



**01:**  
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# From trend to tried-and-true

With investors increasingly conscious of where their money is going, Praemium is equipping advisers with the right tools to help clients invest with their hearts.

There's a website you can go to that will tell you what the biggest trend was the year you were born. Going back to 1941, you'll find things like painted on stockings, baggy jeans, bowl cuts, legwarmers and crocheted everything.

While many have (thankfully) faded into the depths of history, some have stood the test of time or proved inspiration for the new generations and the next to come.

Often when we discuss trends it's with the assumption that what we're referring to is a short-term fad, but this isn't always the case.

So, at what point does a trend stop being a trend only to forever more be considered an enduring, essential part of life?

This is the precipice ESG investment is approaching.

And, as Praemium head of investment managers and governance Damian Cilmi<sup>01</sup> will tell you, there's a number of reasons for it.

Firstly, there is a growing awareness among investors of their environmental footprint which has led people, particularly millennials, to question the ways in which they might be unconsciously contributing to climate change.

"We have millennials who are now approaching their forties and are a very articulate group when it comes to what they want to see in terms of their own investment values and ethical considerations," Cilmi says.

"As an investor segment they are expected to grow over the coming years, particularly as they will likely be the main recipients of the largest generational wealth transfer."

Another key driver is the increased adoption of ESG considerations by industry superannuation funds which has seen Australia cement itself as one of the largest ethical investors in the world.

"Super funds are listening to their members about what's important to them and they've implemented a number of exclusions within their own investment portfolios," Cilmi says.

But what about when it comes to investing outside of super?

A longstanding strategy has been to use pre-existing managed funds that incorporate a level of ESG screening, perhaps excluding what's commonly referred to as 'sin stocks' such as alcohol, tobacco, gambling and weapons.

Specialist investment managers like Australian Ethical have proved leaders in this space, for example.

"We've also seen an expansion into this space throughout a number of ETFs – they've gone

and mimicked some of those features and we've also seen some thematic ETFs emerge, be it clean energy, clean water or the like," Cilmi explains.

This is a movement that really started in the United States, as with ETFs in general, and is now coming to other markets, he adds.

And then there's separately managed accounts, or SMAs.

"SMAs provide the ability for investors to customise their portfolios to reflect their own investment preferences," Cilmi explains.

While managed accounts technology has always allowed for advisers to exclude or lock specific stocks – a feature that has proved popular – it also requires for each individual stock to be locked. In terms of time, it also requires the adviser to undertake extensive research so as to identify which stocks do and don't meet client preferences.

"What we started to see was people start to use the exclusion functionality to impart their clients' ethical considerations on their portfolios...but the issue we faced was how could the adviser do the research and implement the action with scale," Cilmi says.

For example, when looking at alcohol stocks, there are a couple of obvious companies in Australia but there are hundreds of stocks – some of which the adviser might not have even heard of and would therefore miss when excluding stocks.

"And then if you're dealing with global equities, it becomes even more difficult given how many companies operate in the space worldwide. That research piece can be a real challenge for advisers," Cilmi adds.

It is pain points like these that have seen platforms move to leverage their existing technology to take their solutions to the next level.

As any business owner will tell you, data is everything and it's the ability to integrate data across systems that has been perhaps the biggest technological development – particularly in financial services – in recent years.

Recognising this, earlier this year Praemium rolled out a suite of ESG solutions, including a new screening functionality for advisers.

The screening tool is underpinned by comprehensive ESG research and analysis provided by Sustainalytics, providing a more intuitive means by which advisers can tailor client portfolios to their individual ethics and values.

Using the technology, Praemium users can select from nine screening criteria and bulk exclude stocks against the criteria selected. These

categories include adult entertainment, animal testing, controversial weapons, gambling, tobacco and three fossil fuel options.

"This provides a real engagement opportunity for informed and well-prepared advisers to provide advice and support to help investors align their investment goals with their personal ethics," Cilmi says.

"Technology can really demystify what's in a portfolio. A lot of people don't realise what they're actually invested in."

With only about 60% of the 85% of investors that want their portfolios aligned to their values actually taking the plunge, this tool can really help advisers cut through the confusion clients so often have around ESG investing and close that gap, he adds.

And while client feedback played a distinct role in the shaping of the new solution, their demands also happened to align with Praemium's broader business strategy.

"There was a definitive top-down approach to all of this. We are making a concerted effort to engage with managers, increase the number of pre-built investment options and also build out other ESG screening factors and tie them all together into a thematic for the group," Cilmi explains.

Not only is it giving advisers more time to connect with their clients and gain a better understanding of what's important to them, it's also helping advisers meet new regulatory obligations.

Under the new FASEA Code of Ethics, advisers must discuss a client's ethical considerations as part of fact finding and, where a client indicates a preference, the adviser is required to do all they can to satisfy that preference.

For institutions, in 2019 APRA outlined the fiduciary duty to consider ESG issues in the management of funds as a result of changing investor demand and developing awareness.

With such momentum behind this style of investing and with companies themselves adopting an ethical mindset, you can be assured ESG is here to stay.

It's clear the desire to invest in line with ethics and values is only going to grow – and so too are the opportunities for financial advisers. **FS**



## The quote

*Technology can really demystify what's in a portfolio. A lot of people don't realise what they're actually invested in.*



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