RESPONSIBLE INVESTMENT - WHAT IS IT?

EVERGREEN CONSULTANTS

Responsible Investment applies considerations broader than standard financial metrics in investing. These considerations often include an assessment of an investment's environmental and social impact, as well as corporate governance. Essentially it looks at the impact an investment has on the broader good, not just its balance sheet.

Approaches to Responsible Investment vary greatly, from excluding companies with poor environmental impacts, to engaging with companies to lobby for improved social outcomes. It can also mean seeking specifically or solely to invest in assets which have a positive impact, typically socially or environmentally. Some of these different types of approaches are explained later in this document.

But first, it's important to understand what the finance industry means when it says "ESG", as ESG is a subset of Responsible Investment and is one of the most common frameworks that fund managers use to approach Responsible Investment.

What is ESG?
An ESG approach takes into account the 'E'nvironmental, 'S'ocial and 'G'overnance factors surrounding any given investment, whether it be a company, bond, property, or other.

Some independent third parties publish ESG ratings which investors may use to better understand an investment's ESG characteristics. Others may use their own research, or a combination of both.

ESG metrics are often not a mandatory component of a company's annual reporting, but companies are increasingly releasing ESG reports voluntarily or disclosing them in annual reports.

Approaches to Responsible Investment
There are many different approaches to Responsible Investment. Below are the most common approaches as listed by the Responsible Investment Association Australasia (RIAA), known as the Responsible Investment Spectrum:

ESG INTEGRATION – The incorporation of ESG metrics and analysis in investment research, decision making and security selection

NEGATIVE SCREENING – Excluding certain sectors, countries, and securities from the portfolio or investment universe, such as the fossil fuels or defence sectors

NORMS BASED SCREENING – Screening of investments by minimum standards of business or government practice, such as norms issued by the UN, OECD or an NGO

ACTIVE OWNERSHIP – Using equity interest or debt ownership to positively influence corporate decisions on ESG issues, such as using voting rights and engaging with decision makers to drive change from within

POSITIVE SCREENING – Investing in certain sectors and securities that have a positive social or environmental impact

SUSTAINABILITY THEMED INVESTING – Investing in securities specifically related to a social or environmental theme, such as sustainable agriculture or clean water accessibility

IMPACT INVESTING – Investing in companies with the intention to generate a measurable positive social or environmental impact alongside a financial return

Do you have to sacrifice returns to invest responsibly?
If investment decisions are being made based on metrics other than financials, it may be expected that Responsible Investment strategies could underperform, but this hasn't always been the case. It is commonly believed that Responsible Investment filters detract from traditional investment

filters instead of being an extension to the existing process.

Australian equity funds within the highest quartile of ERIG Index scores outperformed the S&P/ASX200 and lower quartiles over the three years to December 2021. In Australian equities, around 250 investment products were covered as of December 2021, including funds that don't promote RI credentials. This demonstrates that adding Responsible Investment filters to an investment process can in fact, and does, improve returns.

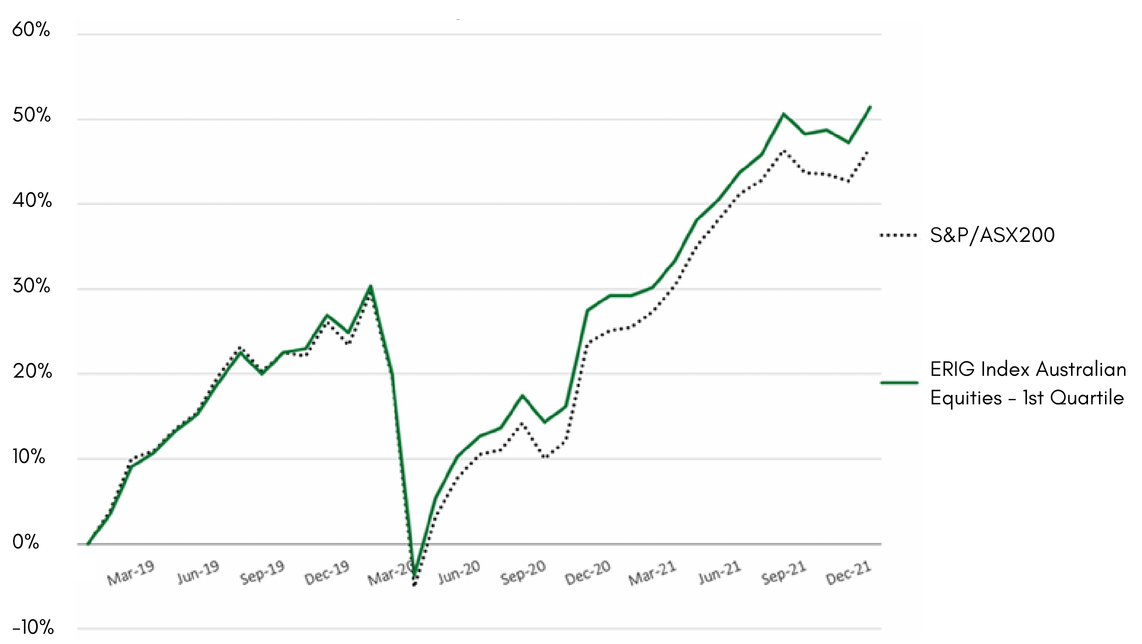
Over the long term, many companies with poor ESG characteristics may not be equipped for the future, particularly those in the fossil fuel industry. ESG metrics are also sometimes interpreted as a measure of management quality, reflecting strong leadership with a long-term vision.

Responsible Investment is still a relatively new trend in terms of its widespread take-up, and the relationship between Responsible Investment and returns is being monitored as it evolves. However, it is true that Responsible Investment has long-term structural tailwinds given the world's attempt to reach net-zero carbon emissions among other environmental and social goals.

How should I approach Responsible Investment?

There are lots of different ways to incorporate Responsible Investment into an investment portfolio. The best place to start is to think about your beliefs and how you want your investments to have an impact. A Financial Adviser can then align your investment beliefs and objectives with your investment portfolio.

ERIG Index Australian Equities Quartile 1 Ranking Performance



Responsible Investment Spectrum

Percentage of Fund Managers who have adopted each capability

ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Sustainability-themed Investments	Impact Investing
44%	12.6%	0%	36.5%	0.2%	5.8%	0.9%
Applying ESG risks and opportunities to financial analysis and investment decisions	Excluding sectors, companies, countries or issuers based on a mis-alignment of values or downside risk	Screens companies and issuers based on business practices and beliefs	Appropriately using shareholder rights and fiduciary duties to guide a company using ESG guidelines	Realigning a portfolio to specifically target better ESG profiles either at the company level or industries	Specifically targeting investment themes e.g. Sustainable agriculture, green property, 'low carbon', Paris or SDG-aligned	Investments that achieve measurable social and environmental impacts and outcomes

Avoids Harm

Benefits Stakeholders

Contributes to Solutions

Source: Derived from the Responsible Investment Association Australasia