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Responsible investing is the new green: latest research shows that seven in 10 Baby Boomers would prefer to invest in a responsible superannuation fund over a conventional fund.

As for the Millenials, it's a landslide: responsible investing is it.

But for the broader investment community, debate is still raging over what is real versus what is mere greenwashing.

This issue features a primer on responsible investing and its sub-branches: sustainable investing, ethical investing and impact investing.

We also looked at the evolution of responsible investing from the lens of a financial adviser client. To paraphrase an oft-quoted saying, the grass is greener where a fund's performance is aligned with the investor's personal values. Watch our video interview for more or read this article.

Michelle Baltazar
Director of Media & Publishing

Navigating responsible investing with clients

In recent years, the topic of 'responsible' investment has moved from being an esoteric subject into the investment mainstream. Many super funds now integrate sustainability considerations across all their products, and many fund managers offer responsible investment options.

While historically responsible investment or sustainability may not have been the main driver in client-adviser conversations, research indicates it will likely play a larger role in the future.

Research from BT shows that 90% of Australians believe sustainable investing is important and 85% of Australians believe superannuation should be invested responsibly[1].

Understanding this increasingly powerful driver of investors' decisions requires firstly a grasp of the terminology, which can contain subtle differences. Terms like 'ethical investing' and 'sustainable investing' are often used interchangeably, but this isn't necessarily accurate.

Here's a quick primer to help clarify some of the key terms used:

- 'Responsible investing' is an umbrella term used to describe any process that considers environmental, social or governance (ESG) practices in the investment process of research, analysis, selection and monitoring of investments. This includes sustainable, ethical and 'impact' investing.
- 'Sustainable investing' covers what a company needs to do to manage its corporate governance, social impact and environmental factors – everything that may affect its long-term stakeholders. It's important to remember that the focus of sustainable investment strategies is about understanding the full picture of the company, its activities and its place in the world.
- 'Ethical investing' involves excluding certain industry sectors, companies, practices or even, at times, countries, based on specific values-based criteria from a fund or portfolio typically on personal or ethical grounds.
- Lastly, 'impact investing' is focused on businesses with a distinct social or environmental purpose such as a focus on improving social outcomes – for example, employment for minorities and disadvantaged groups – or on renewable energy. Clients who want this approach typically want their investments to generate a positive social or environmental outcome, as well as show a financial return.

Impact investing is an increasingly prevalent approach, so the definition is still evolving: in some cases, impact investments may prioritise positive impact over financial return, although this may not always be the case. Both ethical and impact investing are primarily focused on what companies do.

Why should you raise responsible investing with your clients?

1. They care about it (or are interested in it)
It's highly likely that your clients care about responsible investing. Recent research from the Responsible Investment Association of Australasia (RIAA) shows that one in two Australians (53%) will consider making ethical or responsible investments in the next one to five years.

And the probability is greater for younger generations and females, especially the "millennials" – the generation born between the early 1980s and early 2000s. Having expertise in this space is becoming a valuable tool to help with engagement and retention of clients.

2. It helps you to connect with your clients and meet their objectives
Even though your clients may have an interest in sustainability, we know it's unlikely they understand it well and how it fits into their investment portfolio. Advisers have a huge opportunity to help clients understand how they can align their investments to their values and sustainability principles.

3. It's a point of differentiation
It is increasingly likely that investors will value expertise in this area and assess advisers on this criterion.

4. Investors are not penalised for taking this approach
Research conducted by RIAA noted that "the comparison of responsible investment funds against mainstream equivalent funds and their benchmark index indicates outperformance across the majority of time periods."

So, with all this in mind, what should you ask your client?

Firstly, it's important to understand what is important to your clients – whether they are interested in generally holding a portfolio that is allocated more generally around sustainable investing as a guiding principle, or more actively motivated to seek impact investments, and to avoid industry exposures contrary to their values, for example, tobacco or gambling companies.

It's not 'all or nothing'
Depending on your clients' needs, you don't always have to address responsible investment preferences across the whole portfolio. Some clients might prefer to have a small satellite investment that addresses a key sustainability concern, or better reflects their values. There is a wide range of products that will allow you to select an option that aligns with the principles of responsible investment across varied asset classes and for most risk profiles.

What does BT offer clients who are interested in sustainable investing?

There are currently a number of sustainably themed investment options available across BT's product suite that employ a range of sustainable investment approaches. To help advisers meet the needs of clients, BT has recently launched the Pendal Sustainable Future Australian Shares Portfolio onto the BT Panorama platform. It gives customers access to an Australian equities Separately Managed Account (SMA) that excludes fossil fuel extraction, alongside more traditional exclusions including gambling, tobacco and pornography. BT's new corporate super menus offer the BT Sustainable Conservative and BT Sustainable Balanced Funds. And for high-net-worth customers there is the Sustainable investment thematic on GIS – providing unique sustainably themed investment opportunities.

Some of BT's investment and superannuation products provide access to sustainability scores for investments – a set of scores which can help to compare a company's performance in relation to a range of ESG factors.

Advisers can go to bt.com.au/professional for more information, speak to their Business Development Manager or contact BT directly. **FS**

The quote

Having expertise in this space is becoming a valuable tool to help with engagement and retention of clients.

Watch the video on www.fsitv.com

1. 2016 BT Australian Financial Health Index. The survey canvassed 4486 Australians in 2016.