



australianethical
Ethical investment & superannuation
A guide for financial advisers

25 YEARS
OF ETHICAL INVESTMENT

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investment + superannuation

About Ethical Investment

Ethical investment is also known as sustainable investment and socially responsible investment (SRI). The term describes an investment process that incorporates environmental and social factors when selecting investments, in addition to the objective of achieving a competitive financial return.

Ethical investors seek to benefit from investments they believe make a positive difference to society and provide financial returns which are competitive with conventional investments.

For example, someone who feels strongly about uranium mining may want to avoid investing in companies like BHP Billiton and Rio Tinto. Some may want to avoid investment in companies with gambling operations. Or clients who make personal efforts to live sustainably may want to seek investments in renewable energy, recycling or alternative transport.

The different styles of ethical investment

Ethical investment can be broadly defined into four categories or styles.

Positive screening – actively searches the universe of possible investments to find companies whose practices are socially or environmentally beneficial.

Negative screening – looks at the universe of possible investments and decides to exclude investment in certain sectors, such as tobacco or uranium mining. The negative screen can be narrow or extensive.

Best of sector – invests in all sectors and industries across the specific investment universe (i.e. ASX 200), selecting companies with the best sustainability record in each sector.

Corporate engagement and shareholder advocacy – aims to change company practices by engaging in dialogue with the management or board of the companies invested in. This may also involve the active voting of shares or putting of resolutions to company general meetings.

Most fund managers use a light negative screen or a best of sector approach in making their ethical or responsible portfolio. This can result in portfolios which look similar to the portfolios for their conventional funds.

A limit of the best of sector approach is that there are no exclusions applied, so investments may be made in the most sustainable tobacco producer or the 'best' uranium miner.

For many fund managers, their ethical investment option is just one of a large suite of financial products. As such, they might not have the expertise or resources to actively seek positive ethical investments or engage with companies on ethical issues.

As well as using a stringent negative screen, Australian Ethical is one of the few fund managers who uses a genuine positive ethical screen.

Australian Ethical's Climate Advocacy Fund uses corporate engagement and shareholder advocacy to pursue improved climate change performance from Australian companies. It is the only fund of its kind in Australia.

It is important to consider the expectations of the client when choosing between ethical funds. A client who only wants to avoid companies with the very worst social and environmental impacts may be satisfied with a fund which uses a negative screen or best of sector approach.

However, a client who expects the ethical portfolio to consist of environmentally and socially superior companies is likely to be satisfied with a fund that uses both a negative and positive screen.

Ethical and responsible funds which are certified by the Responsible Investment Association of Australasia (RIAA) are required to publicly disclose their full portfolio listings. This can be a helpful resource in deciding which ethical fund portfolio is most likely to meet your clients' expectations.

Performance and risk

Ethical investment isn't just a feel good exercise for the investor. It makes good business sense. Ethical investment funds provide net of fees returns which are often better than conventional investment funds, and equally importantly, with often a lower volatility of returns (ie risk).

According to the RIAA's 2010 Responsible Investment Benchmarking Report, the average ethical or responsible fund outperformed the average mainstream fund in their asset class over periods of one, three, five and seven years.

Australian Ethical believes the best long-term, stable returns will come from the support of sustainable businesses, both ethically and financially, as business is increasingly required to meet the full social and ecological costs of production. There is a growing demand from consumers for ethical products coupled with an enhanced willingness to pay higher prices for these goods and services.

Advantages of offering ethical investment to your clients

The last decade has seen substantial growth in the amount of funds invested in wholesale ethical managed funds and super funds. In 2000 there was only \$325 million invested in ethical funds in Australia. By 2010 this had grown to more than \$18 billion. This is coupled with increasing interest and actions from individuals trying to live more sustainable lifestyles, whatever their reasons.

Despite this, few financial advisers are positioning themselves to fully capture the growing ethical investment market. These people are actively seeking out financial advisers who have expertise in ethical investment.

Specialising in ethical investment advice can allow you to build a base of clients who speak positively about your business for not only assisting them financially, but helping them contribute to a better world.

Australian Ethical believes that ethical investment has the following advantages:

- Ethical investment broadens client appeal and increases the range of products and services you can offer
- By understanding more deeply the ethical motivations and attitudes of your clients you can design wealth plans that truly reflect their objectives, financial or otherwise
- Ethical investment appeals to a very broad demographic – retirees, baby boomers, women, caring professions, younger people. These are powerful demographics you can target
- Interest in the ethical investment process promotes loyalty, not a sole focus on the dollar return

- The added dimension can assist in building clients' trust, thereby improving your reputation
- Your clients may feel more empowered with an investment choice that can help create a better world. This can lead to referrals.
- The risk/return profile of ethical investment fund can be a beneficial part of a diversified portfolio, as they invest in stocks that are often not covered by other fund managers and brokers, providing an information advantage to investors.

Who is interested in ethical investment

Whilst we believe ethical investment is for anyone, and our client base is broad, there are a number of groups that we find have a particular interest in ethical and responsible investment:

- Health and care workers
- Community development and social workers
- Teachers and other educators
- Scientists and engineers
- Agriculture related groups
- University graduates
- Environment and welfare groups and charities
- Greens voters – national average of 10%
- Religious groups and individuals.

Australian Ethical has also found that its client base is skewed to having more female than male clients.

'Consequences of investment decisions aren't all measured by annual rates of return.'

JOSH

Melbourne, sustainability educator. Continuous learner.



Providing ethical investment advice

Once you have an understanding of ethical investment, providing advice to your clients is easy.

Your clients' interest in ethical investment can be gauged as part of your usual process of getting to know your client.

In your information gathering, why not ask whether they are involved with any community groups, their workplace union, or whether the client makes regular donations to any charities? If your client is a supporter of the RSPCA, for instance, then a fund which actively considers issues such as animal testing may appeal to them.

Why not also ask how they feel about important issues such as climate change? If your client is particularly concerned about climate change, then a fund that actively seeks investment in areas such as renewable energy or recycling may appeal.

Knowing this sort of information about your client may help you to design plans that truly reflect their goals, needs and ideals. Your clients may feel more empowered with an investment choice that can help create wealth in a sustainable way that is more aligned with their personal values.

Example of client fact find

1. Is it important to you that the companies you invest in do not engage in activities that are detrimental to the environment and/or detrimental to society as a whole?
2. Are you a member of any social, environmental or charitable groups? Do you support any particular charities or groups?
3. Are there any environmental or social activities that you feel particularly strongly about? For example, climate change or workplace relations.
4. Are there any particular types of activity or companies that you would prefer to avoid investing in? For example, poker machines, uranium mining, Aristocrat Leisure, Rio Tinto.
5. Are there any particular types of activity or company that you would like to actively seek investment in? For example, renewable energy, low emission transport, recycling and waste management.
6. Do you wish to have some, or all, of your funds ethically screened?

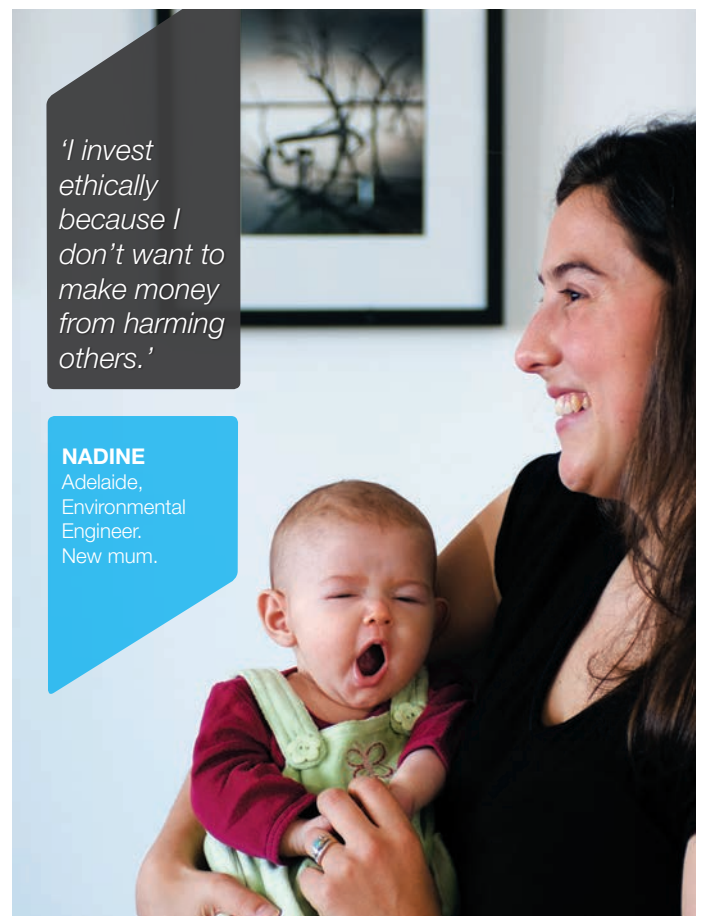
Australian Ethical can provide you with a more detailed ethical investment fact find.

Adviser support

Australian Ethical has a long history and credibility as an ethical fund manager and superannuation provider. We are able to support and assist financial advisers as they learn more about ethical investment advice and aim to make the process as easy as possible.

In particular, Australian Ethical is able to assist financial advisers in constructing an ethical investment fact find for their clients and building an appropriate statement of advice on ethical investment products.

Australian Ethical can also assist in promoting your expertise to potential clients. As well as maintaining a directory of ethical investment advisers, we can help build your client base through our national events, speaking opportunities, and our presence at sustainability events.



'I invest ethically because I don't want to make money from harming others.'

NADINE
Adelaide,
Environmental
Engineer.
New mum.

About Australian Ethical

Since pioneering ethical investment in Australia in 1986, Australian Ethical has grown to manage the wealth of over 18,000 super members and investors.

Ethical investment is our only business. We are focused on maintaining our position of leadership amongst ethical, sustainable and responsible investment managers.

How is Australian Ethical different?

Our unique investment process incorporates environmental and social criteria in addition to traditional financial analysis. Our ethical screening is widely regarded as the most rigorous of all Australian fund managers.

We apply our Australian Ethical Charter in deciding which companies and activities are appropriate to include in our investable universe. From here our investment team construct a portfolio of the best stocks based on their investment fundamentals. The Charter, which has been the cornerstone of our investment process for over 20 years, outlines activities Australian Ethical seeks to support with investment (positive screen) and activities we should seek to avoid (negative screen). The Charter can be seen on the following page.

While other ethical or responsible funds may use a negative screen to avoid certain companies or activities, it is Australian Ethical's genuine application of a positive screen which sets it apart. Australian Ethical is unique in actively seeking positive investments in areas such as renewable energy, recycling and waste management, efficient transport, water technology, energy efficiency, healthcare,

education, and sustainable products. Investments that we believe will provide strong and sustainable long-term returns to your clients.

Australian Ethical is also fully transparent, providing full portfolio lists so that clients can check that the companies and industries we invest in match their personal ethical expectations.

Investment philosophy

Australian Ethical's investment philosophy is 'to pursue investment opportunities that support the goal of a just and sustainable society with a keen focus on the continued protection of the natural environment, whilst providing investors with competitive financial returns'.

We aim to:

- Actively manage the risk associated with investing
- Obtain a competitive financial return commensurate with the investment risk taken
- Avoid investment in activities which are socially or environmentally harmful
- Participate financially in profitable activities which bring environmental or social benefits to Australia and the global community.

We rigorously and continually combine these factors to ensure our investment selection creates portfolios of the highest ethical and financial integrity.

Examples of sectors we invest in

Renewable energy
• SunPower – USA
• Vestas – Denmark
• Petratherm – Australia
• Carnegie Wave Energy – Australia
Healthy living
• Blackmores – Australia
• Somnomed – Australia
Recycling
• TOMRA – Norway
• Sims Group – Australia
Health technology
• Cochlear – Australia
• Pharmaxis – Australia

Efficient transport
• Shimano – Japan
• Vossloh – Germany
• Stage Coach Group – UK
Community finance
• Bendigo and Adelaide Bank – Australia
• mecu – Australia
Sustainable technology
• NextDC – Australia
• Power Integrations – USA
• Aixtron – Germany

The Australian Ethical Charter

The Trusts shall seek out investments which provide for and support:

- (a) the development of workers' participation in the ownership and control of their work organisations and places;
- (b) the production of high quality and properly presented products and services;
- (c) the development of locally based ventures;
- (d) the development of appropriate technological systems;
- (e) the amelioration of wasteful or polluting practices;
- (f) the development of sustainable land use and food production;
- (g) the preservation of endangered eco-systems;
- (h) activities which contribute to human happiness, dignity and education;
- (i) the dignity and well being of non human animals;
- (j) the efficient use of human waste;
- (k) the alleviation of poverty in all its forms;
- (l) the development and preservation of appropriate human buildings and landscapes.

The Trusts shall avoid any investment which is considered to unnecessarily:

- (i) pollute land, air or waters;
- (ii) destroy or waste non-recurring resources;
- (iii) extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non human animals or the environment;
- (iv) market, promote or advertise, products or services in a misleading or deceitful manner;
- (v) create markets by the promotion or advertising of unwanted products or services;
- (vi) acquire land or commodities primarily for the purpose of speculative gain;
- (vii) create, encourage or perpetuate militarism or engage in the manufacture of armaments;
- (viii) entice people into financial over-commitment;
- (ix) exploit people through the payment of low wages or the provision of poor working conditions;
- (x) discriminate by way of race, religion or sex in employment, marketing, or advertising practices;
- (xi) contribute to the inhibition of human rights generally.

Blackmores, Australia

Blackmores manufacture health products including supplements and vitamins. The use of complementary medicine is growing significantly in Australia.



Carnegie Wave Energy, Australia

Carnegie Wave Energy has just begun producing electricity at what is the southern hemisphere's first commercial scale wave power farm.



TOMRA, Norway

TOMRA manufactures reverse vending machines that collect recycling and dispose a refund. They help 'close the loop' in the lifecycle of more than 25 billion beverage containers used each year worldwide.

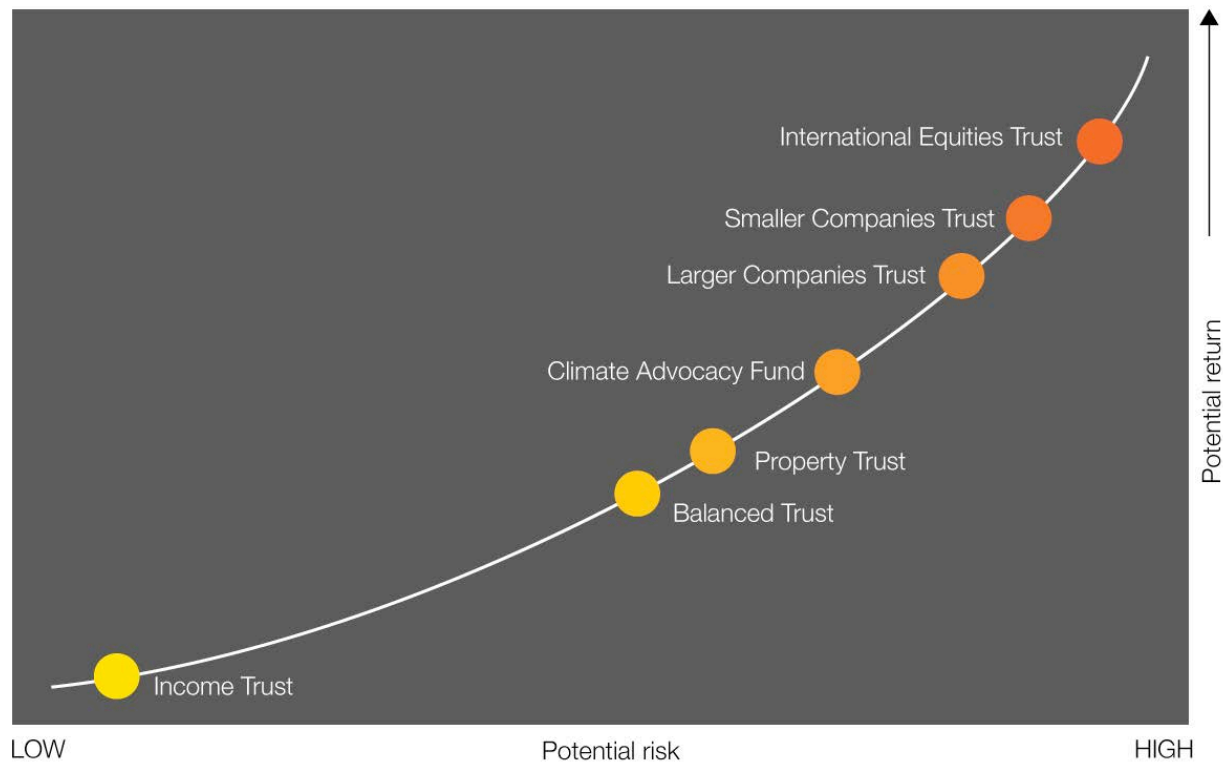


Cochlear, Australia

Cochlear supplies 70% of the world market in cochlear implants for profoundly hearing impaired people. Almost half the recipients are children.



Australian Ethical's managed funds



Australian Ethical managed funds are available on these platforms

- Asgard
- AXA North
- BT Wrap
- Colonial First Wrap
- Freedom of Choice
- Plan B
- Lifetrack
- Macquarie
- MLC Navigator
- Netwealth
- Oasis
- Spectrum (SMF)

Australian Ethical Smaller Companies Trust



The Lonsec Limited ("Lonsec") ABN 56 061 751 102 ratings (assigned as follows: Australian Ethical Smaller Companies Trust – August 2011; presented in this document are a "class service" (as defined in the Financial Advisers Act 2008 (NZ)) or limited to "General Advice" and based solely on consideration of the investment merits of the financial products. They are not a recommendation to purchase, sell or hold the relevant products, and you should seek independent financial advice before investing in these products. The ratings are subject to change without notice and Lonsec assumes no obligation to update the relevant documents following publication. Lonsec receives a fee from the Fund Manager for researching the products using comprehensive and objective criteria.

Contact Australian Ethical's business development team

Email: professional@australianethical.com.au

Web: australianethical.com.au/finance-professionals

Adam Verwey

Business Relationships Manager – VIC, TAS, SA, WA, NT

02 6201 1926

adam@australianethical.com.au

John Motyka

Business Relationships Manager – NSW, ACT, QLD

02 6201 1930

jmotyka@australianethical.com.au

Adam Kirk

General Manager Business Development

02 6201 1937

akirk@australianethical.com.au