Dear Fellow Clients

Ethical Investing (or Fossil Fuel Divestment)

Theo has invited me to guest-write this edition of eGrow as we work through the issues of ethical investing.

I am a long-time client and colleague of Theo's. My wife and I have been very happy with his approach, in particular the low fees 'index investing' vs 'active investing'. Personally, I am comfortable with his 'get the strategy right and let the investment look after itself' approach.

My family also try to make sure our actions are making the world a better place – particularly our impact on the environment. Whilst we are no angels, we recycle diligently, we have solar panels, and we have started exploring whether our next car can be a hybrid or even an electric vehicle. In short, we want to be part of the solution.

Over the last few years there has been a lot of media about fossil fuel divestment - in other words, getting out of investments which are based on burning oil and coal – it got us thinking about what stocks were held in our superannuation.

I thought it would be easy – just move from our current managed investment options into 'ethical' funds.

As it turns out, it is not quite so easy.

Theo points out that there is (to date) no proven outperformance of ethical funds over other funds. We are OK with that. We are even prepared to lose a point or two of return if we knew our investments weren't contributing to environmental damage.

But there is another element.

Every fund Theo identified for us that is making choices based on the non-financial impact (environmental or otherwise) of the stocks it holds, also carries a higher ongoing fee (compared with the index funds we are invested in). Why should this be the case? This decision-making by fund managers is consistent with 'active' stock selection – rather than simply mirroring an index.

Also, most of those funds aren't available through the platforms which currently meet Theo's selection criteria in terms of cost and functionality.

So, in order to do what we feel is the right thing, we would be paying (potentially) three times:

1. Potentially lower returns (although this is not proven either way)
2. Higher fund fees
3. Higher platform fees

In applying his duty of care, Theo finds himself unable to recommend an approach that incurs materially higher fees for us.

Now, the good news here is that this observation has demonstrated very tangibly to me the financial value of Theo's low-fee approach to investing. But that hasn't solved our problem which goes beyond financial considerations. Fortunately, in my opinion, I have as a financial advisor one of the most astute minds in the business; and he also doesn't like to be stumped by a problem.

I am very pleased to say that Theo has invited me to join a conversation with one of the main index fund managers currently on his approved product list, and one which has already announced a pivot away from fossil fuels in its actively managed portfolios.

In the next few months Theo and I plan to meet with that fund manager to see if they can start adding some simple options within their suite of low-fee index funds – options that would allow our own personal investments to move away from fossil fuels (whilst preserving the low cost strategy that makes so much sense).

We can make no promises as to where this will lead – but I would be delighted to let you know about our progress, as Theo has offered me the opportunity to report back to you in the future.

Sincerely,

Sam Molloy

With a word from Theo:

My thanks to Sam for this contribution, I certainly respect his strongly held views on the need for ethical investing; he joins a number of our clients who have discussed the topic with me.

However, clients pay me to give them my honest recommendation, not just tell them what they want to hear. They can rely on that, even if it means I will have to refer them elsewhere.

Sam and I look forward to reviewing the proposed Ethical Index fund together, after which time we can discuss our views publicly.

(For the record, Sam is his real name. A former colleague at the Insurance and Superannuation Commission from the mid-1990s, Sam is now a client, and a valued member of my Board of Advice).

And one more 'ethical' thing:

Although essentially a set of motherhood statements about doing the right thing, one of the positive things to come out of the Hayne Royal Commission was the 'Financial Adviser Standards and Ethics Authority (FASEA) Code of Ethics'.

Whilst it is disappointing that rules surrounding the practice of sound ethics needed to be extended from a moral to a legal obligation, it is clear that in the past they were not obvious to all. They are now in black and white. If you would like to view the FASEA Code of Ethics, please click here.

As with many of life's rules, their essence can often be distilled into a simple philosophy. This is mine:

"Never recommend to a client what you wouldn't recommend for yourself or a member of your family".

In my view, this is a fool-proof way to make sure that honesty and transparency is always present; it produces an adviser/client relationship based on mutual knowledge, trust and respect. I believe that our clients recognise this as the 'why' in 'why we do what we do'. It is certainly reflected in their referrals to their family and friends.

Back in 2008, this was the driver to apply for our own Australian Financial Services Licence. It was my belief then (as it remains now) that this was the way to demonstrate our 'distinctly different' philosophy around fee efficiency and transparency with no inherent conflicts.

I endorse the new FASEA rules and am pleased to say the principles they reflect have always been part of our culture at Marinis.

As always, if I or any of my team can be of further assistance, please do not hesitate to call us on (08) 8130 5130.

Kind Regards,

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