The magazine for FINANCIAL PLANNING PROFESSIONALS

OCTOBER 2020 VOLUME 32 | ISSUE 09

MONEY & LIFE

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MONEY & LIFE

An ethical solution

LOUISE EDKINS CFP®: HER VISION AND APPROACH TO ETHICAL INVESTING

RESPONSIBLE INVESTING

FINDING THE RIGHT BALANCE FOR INVESTORS

TALKING ETHICAL TO CLIENTS

HOW TO TALK TO CLIENTS ABOUT ETHICAL INVESTING

HOMEBUILDER PROGRAM

LEVERAGING THE HOMEBUILDER PROGRAM

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

OCTOBER 2020

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FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

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Paper + Spark is the custom publisher of Money & Life (www.moneyandlife.com.au) for the Financial Planning Association of Australia (FPA).

RISE OF THE CONSCIOUS CONSUMER

> Australians are increasingly connecting their money to their values in a conscious way.

In recent times, we have seen a rise in consumer awareness of the ways to invest money responsibly to support environmental and social causes.

The client spectrum remains broad still, with some proactively seeking this out, others curious but wanting to learn more, and others still unaware or are seeking other priorities.

This issue of your member magazine discusses the current sentiment around ethical investing and ways financial planners can align an investment portfolio with a client's values and assist those who increasingly want to pursue "for purpose" investing.

CELEBRATING FINANCIAL PLANNING WEEK

We kick off this month with Financial Planning Week, 5 – 11 October. This year we celebrate not just in Australia but globally, with World Financial Planning Day on 7 October as well as World Investor Week from 5 – 11 October. This year's theme, "Live your today, plan your tomorrow", acknowledges the tough year it's been and how financial planners are helping their clients cope and adjust as needed to protect their financial wellbeing. We will be sharing new research to examine how Australians are really feeling six months into the pandemic in terms of their finances, investments and more.

FPA LAUNCHES NEW SPECIALIST DESIGNATION

Based on member feedback, the FPA has been working on a series of new designation programs to help you master and enhance your offering in speciality areas of advice and allow you to maintain your skills on an ongoing basis. We've just launched the FPA Aged Care Specialist designation in collaboration with Aged Care Steps and I encourage you to head to the Education section of the FPA website to find out how you can apply.

FPA VIRTUAL CONGRESS CONTINUES!

Our Congress comes to a close this month and I have a feeling we might have broken the record for the longest running Congress ever! We've had nearly 1,000 members join the 16-week program to learn and connect. All sessions are recorded and available to view for up to 12 months. So you can still register online and gain access to on-demand sessions on ethics, client care and professional wellness, investment markets and insights from regulators in our profession.

Finally, the Future2 walking and cycling challenges are also virtual this year. It's your participation that counts as you clock up the kilometres during November in your own time and neighbourhood. Register at future2foundation.com.au.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter
@ddegori10

WOMEN IN FINANCIAL PLANNING SERIES

From 26 October to 9 November, the FPA and event partner Macquarie are presenting a series of three virtual sessions to support women in their financial planning careers. These weekly events are intended to benefit both men and women working in the profession. The sessions are free for FPA members to attend, with a fee for non-members.

As part of our *Women in Financial Planning program*, these events provide participants with a forum to explore their mindset and behaviours, and understand whether they support their career or business goals. Presenter, Suzanne Mercier, Founder and CEO of Purpose to Profit, will lead each session and facilitate a discussion with a panel of three women, each at a different stage in their career.

Starting with the first session on Mindset, you will come to understand your value and address beliefs that may hold you back. Moving on to Influence in the second session, Suzanne will encourage you to recognise and use your power as influence to achieve important outcomes.

In the final session, you'll learn practical and simple tools for communicating effectively, whether you're putting ideas forward, going after an opportunity or handling conflict.

It's recommended that participants attend all three sessions to get the most benefit from these events.

To sign up for the series go to fpa.com.au/womeninfp

ABOUT THE PROGRAM

The FPA's Women in Financial Planning program is designed to attract more women to the profession and to foster community, innovation and leadership amongst existing financial planners.

Currently, women make up 27 per cent of the FPA membership and only around 20 per cent in the profession. To nurture and grow our profession, it is vital that we support more women to consider a career in financial planning and to progress from financial associate roles to that of a financial planner.

FINANCIAL PLANNING WEEK 2020: CONSUMER RESEARCH AND A GLOBAL VIRTUAL EVENT

This year, Financial Planning week takes place from 5-11 October 2020 to coincide with World Financial Planning Day (WFPD) on 7 October. The theme for 2020 is Live Your Today, Plan Your Tomorrow and there are two key activities taking place during the course of the week:

1. Introducing the FPA Money & Life tracker: COVID edition

On 5 October 2020, we'll reveal results from our FPA Money & Life tracker survey. For this special COVID-19 edition, we're tackling the money and life issues consumers are facing right now and areas where they need help. Dedicated research provider, PureProfile, has surveyed 2,000 Australians aged between 18 and 65 to determine their views on their financial and life situation in 2020.

The FPA Money & Life Tracker will become a benchmark for Australia's financial planning needs, allowing the FPA to showcase the value of advice in a tangible way. The research will run throughout the week across social channels and on national and regional media to engage with consumers and members.

2. WFPD virtual event hosted by the Financial Planning Standards Board (FPSB)

FPA members are invited to take part in a free global virtual event hosted by the FPSB at 14:00h UTC (01:00h AEDT on 8 October).

This event will focus on stories and best practices that have emerged during an extraordinary year for financial planners and their clients.

SESSION 1: COVID-19 and the Financial Planning Profession: Disruptor, Catalyst or Both?

SESSION 2: Delivering from a Distance: Serving Client Needs in a Global Pandemic

To register for the event visit worldfpday.org

The FPA congratulates the following members who have been admitted as

CERTIFIED FINANCIAL PLANNER® PRACTITIONERS

NSW

Darren Stevens CFP®
Sapphire Coast Financial Services

Todd Williams CFP®
StatePlus

James Broad CFP®
First State Super

Mark Bettinzoli CFP®
StatePlus

VIC

Benjamin Scotta CFP®
Commonwealth Financial Planning

SA

Hannah Waller CFP®
Hood Sweeney Securities

Philip Hancox CFP®
AMP Advice Wayville

WA

Scott Curren CFP®
Globe Financial Planning

Remo Venditti CFP®
Inspired Money


In your clients' moment of need, we're here.
In 2019 alone, we paid $1.5 billion in claims.
Because we're here for your clients when they need it.
ADV5354MLF

STEP UP TO THE FUTURE2 CHALLENGES

Not even a global pandemic can dampen the wheels of the Future2 Wheel Classic, which is back for its eleventh year but in a slightly different format to conform with COVID-19 restrictions. And sitting alongside the Wheel Classic are two new initiatives – the Community Cycling and Walking Challenge.

According to Future2 Foundation Acting Chair, Julie Berry CFP®, these three challenges will allow participants to be involved in these fundraising activities in a COVID-safe environment, from wherever they are in Australia. You can sign up to any of these challenges as an individual or you can gather your workmates, friends and clients in a team to ride or walk as far as you can.

This year's Future2 Wheel Classic will go virtual, with cyclists riding a distance of over 1,000km. To participate, riders need to sign up with a $320 donation (tax-deductible) and are required to link their preferred fitness tracker (Strava, MapMyFitness, Fitbit or smartphone) for automatic integration with the Future2 Community leaderboard. Cyclists then commit to ride 1,000km, or as far as they can, from 1-30 November. It's that simple.

Participants receive a 2020 Wheel Classic jersey and to keep them engaged with other Future2 Wheel Classic cyclists, they will be encouraged to take part in friendly banter on Future2's Facebook, Strava Club's and WhatsApp's pages.

And for non-cyclists or less experience riders, Future2 has organised the Community Cycling and Walking Challenge. By signing up to either community challenge with a $120 donation (tax-deductible), the aim is to walk or cycle as far as you can from 1-30 November.

Like the Wheel Classic, participants are required to link their preferred fitness tracker (Strava, MapMyFitness, Fitbit or smartphone) for automatic integration with the Future2 Community Cycling and Walking Challenge leaderboard. And for some extra fun, you can also check in with other cyclists or walkers on Future2's Facebook page or Strava Club, enabling you to see where you're placed on the Future2 Community Cycling and Walking Challenge leaderboard.

"By participating in either of these three Future2 Challenges, you'll go in the draw to win some great prizes as you add up your kilometres over the month. Your donation will directly support disadvantaged young Australians through the Future2 Make the Difference! grant program," said Berry.

For more information or to register, go to: future2foundation.org.au

FASEA CONFIRMS 2021 EXAM DATES

SITTING	SITTING DATE	REGISTRATION PERIOD
SITTING 10	28 January to 2 February 2021	28 September 2020 to 8 January 2021
SITTING 11	25 March to 30 March 2021	7 December 2020 to 5 March 2021
SITTING 12	20 May to 25 May 2021	8 February 2021 - 30 April 2021
SITTING 13	15 July to 20 July 2021	5 April 2021 to 25 June 2021
SITTING 14	9 September to 14 September 2021	31 May 2021 to 20 August 2021
SITTING 15	4 November to 9 November 2021	26 July 2021 to 15 October 2021

Subject to COVID-19 restrictions, FASEA will run six Financial Adviser Exam sittings in 2021, covering 31 locations across metropolitan and regional Australia. Alternatively, financial planners may choose to sit the exam online remotely at their preferred time during the exam sitting window.

To date, FASEA has offered seven exams with 439 exam sittings across 31 locations and online. As at 30 June 2020, over 10,200 financial planners have sat the exam with an average pass rate of 85 per cent per exam.

However, an additional 1,500 planners sat the August exam but at the time of going to print, their results were not released. This combined amount brings the total number of planners who have sat the exam to 11,700, representing 54 per cent of total financial planners registered on ASIC's Financial Adviser Register.

Existing planners have until 31 December 2021 to pass the FASEA exam. Financial planners who are unsuccessful at an exam sitting may sit future exams.

For locations of the exam sitting, go to fasea.gov.au/register-sitting-the-examination/

59% OF PLANNERS SELECTIVE ABOUT CLIENT TYPE

Sue Viskovic
Elixir Consulting

One of the key drivers of success for financial planners is having clarity and selectivity about the type of clients they engage with. This was one of key findings to emerge from the fifth edition of the *Adviser Pricing Models Research Report.*

The report, released by Elixir Consulting, is a composite of insights from 714 financial planners, 59 risk specialists and 46 mortgage brokers across 273 businesses.

Speaking on this key finding, Elixir Consulting managing director and principal author, Sue Viskovic said when financial planners apply discretion around the clients they choose to serve, they find it easier and more effective to conduct marketing and build referrals.

"They can gain more efficiencies and enhance their value proposition and skillset to solve the challenges of their chosen client base," Viskovic said. "For this reason, we explored the types of clients that participants served. We were not surprised that the data in this pricing report further built on our evidence of the impact of choosing to serve a select client base, rather than being willing to serve anyone who asks for help."

The results of the research confirmed there was a direct link between being selective about a client base, and the ability for a practitioner to charge significantly higher advice fees and enhanced profitability for an advice business.

"Those financial planners who will work with 'anyone who asks for advice' quoted fees for both initial and ongoing advice that were at least 37 per cent lower than planners who identified specific market segments. This also impacts profitability, with the average EBIT of businesses that are selective being 20 per cent greater than those that take on 'anyone who asks for our advice'," Viskovic said.

As part of the research, participants were provided with a range of different client types and were asked what type of clients they worked with. The analysis noted that advice firms with multiple planners had a greater capacity to serve multiple client segments. Therefore, for the initial analysis, the difference between firms that expressly stated they would serve 'anyone who asks for our advice' was compared to firms that selected from a menu of client types.

"We bundled some groups together when we analysed how selective planners were in the clients they chose to serve," said Viskovic. "On that basis, 18 per cent stated they work with 'anyone who asks for our advice', while 59 per cent said they would provide advice to four or less different client types."

When the researchers provided six different case studies (ranging from a young client wanting income protection insurance only, to wealthy retirees with a SMSF, through to a client with modest means requiring advice on aged care), a surprisingly high 35 per cent of participants quoted on every client, that is, they did not select 'not in my target market and I would not take them on as a client'.

While the average fees of those participants were not as low as those who consciously selected 'anyone who asks for my advice' as their clients, the average EBIT came in the same at 19 per cent.

For more information on the fifth edition of the Adviser Pricing Models Research Report, go to elixirconsulting.com.au

CLIENT FEES AND PROFITABILITY

	Average initial fee for comprehensive advice without insurance	Average typical ongoing fee for comprehensive advice without insurance	Average EBIT
Work with 'anyone who asks for advice'	$2,607	$2,703	19%
Quoted a fee for all of the case studies	$3,452	$3,551	19%
Participants who selected specific types of clients rather than 'anyone who asks for advice'	$4,165	$4,497	23%

ENROLMENTS OPEN 5 OCTOBER

"The CFP® designation is the high watermark of excellence and technical competency.

Andrew Dunbar CFP®
2019 FPA CERTIFIED FINANCIAL PLANNER® OF THE YEAR AWARD WINNER

Set yourself apart

The new Australian standards for financial planners mean it's more important than ever to stand out.

The CFP® designation is a globally recognised symbol of trust and excellence, demonstrating your ongoing commitment to education and ethical principles.

- You can now achieve your CFP® certification and Master of Financial Planning degree together
- New experience requirement pathways for those in paraplanner & support roles

Visit fpa.com.au/cfp

YOU SAY / THEY SAY

Even though client finances may be under pressure in 2020, their interest in doing the right thing for people and planet is still high. Both planners and consumers are particularly aware of the need to address climate change issues, as well as other social justice, human rights and environmental issues.

Scott Brouwer CFP®
Principal/Planner
Prosperum Wealth

Shayne Sommer CFP®
Private Client Adviser
Shadforth Financial Group

Karen McLeod CFP®
Financial Adviser
Ethical Investment Advisers

YOU SAY

Many financial planners find the bushfire and COVID-19 crises have triggered even more client conversations about their ethical and environmental concerns and investment strategies. This creates important opportunities to educate clients on their options.

Is ethical investing continuing to move up your clients' list of priorities in 2020?

SB "The subject of ethical investing has increased consistently over the past number of years, with 2020 being no exception. However, the ranking in terms of priority has drifted somewhat due to the impact of COVID-19 on a client's sense of wellbeing. While broad investment markets were performing well and income, particularly from Australian shares, was consistent, clients were less concerned with putting food on the table and able to turn their mind to doing good with their investments. This has shifted over the past few months, particularly in my home state of Victoria.

SS "Yes, we are receiving more enquiries around options for ethical investing, from both new and existing clients. New clients are expressing an interest in investing ethically in our early discussions, and existing clients make enquiries when we are discussing their portfolios around exploring the inclusion of ethical and socially responsible investment options into their portfolios over time.

We have seen an increase in clients willing to experience less return and more cost in order to invest with their ethical preferences.

KM "As a financial planning firm that specialises in ethical investing, all our clients ask us to invest all their money ethically. Therefore, I wouldn't say that their priorities have changed in 2020.

But I would say that after the bushfires, there was a massive influx of enquiries, as so many investors were frightened by the arrival of such dramatic climate change on their doorstep and the financial impacts on their investments. This has also continued during COVID-19, as clients are increasingly aware of the interconnectedness of humans with the planet. COVID-19 and the bushfires has reaffirmed our clients' decisions to invest ethically.

How specific are your clients about where they would like to see their money making an impact?

SB "Clients are becoming more and more engaged in the areas where they would like to have their money invested to better align with their personal values and those of their investments. Within each of the areas of environment, social and governance, clients can have very different focuses. I have one client who is very concerned with governance. For her, this is the most important ethical driver.

Overall, environment is the area which gains most attention among my clients, with a strong desire among many to invest in a manner which not only avoids environmental detriment but where possible, seeking to be environmentally positive. Social impact is also an area most clients like to try and make a positive impact.

SS "Generally, clients are not aware of the ethical, social and governance (ESG) options available to them in the wider market. As such, we have a broader discussion on what is available within either their super or investment platform. Some people indicate they would like to exit their current provider if they do not offer an ethical investment option that is offered by a competitor.

We have found in recent times that clients are more likely to have an idea of the type of ethical or sustainable investment area they want to invest in. However, they often perceive that there will be constraints such as:

- the type of fund they want to utilise doesn't exist;
- they will incur more cost than the 'standard' investment options;
- they won't be as diversified as their current portfolio; and
- the level of return will be lower than their current investment mix.

KM "They ask us to avoid investing in fossil fuels, human rights abuses like modern slavery, investing in weapons, avoid old growth tree logging, and excessive remuneration packages for underperforming executives on boards, and more.

Most importantly, clients are seeking investments which make a positive difference. In particular, investments that are solving the issues we are currently facing: closing the loop on waste, renewable energy, energy efficiency, caring for our ageing population, microfinance loans, bikeways and light rail. Our clients like transparency and control.

THEY SAY

More and more, consumers are spending their money with brands that 'walk the talk' when it comes to positive action on ESG issues. For some, this includes their choice of financial providers and products.

Which environmental and social issues do you think are most important in 2020?

- COVID-19, the bushfires and work-life balance.
- Global warming, food waste and Black Lives Matter.
- Racial discrimination, climate change, pollution and waste.
- Global warming and the immense divide between wealth classes.
- Climate change, homelessness and the cost of living.
- Unemployment, isolation and global warming.
- Environmentally: climate change, the depletion of our natural resources, the overuse of single-use plastics. Socially: the great divide between the rich and the poor, it affects all aspects of life, living standards, healthcare, employment and education.

How important is it for brands to communicate an ethical approach to their customers?

"Operating ethically makes more sense, therefore, the communicative aspect of it is less important.

"Very. My opinion is formed via research into new, emerging or previously known brands. I will often look into the likes of the proprietor and inventor to assess if their values and history align with my own.

"Crucial. I now actively look for these statements and what's behind them.

"Most important. Change cannot take place unless it is led by brands and corporates.

"I think it's incredibly important, particularly at this point in time, given the gravity of issues like global warming and the exploitation of workers.

"I think it's really important now more than ever. Customers are becoming more ethically aware and therefore, brands need to reflect this, too.

Would you say you make ethical choices when it comes to choosing financial providers?

"No, I've not actively considered this. I would like to think that my financial planner operates ethically by default.

"Yes, I research all new businesses I interact with or refer to for work or complete personal business with.

"No, I haven't considered this before.

"I haven't in the past (just followed my parents) but I've been researching lately and want to change banks/super and so forth.

"Not as often as I should, but improving.

"Yes, I take this into account when choosing a bank to open a new account or credit/debit card. I also invest in ethical and sustainable ETFs.

THE RESPONSIBLE INVESTING LANDSCAPE IN 2020

In recent consumer research, the Responsible Investment Association Australasia (RIAA) has highlighted strong growth in demand for ethical products. RIAA CEO, Simon O'Connor shares insights on what's driving this demand and why it's important for financial planners to get to know the options in this space.

The FASEA Code of Ethics coming into play at the beginning of 2020 has accelerated an already rapidly growing awareness of responsible and ethical investment for many financial planners. For the first time, financial planners are formally required to proactively understand their clients' broader, longer-term interests, and whether product recommendations should be limited to responsible or ethical investments.

For financial planners with their finger on the pulse, this is something they've been doing for some time, working to understand their clients' sustainability and ethical preferences. And those who are listening to their clients are finding there's an ever-increasing interest to invest in companies that are doing good and avoiding harm. But even more so, planners are finding that to provide advice in a manner that not only delivers strong investment outcomes, but aligns with client values, underpins a strong client relationship over the long-term.

THE COVID-19 EFFECT

The financial market turmoil during COVID-19 has resulted in people scrutinising their investments more than ever before. It's highlighted that companies ignoring issues such as pollution, health and safety, or corruption, and who fail to look after their employees or engage with local communities, are unlikely to thrive and will take longer to recover.

It has also laid to rest the idea that it is only what can be measured that matters, and begins to demonstrate the materiality of various important themes, including gender diversity, social license to operate and environmental stewardship. A strong body of research from the likes of BlackRock, AXA Investment Managers, MSCI and others has highlighted that companies managing their sustainability risks well, make better investments.

Responsible investing – a term that incorporates approaches such as environmental, social and governance (ESG) integration, ethical and impact investment – now constitutes a major focus of Australian investors, with $1.149 trillion of assets under management in Australia managed through responsible investment approaches, a number that has almost doubled in the last five years (and now represents 37 per cent of Australia's professionally managed assets). Responsible investment has proven itself to be an important element of understanding the full value of investments, underpinning strong risk-adjusted investment returns.

RIAA's latest *Responsible Investment Benchmark Report* released in September revealed that in 2019, Australian equities and multi-sector responsible investment funds outperformed mainstream funds over one, three, five and 10-year timeframes. International responsible investment share funds outperformed the average mainstream international share fund over every time horizon except one year.

There is evidence this trend has persisted throughout the COVID-19 period, with many responsible and ethical funds having navigated this tumultuous market much more strongly than those ignoring this trend.

A STRONG PREFERENCE FOR ETHICAL INVESTING

Growth in the market reflects the preferences of consumers – RIAA research from earlier this year revealed the overwhelming majority of Australians expect their savings (87 per cent) and their super (86 per cent) to be invested responsibly and ethically. Three-quarters would consider moving their banking, super or other investments to another provider if they found out their current provider was investing in companies engaged in activities not consistent with their values.

But importantly for financial planners, nine in 10 Australians believe it is important that their financial planner provides responsible or ethical options, and 86 per cent believe it's important that their financial planner asks them about their interests and values in relation to their investments.

These figures confirm what other studies have been telling us; people are increasingly looking beyond government to business to play a role in solving social and environmental challenges, and will use their purchasing power – including their investments – to vote for the world they want to see.

MEETING CLIENT INTERESTS

In order to properly consider the broader, long-term interests of clients as FASEA now requires, financial planners should be building in appropriate questions about ethical and sustainability preferences into meetings with every client. Consistent with the developing global norms, this increasingly requires an understanding of the ESG and ethical preferences of your client to deliver on this duty, as is now moving to be mandated for financial planners in Europe.

This demands deeper understanding from financial planners around the very different approaches investment managers take to responsible investing, in order to ensure the investment advice you offer clients is aligned with their own preferences.

ESG integration explicitly takes environmental, social and governance risks and opportunities into financial analysis and investment decisions. Negative and positive screening involve systematically excluding or including certain companies, sectors, countries or other issuers from a fund or portfolio based on activities considered less or more desirable.

Corporate engagement and shareholder action (often used in combination with ESG integration) is another approach aimed at flexing that ownership muscle, to influence corporate behaviour through direct engagements or voting on shareholder resolutions.

Impact investing refers to investments made with the explicit intention of generating positive social and/or environmental impact alongside a financial return, and measurement of this impact.

While ESG integration and negative screening are about avoiding harm and managing risk, corporate engagement and impact investing have a greater focus on driving tangible change and contributing to real world solutions. Clients will have differing degrees of expectations, and different objectives they are trying to achieve through their investments, so understanding this is key to adequately aligning investment recommendations with the long-term interests of clients as FASEA requires.

DEMYSTIFYING RESPONSIBLE INVESTMENT OPTIONS

There is now growing momentum among leading financial planners to incorporate responsible investment solutions into their offerings, with an emergence of ESG model portfolios, responsible investment products on approved product lists and platforms, greater availability of ESG data at a company level, and deeper expertise being developed within leading firms to better serve the growing client demand.

But like anything, it's important to look under the hood before choosing the investment product – responsible investment is not without its greenwashing challenges. As the industry grows and ever more investment managers adopt the label of 'responsible investors', the need for independent third-party verification of investment products has never been greater.

RIAA's pioneering RI Certification Program has certified almost 200 investment products across investment styles and asset classes. Certification is granted to products implementing an investment style and process that systematically takes into account environmental, social, governance or ethical considerations to the highest standards, with leading practice levels of transparency, and an investment process that has been verified by an external party.

The good news is there are many tools to help you make sense of the vast array of information out there that may seem overwhelming.

For financial planners researching the depth and breadth of responsible investment products, the online research tool – responsiblereturns.com.au – provides a quick way for planners to wrap their head around the myriad of responsible investment products in the marketplace and certified by RIAA. It offers a simple way to review and understand the diverse range of available products, and their differing approach to responsible investment, from impact to ethical and ESG.

RIAA's *Financial Adviser Guide* outlines the steps to getting started with responsible investing, and unscrambles the jargon with consumer-ready information about RI to arm yourself for your first conversation with a client.

From managing sexual harassment claims to engaging meaningfully with communities around Indigenous cultural heritage, companies' social licence to operate is on investors' minds, and clients are increasingly wanting to unpack whether their money is contributing positively to the world they want to live in and leave behind.

The financial planners who will distinguish themselves are those who can invest their clients' nest eggs in a manner that meets both their investment goals and aligns with their life purpose and values.

Simon is CEO of RIAA, Co-Chair of the Australian Sustainable Finance Initiative, chairs the Global Sustainable Investment Alliance, and is a member of the Aotearoa New Zealand National Advisory Board on Impact Investment.

POLICY PLATFORM IN FOCUS: TECHNOLOGY

Part four of our series on the FPA Five Year Policy Platform, Affordable Advice, Sustainable Profession, examines our recommendations on technology policy in the context of the wider digital transformation taking place in financial advice.

Technology in financial planning is an integral part of the continued evolution of our profession. In offering financial planners tools to streamline delivery of advice in a manner that's compliant and customer-friendly, the fintech category of products and services is definitely an important one for supporting more affordable advice. In giving planners some relief from the rising costs associated with due diligence and compliance, technology is also a vital resource for sustainable business models in financial planning.

Given this context, FPA members and our professional community might expect to see a broader, more comprehensive set of technology recommendations in the Affordable Advice, Sustainable Profession Policy Platform document. We certainly acknowledge that technology adoption and the policies supporting it are critical to improving outcomes for all financial advice stakeholders. However, the Policy Platform document sets out to shape our policy agenda for the next five years. Given the rate of digital transformation across the entire financial services sector, that's a very long timeframe to be addressing.

> *"Now that stakeholders in the financial planning profession are much more engaged with the importance of moving towards digital transactions, we're seeing more progress towards solutions."*

HOW THE PANDEMIC IS PUSHING POLICY FORWARD

In fact, in the time since this Policy Platform was developed in consultation with our board and members, restrictions put in place in response to the COVID-19 pandemic have already triggered changes in attitudes and behaviours that are leading to progress on one of the two policy recommendations in the document.

With far more people working remotely and significant restrictions on movement and face-to-face interactions in certain States, there is a far greater focus on changes associated with the FPA's recommendation on electronic disclosures and transactions. It's a recommendation that has impacts for multiple policies and pieces of legislation, making it a complex challenge. But now that stakeholders in the financial planning profession are much more engaged with the importance of moving towards digital transactions, we're seeing more progress towards solutions.

BROADER RECOMMENDATIONS ON TECHNOLOGY INTEGRATION

Implementation of these two recommendations is a natural next step in the ongoing digital transformation across all financial transactions. If clients are now comfortable transacting digitally with other financial institutions, it's to be expected that in the near future their financial plan can be developed and executed without relying on hard copy documents and wet signatures.

While this will certainly make life easier for financial planners and clients, there are much larger issues affecting the take-up of fintech solutions that can deliver even greater efficiencies and benefits to financial advice stakeholders.

In a recent submission to the Senate Select Committee on Financial Technology and Regulatory held on 30 June 2020, the FPA outlined the many problems financial planners experience when integrating technology with their existing systems and data and some potential solutions to address these pain points.

In response to members' challenges with technology integration, the FPA produced two reports – *Mapping Fintech to the Financial Planning Process: Why fintech is not a threat* in 2017 and the *FPA Fintech Buyers Guide and Checklist* in 2018. Two years on, members still complain that finding technology which integrates with their existing tech stack is often very difficult.

In speaking to technology providers on this issue, there is universal agreement on integration as their biggest challenge. There is a process to map one piece of technology to another, build the data connections and security, and maintain the integration over time, which is time-consuming and expensive. Each integration can cost in around $250,000, particularly when each piece of technology is built on a different platform and with different data labels.

The benefits of integration across platforms is essential as double-entry of client data leads to a significant level of productivity loss and inefficiency. However, the complexity and cost of creating APIs for integration is very high, creating a significant challenge for supply, demand and take-up of fintech solutions and financial planning. From this perspective, the fact that there is no national or international integration standard to plug into, is a very big barrier to fintech adoption.

This is why the FPA sees an opportunity for ASIC to take up this cause. Given that many fintechs are regulated as products, ASIC should be empowered to develop an integration standard and manage the security through the integrations. The importance of data security and privacy protection in the context of sensitive financial and personal information cannot be overstated and is a critical outcome for the fintech sector, the regulator and financial planning professionals to deliver.

Better integration of technology for financial planning is not solely the government's concern and responsibility. There is a role for the entire industry to play in advancing better integration and interoperability of technology for the benefit of planners and their clients.

You can download the Policy Platform in full from the FPA website at fpa.com.au/policyplatform.
We welcome comments and conversations on this document from members on our FPA Community Portal at community.fpa.com.au.

TECHNOLOGY RECOMMENDATIONS - A SUMMARY

4.1 ACCESS TO DATA

The consumer data right should be extended to superannuation products and be designed to allow financial planners who have been authorised by clients to act on their behalf by accessing their financial data.

4.2 ELECTRONIC DISCLOSURES AND TRANSACTIONS

The Government should work with industry stakeholders to improve the take-up and effectiveness of electronic methods of disclosure, consent and transactions, including through standardised processes and forms and, where appropriate, by requiring industry participants to provide electronic options.

MONEY MAKING A DIFFERENCE

At a time when responsible investing has moved into the mainstream, Mark Ingram, Chief Impact Officer at Brightlight Impact Advisory, has been innovating corporate approaches to 'doing good' in the world. He talks with Miriam DeLacy about how the landscape is evolving and the opportunities for financial planners and their clients.

> *"Corporate Social Responsibility (CSR) was completely detached from other business functions. But then companies started to see the benefits in doing good for people and the planet as an integrated approach to their business, instead of a bolt-on function."*

Having worked across the not-for-profit and corporate sectors for well over a decade, Mark Ingram has seen an encouraging transition towards goals of purpose and profit being more aligned. Once seen as mutually exclusive, the idea of putting positive impact on society and the environment on an equal footing with growth and revenue is actually starting to add up for businesses.

This growing recognition that a successful organisation is a sustainable organisation – delivering benefits to all stakeholders – has made it possible, and perhaps essential, for an organisation like Brightlight Impact Advisory to exist. Working in partnership with institutional investors, not-for-profits and governments, it specialises in consulting and management for impact investment initiatives. Its team is on a mission to 'change the world by creating an environment in which long-term investing, human flourishing and environmental stewardship go hand in hand'.

Joining Brightlight early in 2019, Mark brings an exceptional skillset to his strategic role as Chief Impact Officer within the team. Following a career in international trade where he advanced to the highest level as Melbourne Consul-General and Trade Commissioner for New Zealand, Mark took a leadership role with the Business for World Poverty Relief Alliance, a forum for Australian businesses to address global poverty and its causes. Drawing on his knowledge of international business operations, he quickly went on to set up and launch a new not-for-profit, Business for Development (B4D). Using a unique business model, B4D is the only inclusive business advisory in the world working to address extreme poverty without reliance on charitable donations.

RETHINKING CORPORATE RESPONSIBILITY

The B4D client list includes some of the biggest corporates in the world, such as Coca-Cola Amatil, Kelloggs and Visy Industries. With their interest in making an impact on global poverty as an intrinsic part of their operations, many of these companies were already advancing on their journey away from traditional models for businesses seeking to build a better world.

"In the past companies were acting as philanthropists outside of their core business," says Mark. "Corporate Social Responsibility (CSR) was completely detached from other business functions. But then companies started to see the benefits in doing good for people and the planet as an integrated approach to their business, instead of a bolt-on function. At B4D we worked with our corporate partners on remodelling their core business activities around alignment with social and environmental outcomes."

Mark offers the collaboration between B4D and Cotton On as an example of a company reducing the risks of unethical practices to their core business, and supporting their broader stakeholder community in the process. "In 2012 the Rana Plaza collapse led to a lot of concern around how companies had built their supply chains into countries like Bangladesh," says Mark. "The first wave of scrutiny was around disclosure in the garment industry. Is your company buying from a factory that pays a living wage to employees?

"Cotton On went one step further to explore where the raw materials come from. This led B4D to design a supply chain to help them connect with cotton farmers in Kenya. This initiative doubled the farmers' income and secured a supply of market-competitive lint into the factories in Bangladesh."

At first glance this supply chain initiative might seem to be motivated by a sense of social responsibility among business leaders wishing to support the livelihoods of cotton farmers and garment industry workers. But it was, in fact, a strategic move towards protecting the future of Cotton On as a thriving, competitive business.

"Although the Rana Plaza incident was a human disaster with an immediate negative impact on the reputation of the garment industry, it highlighted a significant ongoing risk to security of supply," says Mark. "The shared value agreement between Cotton On and its Kenyan suppliers supported the farmers with a decent return on their crop. The value for Cotton On in return is the assurance of a 10-year supply of high quality cotton. There's mutual benefit for both parties which makes for a strong and sustainable relationship.

"It's about future-proofing your business," he adds. "If your business is designing for the social and environmental challenges you face then you're protecting future value for shareholders and the sustainability of your core business."

THE PUBLIC/PRIVATE DYNAMIC

Another major concern for companies looking to secure a future as market leaders is labour supply. In a whole range of industries and regions, access to a bigger talent pool is seen as critical to innovation and competitive advantage. According to Mark, this makes inclusive employment another important strategic goal for the private sector.

"By hiring people with disabilities, creating pathways for youth to access employment or focusing on work opportunities for any marginalised group, you're also future-proofing your business," says Mark. "You're securing your talent base by drawing from a larger pool of potential employees."

Mark also points out that an inclusive approach to employment is becoming essential for firms wishing to supply government. "There is also a growing trend for governments to have contract clauses for social procurement," he says. "This was predominantly in Europe to start with and is now coming from the US and we're seeing it introduced state by state here in Australia. To tender for public sector projects, a certain proportion of your supply chain must come from indigenous businesses or people with disabilities for example. This is one way that governments are looking to solve welfare, development and social outcomes. If you want to be a preferred contractor to government, you need to think about how your business model is socially inclusive."

This is just one example that highlights the growing alignment of public and private sector interest in improving social inclusion and welfare outcomes. One of the current investment products Mark and the Brightlight Impact team are developing is a fund investing in social housing for people with disabilities here in Australia.

"The government is tasked with trasitioning young cohorts of people with disabilities who aren't currently housed in purpose-built accommodation," says Mark. "In fact, many of them are in aged care. Moving them to purpose-built accommodation with wrap around community support services, leads to better futures for these young people.

"The National Disability Insurance Scheme (NDIS) provides a degree of government funding support and protection for investors coming into this housing stock. And we're seeing a lot of these projects now under development thanks to this hybrid funding model. Our plan is to scale this up to become a real estate impact fund that can be accessed by institutional investors, such as super funds, but will also be made available, in due course, to financial planners and their investors via the usual platforms."

THE QUESTION OF RISK AND RETURN

Funds like these are just one example of how impact investing products are now offering an attractive risk and return profile. "There is no doubt that impact investing has matured beyond proof of concept that you can generate impact outcomes while delivering a return to investors," says Mark. "We've also dispelled the myth that you need to sacrifice returns to generate impact. One of Brighlight Impact's institutional clients, a super fund, has consistently achieved its mandated return for

> *"There are all sorts of funds accessible for retail investors and you need to interrogate these on impact performance as you would for recommending a property or equity investment based on investment performance."*

> *Clients are likely to be asking should I be looking for a safe haven for my wealth when markets have become so volatile? But our data on this reveals how impact investing can derisk a portfolio."*

impact assets, which now make up 10 per cent of its portfolio."

Of course, clients are relying on financial planners to protect them from risks in their investment portfolios as well as generating income and returns. Given the investment conditions we've seen in 2020, clients might be particularly wary of the risk factors for impact investments at this time.

"Clients are likely to be asking should I be looking for a safe haven for my wealth when markets have become so volatile?" says Mark. "But our data on this reveals how impact investing can derisk a portfolio. If we take the super fund I mentioned as a point of reference, there is negligible correlation between the impact assets in their portfolio and stocks, bonds and even property. Variables that influence disability housing in Australia are quite different to those that affect listed equities in Asia, for example. These uncorrelated impact assets can be a true diversifier."

Mark also points to the advantages of impact assets offering a fixed income return in the prevailing low interest rate environment. "Now that cash rates and bond markets are lean, an impact fund based on debt which is targeting 4 per cent is looking good as a fixed income option," he says. "If it's a blended finance fund, like the NDIS example, you have a government providing risk protection which makes it even more attractive."

ETHICAL VS IMPACT

As a relatively new segment of the responsible investing universe, impact investing is quite different to other 'ethical' approaches to investing. It's now fairly common for many investment products to apply negative screens to eliminate assets from their portfolio that are exposed to industries known to do harm to society and the environment. These might include fossil fuels, tobacco and weapons. Impact investing, on the other hand, allows capital to be directed towards assets that are actually working to benefit society and the environment.

Mark acknowledges that, when it comes to responsible investing, it's easy to get lost in the jargon and labels used to describe the investment world. This makes it more challenging for planners to gain a better understanding of just what it is their clients are investing in.

"The Impact Management Project is a global effort to try and standardise the language we use to describe the impact economy," says Mark. "It has introduced the A, B and C of impact performance and this can give financial planners and their clients a way to consider how successfully investment products meet their goals for environmental or social change.

"A is Avoid Harm which involves looking at the current screens applied to investments and the underlying holdings to see if these resonate with your client. B is to Benefit Society and you can select from sustainable funds that are positively aligned to the United Nations Sustainable Development Goals (UNSDGs), which have been widely adopted by the investing community as a set of impact goals. It's relatively easy to educate yourself about these funds and get exposure for your clients to returns and beneficial impacts.

"C is to Contribute to Solutions and this actually involves moving capital that's not currently allocated towards making an impact. This means stepping away from traditional capital markets and looking at unlisted investments. This kind of exposure isn't currently available to retail investors, but it is possible for wholesale and institutional investors. So, the best way for a client to access these investments, for the time being, is to choose a super fund that has a commitment to impact investments."

MEANS TO MEASURE

However, Mark also acknowledges that determining whether an investment product falls into category A, B or C is just one part of the process for evaluating their impact performance. Companies and the funds that invest in them have yet to land on a consistent, universal way of measuring and reporting on impact.

"Eighty per cent of sustainable investors now align with the UNSDGs, up from 45 per cent in 2017," says Mark. "These goals are emerging as the natural framework that the world's governments and companies and data analysts find most useful. But while they provide a taxonomy for impact, they don't tell you anything about relative performance. For example, if I look at 10 sustainability funds in the market today, ratings agencies can help me rank them by ESG and investment performance. But they can't rank them according to their relative SDG-aligned performance, though there is good work being done in this space

"I think better data analysis to inform decisions based on impact outcomes will be the next wave of change in this space. The UN may put forward SDG indexation of outcome per million of dollars of capital deployed as a potential measure of impact. But this won't tell us where money needs to move towards to solve problems. We also need a heat map of where capital is lacking to support the regions, sectors and marginalised populations where SDGs are not progressing."

ACCESS TO IMPACT OPPORTUNITIES

Analysis of where capital is needed most is perhaps the missing piece of the puzzle that planners need in order to talk with clients about impact investing in a more strategic way. Many financial planners will already be having conversations about how clients' personal values might direct their wealth towards having a greater impact, but there may also be scope for them to consider where their money is needed most.

"Much of money invested by Australians in impact is directed to climate change goals, because many people living here now see this as an important priority," says Mark. "But if everyone is passionate about solar farms then that's where the majority of money will go, leaving other impact goals with less private capital to support them."

For now, financial planners are tasked with helping clients align their personal vision with other wealth management goals. So how can they do this in an integrated way? In Mark's view, it's a case of engaging with the product offerings available and applying the same rigour to your research as you would for all other investment considerations, such as risk and performance.

"When you look at impact products for clients, don't put aside your conventional investment due diligence and discipline," says Mark. "As you do the research, you will begin to see a growing number of products available because there is strong demand in the market to support this growth. There are all sorts of funds accessible for retail investors and you need to interrogate these on sustainability performance as you would for recommending a property or equity investment based on investment performance.

"My counsel would be to avoid being persuaded by the brand and 'story' for a product. Instead, look for products that are giving a clear view of high quality data on sustainability outcomes.

"Ask fund managers the hard questions, such as how they authenticate that a fund is reducing carbon emissions or providing social housing solutions. If enough financial planners ask those questions, the market is going to have to solve issues by finding the answers. In doing this, you become a change agent, both on your own behalf and on behalf of your clients."

> *"If I look at 10 sustainability funds in the market today, ratings agencies can help me rank them by ESG and investment performance. But they can't rank them according to their relative SDG-aligned performance."*

AN ETHICAL SOLUTION

For 16 years, Ethical Investment Advisers has specialised in ethical investing. Jayson Forrest talks to Louise Edkins CFP® about the practice's vision and approach to ethical investing.

With a 26-year pedigree specialising in ethical investing, Louise Edkins CFP® knows a thing or two about this burgeoning sector of the industry. Along with her business partner, Terry Pinnell CFP®, they established Ethical Investment Advisers in 2004. As an advisory business, it was one of the early adopters of ethical and impact investing, which Louise says was born out of the excesses of the 1980s.

"Previously, both Terry and I had worked in large financial institutions in risk, stockbroking and investment banking. During the 1980s, we saw a lot of the Gordon Gekko 'greed is good' mentality, as well as the effects of the 1987 sharemarket crash. This motivated us to align our personal and professional values with the advice we were providing to clients," says Louise.

Originally based in Brisbane, the business has grown to include nine offices spread across Brisbane, Hobart, Perth, as well as Byron Bay, Toukley and Erina in NSW, and Dunsbourgh in Western Australia.

As a business specialising in ethical investing, Louise says it's important that Ethical Investment Advisers "walks the talk" when it comes to discussing environmental, social and governance (ESG) issues with clients. It does this in a couple of ways, both in the way it runs its offices and through its philanthropic activities.

"We're very careful with our carbon footprint," says Louise. "We offset carbon emissions from cars, airfares and office heating/cooling with Greenfleet – an Australian not-for-profit environmental organisation whose mission is to protect the climate by restoring forests."

Ethical Investment Advisers also uses solar hot water, solar panels, low energy lights and insulation to reduce its energy consumption, while also buying green power and planting trees on the western side of its offices to reduce heat. It has also lowered its environmental impact by recycling waste paper, plastics and metals, as well as composting food waste.

> *"A bonus of taking this ethical investing approach is the strong relationships you can forge with your clients, where client conversations around the social and environmental impacts of investments become much deeper."*

"We also use water tanks and low water use toilets and showers to reduce our water usage. We recycle the grey water and use mulching to reduce water loss in our gardens."

Ethical Investment Advisers is also committed to using some of its profits philanthropically. This includes supporting women in the Asia Pacific region who are trying to start up small businesses by providing microfinance loans through the not-for-profit organisation, Good Return.

"We have helped women from Nepal, the Philippines, East Timor and Tonga. As a business, we thought that by making it a loan, the money can be recycled over and over again, which helps far more people over time," says Louise. "It's great that we can share our good fortune with those who are less fortunate living in the Asia Pacific region."

The business also supports Market Forces and its community work to prevent investment in environmentally harmful projects, while also supporting the Australasian Centre for Corporate Responsibility (ACCR) – a research and shareholder advocacy organisation.

Louise says these environmental and social initiatives align closely with the business' own values, which centres on helping investors incorporate their own ethical values with their investment objectives.

However, one aspect of the business that Louise is particularly proud of is its active engagement with fund managers. Ethical Investment Advisers regularly provides assistance to fund managers on how they can create better products, while other managers approach the business for feedback on what screening and types of products ethical investors want.

"We also provide feedback on how fund managers can improve their products. It's especially rewarding when fund managers change their screening based on our advice,"

LOUISE EDKINS CFP®

POSITION: JOINT DIRECTOR

PRACTICE: ETHICAL INVESTMENT ADVISERS

LICENSEE: ETHICAL INVESTMENT ADVISERS

ESTABLISHED: 2004

YEARS AS A FINANCIAL PLANNER: 11 YEARS

STAFF: 18

Louise says. "I feel this type of engagement with fund managers at the coalface is having a beneficial impact on the ethical investing sector."

ETHICAL INVESTING

With both Louise and Terry being charter members of the Responsible Investment Association Australasia (RIAA) and founding members of the Ethical Advisers Co-operative, Ethical Investment Advisers has impressive ESG credentials, which have been built into its approach and philosophy to ethical investing.

At the heart of this philosophy is Louise's belief that ESG is what all investment management should be doing better, by identifying, assessing and managing the governance, social and environmental risks of the investments they make.

She believes that a responsible approach to investing is one that systematically considers ESG and/or ethical factors across the entire portfolio, which is increasingly becoming the expected minimum standard of good investment practice in Australia.

"The responsible investment market is continuing its upward growth, with associated assets under management growing 13 per cent in 2018 to $980 billion, according to the RIAA's Responsible Investment Benchmark Report 2019," says Louise. "This represents 44 per cent of total professionally managed assets under management."

However, over her 26 years in ethical investing, Louise concedes clients do have different reasons for investing ethically, but she says what binds them together is a belief that ethical investing allows them to take tangible action on social and sustainable issues.

"Money has power to influence and many people feel disempowered by the politics of the day, but through ethical investing, they can take personal action that is more than just consumer choices.

"So, while clients may have different personal values, they share a common purpose in wanting to be part of a global solution to the issues surrounding climate change and human rights, by investing responsibly, ethically and sustainably," she says.

"Clients want to assess the environmental and social risk of their investments. They're seeking to screen out certain industries and sectors, while screening in positive impact and planet solution investments. They want to be part of the solution, while avoiding those sectors and companies that are part of the problem."

SOCIAL IMPACT INVESTING

The type of client attracted to ethical investing crosses all demographic and generational groups, says Louise. The clients at Ethical Investment Advisers are diverse, coming from a range of backgrounds, but they all have one thing in common; they all want to ensure their money is helping, rather than harming, the environment and society, while making a competitive return.

"Whether you're talking Baby Boomers, Gen X or the Millennials, all these generations share very similar ethical concerns about the issues we're facing. It's the one thing that unites these generations.

"Investors, regardless of their age or generational cohort, are getting their returns through their ethical investments, so they're not chasing returns from other types of investments or sectors. In fact, they continue to develop their ethical investment values.

"As their wealth grows, some clients actually start to consider social impact investments and philanthropic trusts. For them, the return is actually on the social outcome."

Louise points to wholesale social impact bonds that assist with outcomes on a range of social issues, like foster care.

"So, some of my clients who have built up their wealth and are in a financially comfortable position, choose to have more philanthropic investments that may perform at a lower level, as part of their investment portfolio."

In fact, Louise is seeing an increasing move by investors to social impact investing, where positive outcomes are important to clients, meaning the investments need to have a positive impact in some way.

"The objective of impact investing is to help an investor achieve specific goals that are beneficial to society or the environment," says Louise. "Investing in a non-profit dedicated to the research and development of clean energy, regardless of whether success is guaranteed, is an example of impact investing.

"Many clients are concerned about climate change, with Australia's recent bushfires making this more tangible for people. Add COVID-19 to this, and these have all been catalysts for people to re-evaluate what's important in life, with a whole range of social issues coming to the fore now, like the Black Lives Matter movement. People are making this re-evaluation as consumers and as investors."

A SUSTAINABLE RETURN

Louise is adamant that no investor has to sacrifice investment returns in order to invest ethically, which means clients can ensure their money is helping the environment and society, while making a competitive return.

"Throughout COVID19, ethical funds have performed better because they hold no carbon intensive industries, like aviation. And ethical funds are not invested in oil and gas, which as a sector, has been dropping for decades. Ethical funds also tend not to be in high-end discretionary sectors, like travel, which is currently suffering as a result of the pandemic.

"Instead, ethical funds are invested in industries that are part of the global solution, including 'sustaintech', biotech, aged care, healthcare, and disruption technologies."

Louise adds that independent research confirms that performance is not impacted by investing ethically and in most cases, it's actually better. "If you look at the RIAA Responsible Investment Benchmark Report, every single year over the past 18 years, the performance of ethical investments has been better or similar to other investments."

However, regardless of investment performance or ethical values, when it comes to forming an ethical view towards investing, this is something the advisory practice encourages its clients to form on their own.

Louise explains: "We do not form the ethical view, the client does. Clients have their personal values and we align those with the investments that reflect their ethical concerns. Our clients have similar views with a focus on investing positively in areas such as renewable energy, energy efficiency, health, as well as avoiding certain sectors, like fossil fuels, gaming, armaments, and companies with human rights violations."

In order to adhere to its clients' ethical views, the team at Ethical Investment Advisers is careful to build an investment portfolio that aligns to their values, goals and objectives.

"We take this process one-step further by questioning what they want to be invested in from an ethical point of view, and what they want to be avoiding. You need to understand what their main investment concerns are, including what issues they are neutral on, and what issues they want to avoid or support. We then reflect this in the investments we choose.

"Today, there are a lot of choices available in managed funds across all risk profiles and investment styles that can provide investors with good performance and screening."

ADVICE TRANSPARENCY

As part of its service offering, Ethical Investment Advisers offers four SMA portfolios – growth, fixed income, mid-cap, and large-cap – that have been designed to provide investors with access to well-diversified investments that are also making a positive contribution to a sustainable future.

The types of targeted investments in these SMAs include: clean energy, education, innovation, aged care, energy efficiency, healthcare, clean transport, recycling, and responsible banking. Excluded investments include: heavy polluters, weapons, tobacco, fossil fuels, human abuse, logging, and gambling.

"We use managed accounts because it's an easier and more efficient way to invest. Ethical investors want transparency and control of their investments, and managed accounts allow this.

"We created two Australian share SMAs – Ethical Investment Mid-Cap and Ethical Investment Large-Cap – that excluded fossil fuels because there wasn't any Australian share funds that had fossil fuel exclusions when we set these SMAs up. Our clients also didn't want to be invested in the major banks because

TAKING THE **ETHICAL PATH**

Louise Edkins CFP® offers the following five tips for any advisory business looking to go down the ethical investing path.

1. DO YOUR RESEARCH

"It's important you listen to your clients and properly understand their investment goals and objectives," she says. "You don't want to upset them by choosing an ethical product or investment strategy that doesn't align with their values."

When it comes to investments, Louise advises planners to do their research and due diligence, because "there is a lot of 'greenwashing' in the market". Greenwashing occurs when companies provide a false impression or misleading information about how its products are more environmentally sound and friendly than they actually are.

2. ETHICAL RATINGS

Louise encourages planners to use ethical product ratings available in the marketplace. For example, the leaf ratings system provided by the Ethical Advisers Co-Operative is a valuable and practical tool that provides planners with a snapshot of which products have strong ethical screens and which products have poor ones. Planners can then look at the financial ratings of these products, in addition to this ethical screen rating, to form a better picture of the universe of products available.

3. OFFER A WHOLE SOLUTION

For clients who want to invest ethically, Louise says it's important you provide these clients with a whole solution, and not a part solution, that align with their investment goals and objectives.

"Clients want a whole solution. They don't want to be invested just 10 per cent ethical. So, provide a whole of their fossil fuel lending. Clients had a strong position on fossil fuel exclusion, so that's why we set up these SMAs."

The Ethical Investment Growth SMA and Ethical Investment Fixed Income SMA were created as Lonsec rated fund-of-funds that encompassed "the best ideas in ethical investment". According to Louise, one of the reasons the business created these two SMAs was to provide a whole solution across all risk profiles and asset classes.

KEY LEARNINGS

With 26 years racked-up specialising in ethical investing, Louise has witnessed the evolution of this burgeoning sector.

"Over almost three decades of advising, I have seen stronger and stronger alignment of ethical values by investors," Louise says. "Initially, it was gaming, tobacco, armaments and human rights abuse that were screened out. Now, that exclusion extends to fossil fuels, which has become a stronger exclusion issue, while investors are demanding greater exposure to renewables, energy efficiency and sustainable practises, including agriculture and food production."

When Louise first started advising clients, there wasn't a lot of ESG or SRI product available, which required her to do a lot of direct equities.

> *As their wealth grows, some clients actually start to consider social impact investments and philanthropic trusts. For them, the return is actually on the social outcome."*

But today, there is a greater number of international fund managers in Australia offering ethical options.

"As a result, there's been a phenomenal growth of investment choice, in a range of different areas, particularly in green bonds, passive and active ETFs, and managed funds."

Louise is pleased to see the growing range of managed funds that offer investors choices around investments that are focused on different areas, like sustainable and clean technology, where the focus is on environmental issues.

"We're seeing a whole range of different investment choices because a lot of the true to label impact and environmental investments now available in this country are coming from international managers, which is providing Australian investors with great ethical investment opportunities."

A COLLABORATIVE COMMUNITY

Louise urges practitioners to consider becoming part of a collaborative community that is raising the profile and importance of ethical investing in Australia. She believes as awareness continues to grow around social, environmental and ethical issues, the need for planners to provide advice on ethical investing will only continue to grow.

"A bonus of taking this ethical investing approach is the strong relationships you can forge with your clients, where client conversations around the social and environmental impacts of investments become much deeper," she says.

"Today, financial planners specialising in this sector are overrun with client enquiries, and there are no shortage of investors seeking advice on ethical investing. This is a truly exciting sector to be a part of."

solution, and not just standard products on your APL that may have an ethical fund added into it."

She cautions planners to not be content to use an ethical product on an APL, but rather to dig deeper and find the better products to add to your APL.

"Clients looking for ethical investments tend to do their research and if they see that the underlying stocks are at odds with what they are asking for, they won't be happy!"

4. JOIN AN ETHICAL ADVICE CO-OPERATIVE

Louise also recommends planners join the Ethical Advisers Co-operative (EAC). This co-operative is a membership of financial planners who predominately provide ethical investment advice or are transitioning to this style of advice. The EAC rates funds that have an ethical or sustainability focus. These funds are considered to be making an effort to invest in more environmentally sustainable, ethical and socially responsible investments.

"Terry and I are also founding members of the EAC and our staff play an active role on the board and in working groups for the EAC. The EAC is member operated and was created to support ethical advisers across Australia and ultimately, their clients," says Louise.

5. CONSIDER A SPECIALIST ASSOCIATION

Louise also encourages planners to consider joining the Responsible Investment Association Australasia (RIAA), which advocates for responsible and sustainable investing in Australia and New Zealand.

The RIAA provides the accredited Responsible Investment Certification Program for practitioners, which certifies that planners have reached the professional standard required to advise on responsible investing products and services.

In addition to both Louise and Terry being charter members of the RIAA, Louise also held a board position. Currently, one of the Ethical Investment Advisers team members, Karen McLeod CFP®, is a board member and also sits on its Certification Committee and the Governance Committee."

FINDING THE VALUE IN RESPONSIBLE INVESTING

Whether you call it responsible or ethical, investing for the good of our society and environment is becoming a complex and competitive space for financial planners to navigate. Miriam DeLacy reports.

MICHELLE BRISBANE CFP®

POSITION: FINANCIAL PLANNER, CEO, MANAGING DIRECTOR

PRACTICE: ETHICAL INVESTMENT SERVICES

LICENSEE: ETHICAL INVESTMENT ADVISERS

ESTABLISHED: 1988

Ethical investing is certainly nothing new to many financial planners. Michelle Brisbane CFP® and Trevor Thomas CFP® both lead practices that have specialised in delivering ethical strategies for wealth management for over three decades. In that time, there's been growing demand for financial products that offer clients options to align their investments with their values and direct their capital into companies operating in an ethical or sustainable manner.

Michelle joined Ethical Investment Services in 1999. In the 20 years since then, her team has grown from just three to double digits to meet the growing demand for ethical investment solutions. "We used to have this eco warrior identity within the profession," says Michelle. "But now we're seeing many other planners starting to understand the landscape and why it's important to address the sustainable and ethical values clients want to see reflected in their investment choices.

"Making clients feel comfortable with how their money is being put to work is part of our role. And for our clients, that's always involved constructing a portfolio that matches their personal concerns about the future of our world. Today, we see very strong interest in environmentally positive outcomes but clients will often want to make sure they're not doing social harm with their investments, while others are more concerned with animal welfare and human rights."

Recent research from the Responsible Investment Association Australia (RIAA) shows this expectation of a responsible approach to investing is almost universal among consumers. In its *From Values to Riches 2020* report, RIAA found that 89 per cent of Australians feel it's important that their financial institution invests responsibly and ethically across the board, while nine in 10 Australians believe it's important that their financial planner provides responsible or ethical options.

For Trevor Thomas, meeting with Ethinvest clients is about engaging with a wide spectrum of interests on the issues affecting the world today. "Every client is different, both in their concerns and how much detail they expect on what's in their portfolio and what that means for avoiding harm and doing good," says Trevor. "They will expect you to know at least as much as they do, or show willing to find out on their behalf.

"When clients ask if gas is a transition fuel or a serious environmental threat, you don't need to have an answer or opinion at the ready. But these clients have a high level of integrity so it's important to be engaged and committed to giving them the assurance that how they invest their money is commensurate with what they do in the rest of their lives."

CHANGING ATTITUDES AND SOLUTIONS

In the early days, both Trevor and Michelle had no choice but to offer this kind of assurance by investing in direct share portfolios. A move towards more standard, off-the-shelf investment solutions has only been possible in the last decade.

> *Even in recent years, we've been confronted by this misconception that responsible investing comes with a sacrifice to performance."*
>
> MICHELLE BRISBANE CFP®

"To give clients the transparency they expected in where their money is invested we used to offer a bespoke service through our direct share portfolios, based on a specialist investment model," says Michelle. "In 2012, we built this out into our own Separately Managed Account and that's been operating very successfully ever since, beating the benchmark over the long-term.

"Even in recent years, we've been confronted by this misconception that responsible investing comes with a sacrifice to performance. But we've seen that the mere fact that there is better governance and greater sustainability concerns as part of the overall management of the underlying investments means that the fund does perform well."

Trevor agrees on the importance of busting this myth when showing Ethinvest clients how their investment performance stacks up asset class by asset class. "Our argument is that you don't have to sacrifice returns to invest ethically," he says. "We always compare our clients' portfolios against the standard performance benchmark for Australian equities, international equities, fixed income etc. There's no reason why a term deposit from a bank with an ethical screen should pay a lower interest rate than any traditional bank."

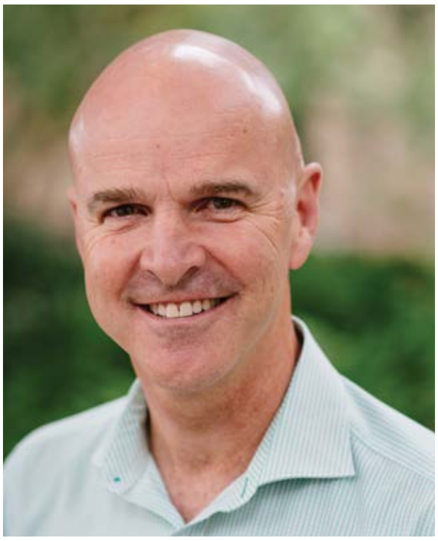
There is now plenty of evidence available in the public domain to support a more positive view on ethical investment performance. In 2019, Morningstar reported 65 per cent of sustainable funds had performed in the top half of their respective categories. And in its *Benchmarking Impact* report released in September 2020, RIAA found that 92 per cent of surveyed investors say their impact investments are meeting or exceeding expectations.

With this compelling evidence of the financial rewards of responsible investing coupled with demand from clients, financial planners are definitely coming around to the idea. As a product provider well established in the space, Australian Ethical is experiencing a big leap in demand from the financial advice profession. "We've been pushing quite hard in the adviser channel for the last three years and developing out the support for them because we knew that demand from their clients was growing," says Leah Willis, Head of Client Relationships for Australian Ethical. "But it was very much clients leading the discussion.

"This year we're seeing a tipping point and planners are now embracing ethical and responsible investing and coming to us to build model portfolios to meet that increasing demand. And this is, in part, due to the evidence base we now have that you don't have to compromise on returns. But there now enough clients asking that planners need to have a solution at the ready when the ethical investing question comes up in conversation."

PROS AND CONS OF COMPETITION

Established back in 1986, Australian Ethical was among the earliest movers in ethical investing products. Today, Leah and her team are seeing competition in this space reach new heights in response to peak demand from planners and their clients. While this creates far more choice and opportunity for investors, this proliferation of options brings far greater complexity to what a responsible approach to investing actually looks like.



TREVOR THOMAS CFP®

POSITION: FINANCIAL PLANNER, MANAGING DIRECTOR

PRACTICE: ETHINVEST

ESTABLISHED: 1989

LEAH WILLIS

POSITION: CLIENT RELATIONSHIPS MANAGER
COMPANY: AUSTRALIAN ETHICAL
ESTABLISHED: 1986

> *We regard responsible investing as a spectrum of considerations and applications and there isn't really one clear definition of what responsible investing is."*
>
> LEAH WILLIS

"We regard responsible investing as a spectrum of considerations and applications and there isn't really one clear definition of what responsible investing is," says Leah. "There is certainly interest in Australia and globally in trying to define it. But that's a tall order when you consider that it can include negative screening, positive screening, sustainability themed investments right through to impact investments.

"What we've talked about in the market in the last few years is the shades of green that clients and planners can consider, from light green to deep green. We regard environmental, social and governance (ESG) as that top down, basic approach to responsible investing. Because of the depth and breadth of considerations we apply to our portfolios at Australian Ethical, we see ourselves as the deepest green."

Since it was established in 1986, Australian Ethical has followed the same ethical charter that underpins its whole business philosophy and principles-based investment approach. "Our charter doesn't tell us what to screen out," says Leah. "Instead, it's about a more responsible way of investing for positive outcomes and to avoid harm. We apply the approach across three major pillars – people, planet and animals.

"With the broader ESG trend, we've seen super funds and investment managers starting to think about excluding tobacco, fossil fuels and controversial weapons. Whereas we go a lot deeper in terms of human rights and animal welfare, for climate issues, we're much broader in the sectors we look at and the thresholds we apply. It's not just exclusions, it's balancing a positive, more sustainable approach with screening for harmful impacts."

According to Trevor, the 'green washing' approach taken by some investment managers on the spectrum can make the product selection process frustating for financial planners and their clients.

"You can look at a list of ethical funds on a platform and what they screen out, expecting them to be the ideal match for your clients' responsible investing goals," says Trevor. "Then you ask for a list of all their holdings and you review the top 10, but they don't look quite as good as you'd hoped. And when you see the rest, you might find companies that your client would hate to own in their portfolio.

"This can really put some clients off the whole enterprise. When they look under the bonnet of an ethical fund and see holdings that aren't very different from a traditional one, they think, why bother? Some of these clients are already quite suspicious and cynical about investing and see the share market as being a bit like a casino. Presenting them with options like these which carry the ethical label can really reinforce those suspicions."

A FOCUS ON BENEFITS TO INVESTORS

To help financial planners narrow down responsible investing products on the basis of their ethical credentials, Trevor recommends starting with the Ethical Advisers Co-op ratings.

"This is a rating page for all the major ethical funds to make sure the underlying investments are doing what the screens suggest they should be doing," says Trevor. "You get a two-pager on the fund and why they've got that rating. It's a really useful resource for financial planners that's designed to cut through the green wash."

One of the managed funds achieving a four out of five green leaves rating from the Ethical Adviser Co-op is the New World Fund from Nanuk Asset Management. As its Chief Investment Officer, Tom King asserts the company and its product haven't actually been established on the basis of ethical goals.

"When we set up the firm, and then the fund, we didn't seek to allocate clients money towards saving the world," says Tom. "What we did set out to do is capture attractive long-term investment opportunities in the wake of the Global Financial Crisis.

"We believe that the global economy is unsustainable in its current form due to resource constraints and environmental impacts. Change will happen in the future, we don't know when or how. It may be as a result of knee-jerk reactions to major climate events or it may be off the back of well-thought through policy decisions. But, however it happens, we focus our active management approach on industries like food, energy and water because there are technologies and companies within those industries that are going to contribute to that change and benefit from it.

In seeking to capture returns from this transition to an economic model that pursues sustainable goals for our resources and environment, Nanuk Asset Management has created a fund that is ethical by default, rather than by design.

"We didn't position ourselves as an ethical product and we're not unsuited to investment portfolios where there is no desire to for a sustainable strategy or outcomes," says Tom. "But then we realised the fund was attractive to investors looking for an ethical product and they wanted confidence that we will continue to avoid companies for the portfolio that wouldn't sit well with their expectations. So, we put in place an exclusions framework that's got very low thresholds, many at zero."

LOOKING BEYOND ESG

As Chief Investment Officer for a fund that is seen by the market as highly ethical, even though it doesn't have an ethical agenda, Tom is familiar with the confusion that can arise around responsible investment product labels and expected outcomes. He thinks the term ESG, in particular, has been widely misunderstood by investment professionals and consumers.

"ESG typically refers to ESG integration, which is consideration of ESG risks and that's something investment managers have been doing for a long time," says Tom. "But recently it has turned into a buzzword. When we're looking at how financial planners can better meet the needs of their clients around responsible investing, it has much more to do with sustainable and ethical investing approaches and little to do with ESG."

However, Tom is also seeing a welcome shift towards more straightforward communication that should help financial planners get a clearer understanding of what's on offer for clients looking for investments that match their values. "The industry is in a state of transition at the moment away from generalisations about ESG and ethical investment and becoming much clearer about what the alternative approaches are to achieving non-financial investment outcomes," he says.

As well as some important changes in how ethical products are labelled and understood, positive and negative screens are also becoming more effective in delivering portfolios that ethically motivated clients can be proud to invest in.

"There is more genuine screening of portfolios happening now," says Trevor. "This is resulting in better quality offerings and many more of them. As a financial planner, you can now blend portfolios across all asset classes, using a number of fund managers with long track records and good performance and screening. The market is maturing and there's never been a better time to sit opposite a client who says they want ethical investing."

A LONG-TERM THEME

With the catastrophic bushfires in early 2020, followed by the COVID-19 pandemic, many Australians have been reconsidering their priorities when it comes to their society and environment. In Michelle's view, this could see even more clients sitting down with their planners to have conversations about their values in the context of responsible investing. "The current climate has given people more of an opportunity to consider what's important to them," she says. "Sometimes that might mean looking at where their money is invested and whether it will help the world become a better place."

Tom agrees with this idea that current events may compel more financial planning clients to make responsible investment choices. "A whole lot of clients after the bushfires would like to know their money is helping to build out low carbon grids around the world," he says. "If you can do that while improving the diversification of the portfolio and earning a return, then that's a win for their financial planning goals and their interest in averting future climate crises."

In addition to a potential spike in client interest driven by the upheaval of 2020, there is a longer-term factor for financial planners to keep in mind when considering responsible investing as a key part of their value proposition. According to research from KPMG, Millenials are twice as likely as older generations to want their super to be invested responsibly and 49 per cent of Millennial millionaires make their investments based on social factors.

"Responsible investing is a significant opportunity for planners and not just in the current environment," says Leah. "As intergenerational wealth transfer sees assets passed down to the next generation, financial planners need to align their offer to the values of these younger family members as they look for ethical and sustainable ways to invest that wealth."

TOM KING

POSITION: CHIEF INVESTMENT OFFICER

PRACTICE: NANUK ASSET MANAGEMENT

ESTABLISHED: 2009

> *"When we're looking at how financial planners can better meet the needs of their clients around responsible investing, it has much more to do with sustainable and ethical investing approaches and little to do with ESG."*
>
> | *TOM KING*

THE 'WHY' OF ETHICAL INVESTING

Ethical investing can mean different things to different people. So, how do you talk to your clients about this style of investing? Jayson Forrest asks three CFP® professionals who specialise in ethical investing.

Whether it's environmental, social and governance (ESG), socially responsible investing (SRI) or impact investing, the value of an investment is no longer just about returns, as an ever-increasing number of investors want their money to make a positive impact on society and the world in which they live.

Ask Dave Rae CFP® – a financial planner at Federation Financial Services – to describe the type of investor drawn to ethical investing and he concedes there is no typical age, gender or generation attracted to this style of investing. Instead, the one common trait shared by investors is a desire to make positive change in the world they live.

"The clients I deal with all care about the same sort of things – whether that's climate change, sustainability, energy efficiency and human rights issues," Dave says.

It's a view shared by Chronos Private partner and principal adviser, Chris Giaouris CFP®, who adds that the type of client drawn to ethical investing typically have a responsible, ethical and green philosophy in what they do in life.

"These are people who have fundamental beliefs in the science and facts around carbon emissions. They believe in the impact and damage that some industries and companies are having in the world and want to make a beneficial change through the way they invest," Chris says.

"They want to make a difference, and they want to ensure that their investment portfolios do not support certain industries, sectors and practises, like gambling, tobacco and child labour.

"So, ethical investing isn't constrained to one type of client demographic. Instead, investors are drawn to this type of investing based on their philosophies and beliefs about ESG issues."

In contrast, at Koda Capital, financial planner and partner, Farren Williams CFP®, deals with two types of clients – wealthy families/individuals and non-profits/charitable foundations. Both types of clients are attracted to ethical investing but the conversations and issues surrounding this type of investing can be quite different for them.

> *"I now incorporate ethical investing as part of my conversation with clients, both new and existing. And in so doing, I've discovered that people, regardless of age or gender, are overwhelmingly interested in this type of investing."*
>
> | DAVE RAE CFP®

"For our private clients – wealthy families/individuals – ethical investing is about an alignment of their personal values. This includes what they don't want to invest in, as well as what impact they want to achieve in the world, which might revolve around issues they are particularly passionate about and sometimes, about leaving a legacy of positive change," Farren says. "For families, it is also often a conversation that is further enriched through bringing in multiple generations of the family."

"And for the non-profits, it's typically around value-alignment, mission consistency and reputation risk management, with impact considerations often coming in as a distant third for investing ethically. Stakeholder expectations and engagement are often also important in how they frame-up their ethical investment policy. Boards of non-profits tend to be more reticent when it comes to making less liquid impact investments, though we are seeing greater appetite here than a few years ago and we are incorporating this into their portfolio design."

TALKING TO CLIENTS

When Dave first got involved with ethical investing six years ago, he initially waited for clients to first raise any ethical considerations they had with him. But as his knowledge around this style of investing improved, so too did his approach to discussing ethical investing with clients change.

"I now incorporate ethical investing as part of my conversation with clients, both new and existing," Dave says. "And in so doing, I've discovered that people, regardless of age or gender, are overwhelmingly interested in this type of investing."

But Dave concedes it takes the "right type of conversation" in order for him to draw out his clients' values, goals and objectives to ethical investing.

"It starts with a simple conversation, rather than any formal documents," Dave says. "I like to start off by discussing topical issues, like the recent

DAVE RAE CFP®

POSITION: FINANCIAL PLANNER

PRACTICE: FEDERATION FINANCIAL SERVICES

LICENSEE: FYG PLANNERS

YEARS AS A FINANCIAL PLANNER: 18 YEARS

FARREN WILLIAMS CFP®

POSITION: PLANNER AND PARTNER

PRACTICE: KODA CAPITAL

LICENSEE: KODA CAPITAL

YEARS AS A FINANCIAL PLANNER: 19 YEARS

CHRIS GIAOURIS CFP®

POSITION: PARTNER AND PRINCIPAL PLANNER

PRACTICE: CHRONOS PRIVATE

LICENSEE: FITZPATRICKS PRIVATE WEALTH

YEARS AS A FINANCIAL PLANNER: 13 YEARS

bushfires and the COVID-19 pandemic. By discussing topical issues, it's a useful way to introduce links between bushfires and climate change, or the pandemic and health-related issues, like medical research or how companies have managed their staff during these challenging times."

Dave believes when topical issues are discussed with clients, it becomes a much easier way to link topics that clients are concerned about to their investment strategy.

At Chronos Private, Chris takes a slightly different approach when talking to clients about ethical investing. At the core of his approach is understanding where their "why" sits, as the reason to be investing ethically.

"We're big believers in the 'why' and the 'why' around anything you do," he says. "So, for a client, I need to understand why they want to invest ethically. Are they doing it because they think they'll get a better investment return or they think it's cheaper to invest this way? Are they doing this because they want to make a tangible difference in the world?

"The reasons that people invest ethically are different. But once I understand why they are doing it, that will often direct the conversation. For example, if a client tells me they want to invest ethically because they heard it's the cheapest way to invest, then that type of conversation will go a very specific way, and suddenly, they might realise that ethical investing is not actually what they want."

Instead, Chris takes the time to understand why his clients want to invest ethically and once he is comfortable with their reasons, he begins introducing key investment principles to his clients, including the importance of portfolio diversification and not trying to time the market. From there, he explains how responsible investing can be overlaid on top of these foundation investment principles.

"We try to link these two approaches together – sound investment principals that have stood the test of time, such as diversification, and a client's preference/s around ESG issues," he says.

> *"Fees and costs used to be a concern in ethical investing but not so much these days, as costs have become far more mainstream. So, the old adage that you can invest ethically but you'll have poor returns and pay high fees, no longer stands true."*
>
> | CHRIS GIAOURIS CFP®

"And when you put those two together, that's the framework I use for building ethical portfolios and how I explain it to my clients."

Farren takes a similar approach with her clients at Koda Capital. She says quite often, ethical issues come up through initial discovery conversations and then refined through ongoing review meetings. Farren therefore ensures she raises ethical issues with every new or prospective client, in order to understand how they would like to approach any investment issues and what their priorities are.

"I use a questionnaire that is essentially an expanded version of the Responsible Investment Association Australasia (RIAA) responsible investing fact find. This enables me to better understand my clients' values and priorities. I also use tangible investment examples in the ethical and impact space to help them consider if and how they would like to approach different issues.

"We work through a range of different ethical and impact areas, and build out a framework that forms part of their ethical investing policy, which then informs how we invest their portfolio. However, no two clients are the same, so we tailor the solution to each client's needs. They have different areas of focus and different levels of sensitivity on ethical issues, and different preferences on how they want that translated to their investments."

Farren adds there are, however, often areas of common ground amongst clients when it comes to exclusions, including gambling, tobacco, armaments, pornography, predatory lending, alcohol and human rights abuses. However, surprisingly, she says her clients have varying views on fossil fuels, with some wanting them screened, while others are prepared to take a more pragmatic approach or choose to invest in the transition to cleaner energy.

"And on the impact side, there are some investments that stack up really well across the board for clients, while there are other impact investments that are quite specific and are taken on a client-by-client basis. For example, if it's

> *We manage our clients' concerns by properly understanding what their values and priorities are and then tailoring a portfolio to their individual needs. To do that we also need to understand how different fund managers are approaching these issues to make sure they are fit for purpose when used in client portfolios."*
>
> | FARREN WILLIAMS CFP®

an illiquid social impact bond tackling homelessness or a long-term solar infrastructure project, then they tend to be different client conversations compared to investments in green bonds, water assets or pharmaceutical research and development."

KEY CONCERNS

At Federation Financial Services, Dave says the two biggest concerns his clients have with ethical investing are: investment returns and costs.

"There is a perception that investing ethically means active investing, which can be more expensive from a fund manager perspective, costing the investor more. And while that is true to some extent, there is such a broad spectrum of investment approaches and lower cost options available today, like ETFs, for investors to use when looking at sustainable investment themes. That's how I like to address my clients' concern about costs."

And what about investment returns? Is there a disconnect between a client's ethical values and their expected return on investment?

"Not at all," says Dave. "Regardless of what my clients' ethical values are, they're still looking for a market rate return. They don't want to give something up in terms of that market performance. So, clients don't have to sacrifice returns to invest ethically."

He points to a number of in-depth research studies, including the annual RIAA Responsible Investment Benchmark Report, which compares responsible investment funds against their broader peers in each investment sector, as well as the index.

"The research shows that in most cases, returns are at least as good as the broader market return, if not better. The report shows the average responsible investment fund for Australian equites and international equities has done better than the index in most time periods over the last 10 years.

"And groups like Morningstar and Rainmaker have looked at the performance of ESG and sustainable funds through the current coronavirus pandemic, and have found that ESG and sustainable funds, both in Australia and the U.S., have outperformed the broader market through the COVID-19 crisis."

Chris agrees. He doesn't see a disconnect between his clients' ethical values and their expected return on investment.

"Fees and costs used to be a concern in ethical investing but not so much these days, as costs have become far more mainstream. So, the old adage that you can invest ethically but you'll have poor returns and pay high fees, no longer stands true.

"Ethical investing is definitely becoming more mainstream. If companies are operating in an efficient and environmentally-friendly way, it doesn't surprise me to see that those types of companies are performing better overall compared to others that perhaps aren't as efficient with their carbon footprint or managing their social issues," he says.

"If you're investing ethically just for investment returns, then I would question that. I don't think the concept of ethical investing and the chase for returns work well together. That's because the moment a client's portfolio underperforms, they will blame it on the fact that it's an ethical portfolio and will make a knee-jerk decision to change it.

"So, it's the responsibility of financial planners to help their clients differentiate what they mean between returns versus ethical investing. They don't necessarily have to be linked."

Other than the concerns investors might have investing in particular sectors and industries, Farren adds that a common client concern that she deals with relates to how fund managers are managing ethical issues with their investments, including their level of transparency, scrutiny and stewardship of the capital invested, such as exercising their shareholder voting rights.

"We manage our clients' concerns by properly understanding what their values and priorities are and then tailoring a portfolio to their individual needs," Farren says. "To do that we also need to understand how different fund managers are approaching these issues to make sure they are fit for purpose when used in client portfolios."

Another concern Chris encounters centres on managing client expectations with ethical investing.

"You need to understand that people's beliefs are not all the same and it's vey hard for a portfolio manager to put together ethical portfolios that suit every single specific person's preferences. You just can't. So, people have to accept that their view on investing might not be perfectly aligned with the investment options available to them," he says.

"Clients need to accept a flexible approach to ethical investing, while maintaining sound investment principles, like portfolio diversification."

COMMON MISCONCEPTIONS

What about some of the common misconceptions of ethical investing? Are there any?

"Unfortunately, yes," says Dave. And top of the list is the misconception that ethical investing is a fad and only suited to Millennials. The way he addresses these myths is to use current examples of what is happening both globally and domestically.

"A lot of the capital moving into ethical investments is being driven by some of the largest institutional investors, such as superannuation funds and pension funds. Almost every week, we're hearing of a superannuation fund in Australia or an offshore pension fund that is divesting from fossil fuels. That shows that ethical investing is not just a fad or an option for Millennials. There are some seriously big institutions that are looking at these ESG and sustainability issues, and taking action on them," he says.

"And in Australia, the RBA, APRA and ASIC have all talked about the need for directors to be aware of climate risk as part of their decision-making process.

"So, in dealing with these misconceptions about ethical investing, I like to talk about the approach our regulators and institutional investors are taking with responsible investing."

Dave is quick to add that another misconception proffered about ethical investing is that this style of investing is easier to do in equities compared to other asset classes.

"Not so," he says. "There are now more options available for fixed interest in areas like 'green bonds'. And increasingly, we are starting to see more come out of the alternatives space. For example, some of the interesting things we'll start to see become more accessible for retail investors are investments for disability housing, renewable projects and the like, which fit into the alternatives sector."

In contrast, Chris struggles to identify any misconceptions surrounding ethical investing. However, one that does come to mind is the belief that clients think they have far more options and customisation available to them than is actually available.

"While we do have more investment choice and options available today, it's still very hard for somebody with a modest retirement amount to have a specific investment portfolio that's based on their individual ethical philosophy that's built just for them. You can't hold thousands of stocks and build a well-diversified portfolio if you've only got a small amount of money to invest. Clients need to be realistic about their expectations based on the amount they have to invest."

For Farren, one of the objections she sometimes comes across is the view that impact investing is akin to philanthropy, not investing, which "really just opens the door to a discussion about some of the fantastic opportunities that are now available to target strong financial outcomes along with positive impact".

"It is still a common misconception that in order to achieve the impact, you must accept a lower financial return. There is, however, often a need to accept illiquidity to achieve the long-term impact and so not all clients will be able to invest in these opportunities and most impact investments are only available to wholesale investors."

6 TIPS FOR TALKING ETHICAL

Here are six tips to help you have an effective client conversation about ethical investing.

1. JUST START THE CONVERSATION

Take the time to understand what motivates your client and drives their personal values. This will help you to better work with clients on their goals and objectives as part of their approach to ethical investing. Having a conservation around ethical investing helps planners to develop a deeper relationship with their clients, because you're encouraging a different type of conversation that is centred on your client's personal values and connecting this to their wealth.

2. TALK ABOUT TOPICAL ISSUES

As part of your client conversation, talk about current topical issues, like the bushfires, COVID-19 or the Black Lives Matter movement. By doing so, you can easily link these topics back to ESG and ethical issues. For example, Australia's recent bushfire emergency and the link to climate change. By doing so, it becomes an easier way to link issues that clients are concerned about with their investment selection.

3. BECOME A MYTH BUSTER

Use this opportunity to dispel misconceptions about ethical investing, such as sacrificing returns to invest ethically. Use available and independent research to support your views, and provide tangible examples of investments that meet the client's ethical needs and their financial risk and return requirements.

4. EXPLAIN YOUR INVESTMENT PHILOSOPHY

Explain your approach to portfolio construction, including the importance of building a well-diversified portfolio based on sound investment principles. And then explain your approach to putting a sustainable overlay over the top of that.

5. USE A FRAMEWORK

Develop a framework that helps support your conversation around ethical issues. Don't make an assumption around whether a client is interested or not in ethical investing. Ask the client about their interests and priorities about ethical and impact investing. It's not only important to have this conversation with clients at the start of the financial planning process, but to also incorporate it as part of the regular client review meeting, as client values may change over time, new issues gain attention and new investment opportunities will become available.

6. LINK A CLIENT'S VALUES TO THE INVESTMENTS AVAILABLE

Link a client's values with relevant and available investments. This enables financial planners to have more targeted conversations with their clients around ethical investing, while providing clients with the opportunity to assess whether the investments are the right fit for their values and understand how they complement the other investments in their portfolio.

THE HIDDEN CONSEQUENCES OF USING JARGON

Jargon is part of everyday conversations, but there are hidden consequences of using jargon, which can impact the ongoing relationship financial planners have with their clients. Gabrielle Dolan investigates these hidden consequences and explains how you can avoid them altogether.

> *"Believe it or not, research does show that using jargon and clichés can make us appear more credible (at least at first, and only in certain forums)."*
>
> | GABRIELLE DOLAN

Jargon is all around us. Everyone is moving the needle, pivoting and thinking outside the square. Ironically, the term 'thinking outside the square' was first used in the 1970s, so if you are still using this metaphor, perhaps you are not demonstrating the innovative and creative thinking qualities you are looking for in others.

As there are hidden consequences to using jargon, let's look at the three reasons why we use jargon and the potential consequences.

1. AVOIDANCE

Sometimes people default to jargon when they have something to hide. We often see this when companies refer to cutting jobs (that is, making people unemployed) as 'downsizing' or 'rightsizing'.

In December 2018, General Motors took this to a whole new level when it referred to the closure of five plants in the United States and Canada – with a loss of up to 14,000 jobs – as being unallocated. Instead of saying words like 'sack', 'closure' or' job losses', General Motors referred to these factories and people as 'unallocated'.

2. IMPORTANCE

Some of us use jargon for importance. We use it to make us sound more credible or knowledgeable than who or what we are. Sometimes you feel like people are just talking in clichés, such as 'value-add team player' or 'investment led philosophy with a client-centric focus'.

You see no greater example of this than the increasing number of job titles that make even the most boring jobs sound thrilling. For example, 'Galactic Viceroy of Research Excellence at Microsoft'. This job title was actually assigned to someone who did cloud-related research. Job interviews can be another situation where jargon is also used to sound important.

3. ACCEPTANCE

Finally, and perhaps the most common reason why we use jargon, is acceptance. One of our greatest desires as humans is to be connected to each other and accepted, often at any cost. We act in a certain way to fit in. We dress in a certain way to fit in. We talk in a certain way to fit in. All it takes is a senior person or an external consultant to start using a particular phrase and, in most cases, gradually everyone else starts to use it.

If we start a new job and everyone is pivoting around their robust and sustainable client-centric strategy, it doesn't take long before we start using those words ourselves. However, regardless of why we use jargon, there are consequences.

CONSEQUENCE 1:
LACK OF TRUST

Believe it or not, research does show that using jargon and clichés can make us appear more credible (at least at first, and only in certain forums).

At the University of Munster in Germany, Dr Regina Jucks and Maria Zimmermann published *'How experts' use of medical technical jargon in different types of online health forums affects perceived information credibility: Randomised experiment with laypersons'.*

The results showed that using high amounts of jargon when talking to other medical experts resulted in higher credibility than using less jargon in these forums. Conversely, the opposite was true for the layperson, where using low amounts of jargon resulted in higher credibility than using high amounts of jargon. However, in both situations, the more jargon was used, the less it was perceived as trustworthy.

Another study at the New York University concluded there was a lower level of trust when vague words or phrases were used (such as, 'An apology would be needed if my words have caused offence') and a higher level of trust when more concrete words were used (such as, 'I am sorry').

We tend to use jargon when we want to avoid something but, ironically, the more you use jargon, the more people think you are just flat out lying. So, when we overuse jargon, people trust us less and doubt our intentions.

CONSEQUENCE 2:
MISCOMMUNICATION

As well as lack of trust, overuse of jargon can mean people disconnect from your message, feel isolated and ultimately, lead to miscommunication. If everyone understands the jargon, then it can be a very efficient way of communicating. But beware, just because people are saying 'move the needle', does not mean they understand the phrase. What's more, their interpretation may be different to yours.

In 2014, Sir Richard Branson wrote a LinkedIn article titled 'Why you should do away with jargon'. His opening paragraph read:

"Some people love speaking in jargon, using fancy words and turning everything into acronyms. Personally, I find this simply slows things down, confuses people and causes them to lose interest. It's far better to use a simple term and commonplace words that everyone will understand, rather than showing off and annoying your audience."

KNOW WHAT YOU'RE SAYING

In summary, unless you are positive everyone understands the jargon term you are using, you are potentially confusing them, annoying them or losing their trust. As George Orwell advised, 'Never use a foreign phrase, a scientific word or a jargon word if you can think of an everyday English equivalent'.

"Some people love speaking in jargon, using fancy words and turning everything into acronyms. Personally, I find this simply slows things down, confuses people and causes them to lose interest. It's far better to use a simple term and commonplace words that everyone will understand, rather than showing off and annoying your audience."

| SIR RICHARD BRANSON

Gabrielle Dolan is an author and international speaker on leadership.

A SUNNY FUTURE

*Through his close involvement with not-for-profit SunnyKids, **Greg Tindall CFP®** is seeing first-hand how mentoring through sport is having a positive impact on the lives of vulnerable youth.*

future2
the Foundation of the Australian Financial Planning Association

future2 GRANT RECIPIENT

> *"SunnyKids demonstrates a high degree of accountability in reporting and measuring its results, and I consider this organisation to be a worthy recipient of the Future2 grant."*
>
> | GREG TINDALL CFP®

GRANT RECIPIENT: SUNNYKIDS

GRANT AMOUNT: $8,000

ENDORSED BY: GREG TINDALL CFP®

FPA CHAPTER: SUNSHINE COAST

There's a saying at SunnyKids: It takes a village to raise a child. That's because each year, Queensland's Sunshine Coast community identifies up to 5,000 at risk children. In response, this not-for-profit provides up to 8,000 nights of emergency accommodation, as well as referral counselling, to help keep kids safe.

And in order to keep these kids safe, SunnyKids partners with schools and local communities to identify and support vulnerable children. "That's why we promote the adage, 'It takes a village to raise a child'," says SunnyKids general manager, Kathleen Hope.

"For 20 years, we have been working with children on the Sunshine Coast who have been identified by their schools as 'red and amber' zone children. We partner with these schools and communities to move these children into the 'green' zone," Kathleen says. "These students suffer significant social disadvantage and are at increased risk of entering the juvenile justice system."

SunnyKids works with schools and their vulnerable students through its Mentoring Through Sport (MTS) program, which Kathleen says not only changes the lives of these kids, but also provides schools with an opportunity to grow their capacity to care for vulnerable students.

FIRST-HAND INSIGHTS

MiQ Private Wealth practice principal, Greg Tindall CFP® has been an active supporter of SunnyKids for over eight years. He is involved on the committee of the SunnyKids signature fundraising committee and is a member of the SunnyKids P100 Club, which is a micro-philanthropy program where members donate a minimum of $100 each month.

"I am a proud member of the SunnyKids P100 Club and I am actively involved in promoting this charity through the local business community," he says.

Through his involvement with SunnyKids, Greg has seen first-hand the positive results and impact the MTS program is having on the lives of vulnerable youth.

"I attended the MTS program held at a local primary school and saw for myself the positive impact the program was having on the vulnerable kids in attendance. The MTS program delivers wonderful results by mentoring disadvantaged and 'at risk' kids in our local schools," Greg says.

Greg also saw a natural alignment between the work being undertaken by SunnyKids with Future2's philosophy and objectives of assisting disadvantaged youth, which encouraged him to endorse SunnyKids' Future2 grant application for its MTS program.

"I am delighted we received the $8,000 grant. SunnyKids demonstrates a high degree of accountability in reporting and measuring its results, and I consider this organisation to be a worthy recipient of the Future2 grant," says Greg.

MENTORING THROUGH SPORT

SunnyKids collaborates with the Brisbane Broncos to deliver the MTS program. Jack Reed, the Broncos/ Sunshine Coast Game Development Officer, co-facilitates the MTS program

The Mentoring Through Sport program is turning destructive practises around, while keeping kids safe.

at schools. The program also uses professional support workers who participate in the weekly programs, by working through activity-based sessions that support participants to improve their nutrition, self-esteem, self-discipline, self-belief, and physical and mental health and wellbeing.

The MTS program specifically targets and evaluates desired social outcomes through professionally applied pre and post assessments through which teachers assess the progress of students.

"Past experience indicates we can expect improvement across all measures in well over 90 per cent of cases and significant improvement in over 75 per cent of cases, including those referred for more intensive support," says Kathleen.

The MTS program directly benefits 80 high to medium risk students in eight schools across the Sunshine Coast and Noosa local government areas.

"Some of these kids are very hard to have in the class room, consequently, MTS is strategically delivered as a withdrawal program during regular class time, providing respite for teachers and classmates alike," says Kathleen. "Family and care groups also benefit, with changes in our students' behaviour also extending to their homes, which benefits parents and siblings."

In addition, Kathleen adds that up to 32 students who are deemed to be 'high risk' receive additional support through a SunnyKids' practitioner consultant, who works in partnership with the school's 'student support service team'.

"The MTS program is turning destructive practises around, keeping kids safe, diverting them from drugs, violence and other crimes. Through our approach to prevention and early intervention, SunnyKids is breaking intergenerational cycles, and creating tomorrow's employees, parents and citizens."

Through the $8,000 Future2 grant, SunnyKids will be able to engage with 10 students as part of the program.

"This program is offered free of charge to schools and without the support of Future2 helping us make a change in our communities, our children may face a future of significant harm, social and family breakdown, and suffering," Kathleen says.

"However, the direct benefit of this grant to these children is tangible and life changing. This program has had enormous success in a number of schools across the Sunshine Coast, by providing participants with an increased sense of self-worth and confidence, healthy management of anger and conflict, and enabling them to have a better understanding of health, nutrition and wellbeing."

COMMUNITY CONNECTION

According to Kathleen, all students who have participated in the program have demonstrated improvement. However, she adds there has been instances where participants have reached out to SunnyKids about self-harm, suicide and unsafe home environments.

"It is frightening to imagine how these children would have received appropriate intervention and support if they had not been offered a safe opportunity to do so," Kathleen says. The MTS program creates a segway to behaviour change and community connection for youth at risk, while effectively interrupting the cycle of vulnerability, systemic dependence and family dysfunction."

Greg is most proud of the support the MTS program is providing for vulnerable young Australians.

"The program is giving these kids a realistic chance to be the best that they can be," he says. "And importantly, the program is also designed to identify kids at high risk, and works quickly to address the issues with them before it's too late.

"The MTS program is a great example of a well-structured and planned initiative to engage vulnerable youth and provide them with a greater capacity to reach their full potential.

"The program also aligns with the Future2 philosophy of engaging with disadvantaged youth through mentoring to provide them with the skills required to lead a happy and productive life."

CPD MONTHLY

Each month, *Money & Life* publishes two CPD Monthly articles. The following are overviews of this month's two CPD accredited articles. To read the full versions of each article, and to receive your CPD hours, click on the Learn tab at moneyandlife.com.au/professionals

ARTICLE 1

ROB LAVERY
KNOWIT GROUP

LEVERAGING THE HOMEBUILDER PROGRAM

The HomeBuilder program can be used in conjunction with a number of other incentive programs to reduce the cost of building a new home by over 10 per cent for many Australians. This article examines the pros and cons of the HomeBuilder program and identifies the sections of the population best placed to maximise this scheme.

WHAT YOU WILL LEARN

- HomeBuilder criticisms
- HomeBuilder opportunities
- State-based grants and dispensations
- Federal programs and incentives

This article is worth **0.5 CPD HOURS**

ASIC knowledge area **FINANCIAL PLANNING**

FASEA CPD areas **TECHNICAL COMPETENCE**

ARTICLE 2

BENJAMIN MARTIN
BT

LIFE LESS ORDINARY: INSURANCE FOR BUSINESS OWNERS AND HIGH-NET-WORTH CLIENTS

With more Australians seeking out life insurance advice following the COVID-19 outbreak, the wealth protection needs of many clients tend to focus on paying off their mortgage and covering living expenses. However, for high-net-worth clients, other priorities need to be considered, such as business ownership.

For self-employed clients, there are a number of additional factors for financial planners to consider, such as an involuntary early exit from the business. This article highlights where additional advice needs may arise, with a specific focus on business owners.

WHAT YOU WILL LEARN

- Appropriateness of existing insurance cover
- Succession advice
- Identifying the advice 'need'
- Funding the buy/sell agreement

This article is worth **0.5 CPD HOURS**

ASIC knowledge area **LIFE INSURANCE**

FASEA CPD areas **TECHNICAL COMPETENCE**

To read these articles in full and answer the questions for CPD hours, go to the Learn tab at moneyandlife.com.au/professionals

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