and fuzzy. Performance still matters.

Performance gains

In the early days, sustainable investing often came at the expense of returns but that is no longer necessarily the case.

The RIAA report compared the performance of what it terms responsible investment funds and mainstream investments funds (on average and net of fees) over the past 10 years to December 2021.

As the table shows, responsible multi-sector growth funds consistently outperformed mainstream funds and their benchmark over 1, 3, 5 and 10 years. Responsible Australian share funds generally outperformed or were on par with mainstream funds. Only responsible international share funds disappointed, underperforming mainstream funds across all timeframes.[i]

Performance of responsible investment funds vs mainstream funds and benchmarks

Fund categories/benchmark	1 Year	3 Year	5 Year	10 Year
Responsible investment multi-sector growth funds	16.1%	14.0%	10.6%	10.9%
Morningstar category: Australia multi-sector growth	14.1%	10.9%	7.9%	8.8%
Responsible investment international share funds	18.1%	17.3%	12.3%	11.3%
Morningstar category: Australia Equity World Large Blend	24.6%	18.1%	13.4%	15.1%
Responsible investment domestic shares (Aus/NZ)	**16.6%**	**14.8%**	**11.8%**	**11.2%**
Morningstar category: Equity Australia Large Blend	18.3%	13.7%	9.3%	10.1%
S&P/ASX 300 Total Return	17.5%	14.0%	9.9%	10.8%

Source: RIAA Responsible Investment Benchmark Report Australia 2022

Watch out for greenwashing

Not surprisingly, increased investor demand for sustainable investments has led to a rapid increase in the number of products available. The rush to cash in on the trend has sometimes led to what is known as "greenwashing".

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

ASIC warns investors to look beneath the green label at the fine print. For example, a fund might describe itself as "no gambling" but the product terms say it may invest in companies that earn less than 30 per cent of revenue from gambling.

It's also important not to rely on vague language such as "considers", "integrates" or "takes into account" sustainability-related factors, but to look for a clear explanation of how the product will achieve its aims.

Australian companies lifting their game

It's not just super funds and managed funds taking sustainable investing more seriously. For investors who like to invest directly in shares, Australian listed companies are also adapting to changing investor preferences and regulatory environment.

In a recent analysis of ESG reporting by Australia's top 200 listed companies, PwC found the bar has been raised following the formation of the International Sustainability Standards Board (ISSB) in 2021, but there is still work to be done.[ii]

PwC found a 13 per cent increase in companies declaring a commitment to net zero emissions. However, only 55 per cent of those disclosed a transition plan or activities that will enable them to reach net zero.

There was also a 10 per cent increase in companies disclosing climate risks and opportunities, and a 30 per cent increase to 77 per cent of companies now disclosing a gender diversity policy.

For investors seeking sustainability along with financial returns from their investments, momentum and choice is growing. So please get in touch if you would like to discuss your investment options.

i https://responsibleinvestment.org/wp-content/uploads/2022/09/Responsible-Investment-Benchmark-Report-Australia-2022-1.pdf

ii https://www.pwc.com.au/assurance/environmental-social-and-governance-reporting.html

Rise Financial
25 Michell Street
Monash, ACT 2904
P 02 6292 0015
F 02 6292 0071
E phil@risefinancial.com.au
W www.risefinancial.com.au