INVESTORS: WHY BEING RESPONSIBLE CAN BE REWARDING

PERPETUAL PRIVATE INSIGHTS
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The days when 'green' investors were the ones who cycled to see their adviser and carried home their investment brochures in a hemp bag are long gone (if they ever existed). Responsible Investing is now the preferred approach for a growing base of investors.

As of January 2021, 30% of all professionally managed assets – owned by pension, superannuation and managed funds across the globe – used some combination of Environment, Social and Governance (ESG) or Responsible Investing criteria.[1] That's around $30 trillion dollars' worth of assets. (For a great chart explaining the various styles of Responsible Investing, see this article).

Behaving responsibly

How did we get here? As often occurs with major trends, there's a mix of forces pulling in the same direction.

- **Institutions.** Many of the world's biggest managers of money understand the power and attraction of Responsible Investing. That includes the world's largest for-profit investment management companies, plus huge pension fund managers like California Public Employees' Retirement System (CALPERS) and the Japanese Government Pension Fund and major charitable foundations like the Ford or Rockefeller Foundations.
- **Generational change.** Today, many young people want to invest in a way that aligns with their values. With an estimated $2.6 trillion set to transfer across the generations in Australia in the next 20 years it's likely a large proportion of that money will be invested responsibly. Sheer weight of money will encourage investment houses to offer a better and wider range of Responsible Investing options.[2]

Returns. Perhaps most importantly, as Responsible Investing evolves, there's more evidence that you don't need to sacrifice returns. And that's important. A Perpetual survey of advised High Net Worth investors found 31% wanted their adviser to avoid all companies that do harm to the environment or society. The same amount wanted to invest in the companies that simply generated the best return. [3]

A Complex Responsibility?

The tide of history – and money – is moving towards Responsible Investing, but attitudes to sustainability and ESG issues are complex.

How to invest responsibly – and successfully

Now that Responsible Investing is entrenched, the question for many investors is not "should I do it" - but "how do I do it?" Over the past five years we've seen a trend away from funds that screen out companies with undesirable features towards an integrated – and active – approach where investment managers consider environmental, social and governance (ESG) factors alongside assessments of the company's finances, market position and management.

A key to this approach is 'materiality' – making sure you invest in companies focused on the ESG issues that matter to their business (for example water management for a mining company) rather than just trying to "do good."

Some argue that the Responsible Investing space is an area where fund manager skill can make a real difference. "We think an active approach is more effective in the Responsible Investing segment," says Sarah Fox, a Senior Research Analyst in Perpetual Private's investment management team.

“For a start, an active approach means we can better manage risk and diversification. More importantly, it’s reductive to focus just on excluding companies that don’t meet our ESG criteria. We’d rather make forward-looking judgements and focus on companies that are changing their approach or innovating and investing in Research & Development to build products and services that have a socially positive effect. As those initiatives gain traction – and are recognised by the market – they can turn into investment returns that really make a difference for our clients.”

Sarah cites two examples of companies that have made it into Perpetual Private portfolios on the strength of Responsible Investing changes.

- Starbucks pours coffee at 33,000 stores worldwide. It has been working with suppliers and investors like Trillium (see below) to reduce disposable coffee cup use. They aim to cut plastic use 50% by 2030.
- The Norwegian company Tomra owns 80,000 ‘reverse’ vending machines that collect over 40 billion cans and containers that would otherwise end up as landfill. Meanwhile, it runs a business that recycles 700 million tonnes of metal a year.

“The key point for our investors is that the fund managers that own these companies are at the very least generating a market return, but the goal is to beat the market over the long term,” says Sarah Fox. “So we are happy to invest in these funds – not just because they are ESG.”

You can go your own way

While investing with a focus on sustainability and good governance is vital to some investors it’s only one element of an approach to investing. At Perpetual Private, the focus is on offering clients a comprehensive choice.

“For some of our clients, they start with Responsible Investing. Others look at any impact it may have on portfolio performance,” says Jonathan Pohl, a senior financial adviser at Perpetual Private.

“Some will have an element of Responsible Investing in their portfolio but use philanthropy as their way of making the world a better place. We work with clients to make sure they can invest using an approach that lines up with their beliefs – and meets their lifestyle goals.”

Perpetual and Responsible Investing

- Perpetual Private offers Responsible Investing options in both equities and diversified fund structures
- In 2020 the Perpetual Group bought Trillium Asset Management. Trillium is an ESG focused firm with 40 years’ experience aligning values with investment objectives. Trillium has US$5 billion in assets under management.

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1. https://hbr.org/2021/01/esg-impact-is-hard-to-measure-but-its-not-impossible
2. https://www.philanthropy.org.au/stories-moving-the-wealth-from-the-cities-to-the-regions/>
3. Lembit, G., (2021) ‘What do you care about?’, Perpetual Client Insights and Analytics