Dear Fellow Clients

Ethical investing (or fossil fuel divestment) revisited

Back in March (it feels more like a decade ago) Theo invited me to guest-write an eGrow about our experience working through the issues of ethical investing, a point close to my family's heart.

As promised, I am back to give an update on what we've found.

For anyone who may not have read my first eGrow, or who would like a reminder, you can still read it here. As a long-time friend, client, former colleague and part of Theo's advisory board, my wife Deb and I started a discussion with Theo about ethical investing last year – and this set off a quest for more information.

As part of this endeavour, over the past few months, Theo also invited me to join a conversation with one of the main index fund managers currently on his Approved Product List… one which has already announced a pivot away from fossil fuels in its actively managed portfolios.

So, what have we learned?

When we first explored this topic, we found there were challenges on three levels around ethical investing:

- Potentially lower returns
- Higher fund fees
- Higher platform fees

Investment managers are increasing their focus on the area of ethical investing, due to demand. They talk about applying Environmental, Social and Governance (ESG) – or ESG Standards. Much of this originated as a 'values-driven' exercise (in particular by large institutions, often charities, requiring investment portfolios aligned with their ethos).

Increasingly, however, ethical factors are being seen to drive investor value, in this case, returns – with the important disclaimer that past performance does not guarantee future performance.

Coming from my point of view, I was rather delighted to hear this. As Dr Seuss once said "it should be, it should be, it should be like that"[i].

It makes sense to me that a well-managed company, with a commitment to waste minimisation and being a good corporate citizen as part of its charter, should outperform in the long term. Whilst that may read as a bit idealistic, it is heartening when the data seems to back it up. In my view, if we are going to solve the environmental challenges we face, it will be so much easier if it is financially rewarding to do so.

Which leads to the important issue of fees.

Historically, fees for ethical investments are usually higher than those involved in passive investing (or buying a specific index) in part because 'ethical' decision-making by fund managers involves 'active' stock selection – as opposed to mirroring an index – and therefore research costs need to be factored into the equation.

Although not yet readily available on all platforms in Australia at the moment, there are some managed investment products which take an index approach to investing (i.e. without the higher fees usually associated with active management) with the added overlay of an ESG filter. In simple terms, matching the index, but with a weighting towards those which are performing better on ESG measures.

One of the reasons these products are emerging is due to the wider availability of transparent data on ESG performance for underlying stocks (more on this later).

The bad news? The majority of these lower fee ethical investments are not readily available in Australia… yet.

Theo and his investment committee have already taken steps to be on the front foot when such availability does occur. Whilst Theo is best authorised to talk about the specifics, he has confirmed that ongoing research will include:

1. Exploring which 'index investing with ESG overlay' products are potentially available through Australian platforms (i.e. lower cost ethical investments)
2. Adding a selection of these to the Marinis Investment Committee's comparison list so that performance can be tracked more closely (even before they are available on current platforms)
3. Staying close to the investment manager's new product pipeline as they 'Australianise' some of the internationally available investments; no guarantees were given on timeframes, but hopefully this will occur over the coming 12-18 months
4. Using investment manager expertise to analyse ESG status/carbon intensity of current model portfolios on the Marinis Financial Group Approved Product list (this is possible because of the high level of transparency of the Marinis investment approach)

My personal view is that I am a lot more confident about the issue of returns from ethical investments, and I am really pleased that Theo's team will continue to explore options to address the challenges posed by fund and platform fees as new options become available.

I look forward to being able to provide further updates.

Sincerely,

Sam Molloy

With a word from Theo:

Thanks very much, Sam. I think a lot of our client base will be interested in the final outcome of this research. If given a choice between ethical and 'standard' investing at about the same total cost, I am certain most of us would choose the first.

However, there is always the difficult question of 'whose ethics'?

Therefore, I need to be very certain about 'looking under the hood' to determine what the underlying investments of these funds are, before I can, in good faith, recommend them.

But I can say that so far, our investigations have delighted me, as they have been positive, and the existing Marinis Investment portfolios score very well on an ESG basis – even if they were not specifically designed with ESG scores in mind. I also expect that within the medium term we will be able to recommend a range of ethical investments to further enhance the ESG ratings of our Investment Philosophy while still underpinning our promise to grow and preserve wealth in a cost effective manner.

Media:

If you would like to see the latest Marinis Financial Group commentary in the media, please click here.

And a Few More Things…

Thank you to everyone for your kind thoughts and messages during my hip surgery rehabilitation. It was humbling and interesting to hear how many others have been through the procedure. I appreciate your good wishes, advice and prayers.

I am now "back on deck" but continuing with ALL the recommended rehab over the next 6 – 12 months. Who knows (based on the advice of my surgeon and physio IF I do all they tell me) after 20 years I may even be able to take up squash again!

Finally, I would like to say a BIG thank you to Kristina and the entire Marinis team for providing a seamless service to all of you, our friends and clients, during my initial six weeks of recuperation away from the office.

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,

Theo Marinis B.A., B.Ec., CPA., FPA®
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[i] *Horton Hatches the Egg*, Dr Seuss