



CARNBREA INSIGHTS

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Carnbrea Asset Management delivers exclusive and customised Investment Solutions to the changing needs of our client base.

AN INTRODUCTION TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING

Environmental, Social and Governance Investing (ESG) is growing as an integral part of the investment decision-making process for retail and institutional investors alike. This approach gained momentum in the 1970s as socially responsible investing after one of the most renowned examples of selective divestment against the apartheid regime in South Africa.

Today, ethical considerations and investor values continue to drive ESG investing, but the field is also rapidly expanding and evolving. With ESG investing growing rapidly in today's society, it is common for retail and institutional investors to raise the question:

WHAT IS ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING?

ESG investing is an umbrella term for investment-related activity that incorporates Environmental, Social and Governance considerations into the investment decision-making process.

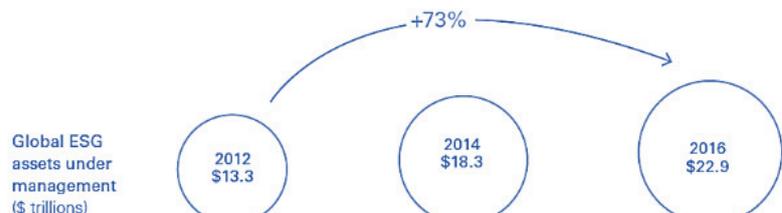
The spectrum of ESG considerations cover environmental issues such as the conservation of natural resources and pollution; social issues relating to working conditions, employee relations, the health and safety of local communities; and corporate governance issues such as executive compensation, corruption, and board diversity.



There is a broad array of issues and ultimately, investors have the option to consider various investment approaches.

WHY WILL ESG INVESTING BE AN ENDURING TREND?

The growth in investor appetite worldwide represents a complex phenomenon driven by local and global factors. The figure below shows the rapidly growing global ESG assets under management as a result of investor appetite shifting from traditional investments to ESG investments.



Source: Vanguard Research

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Factor #1 - A changing global environment

Environmental factors such as climate change, increasing regulatory pressures, and tightening privacy and data security pose new risk factors for investors. Sustainable companies are better adapted in facing global sustainability challenges and therefore are better investments in providing stronger risk-adjusted returns to investors.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING

Factor #2 - Shifting investor preferences

There is an intergenerational wealth transfer equating to \$30 trillion USD from baby boomers to a younger generation, who demand for investments to be better aligned to their values and beliefs. Figure 2 (below) illustrates how changes in investor preferences are driven largely by women and millennials, who are progressively more inclined to increasing their ownership in sustainable investment products.

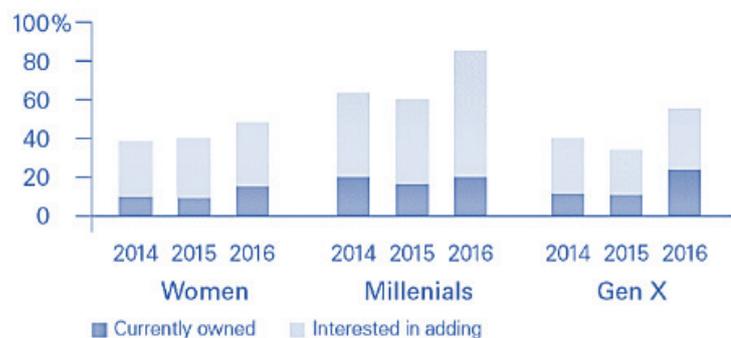


Figure 2: ESG growth supported by demographic change driven by women and millennials

Source: Vanguard Research

Factor #3 - Advancing data and analytics

More systematic, quantitative and financially-relevant data is now broadly available, allowing active managers to better integrate ESG issues into their investment process to identify risks and opportunities.

FOUR COMMON INVESTMENT APPROACHES

There are four common approaches to ESG investing. Often these approaches are combined to achieve the desired goal.



ESG integration

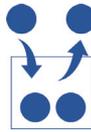
ESG integration is a form of active investing that systematically includes financially-relevant ESG information to complement traditional investment analysis with the purpose of achieving better risk-adjusted returns.



Active ownership

Active ownership is the use of internal and external resources to positively influence corporate behaviour on ESG-related issues. This may include constructive dialogue with the company board, collaborating with advocacy groups, drafting letters with recommendations to companies or even voting for a shareholder resolution requesting corporate change.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING



Portfolio screening

Exclusionary (negative) screening

Excluding or underweighting securities from a certain region or organisation based on specific ESG-related criteria.

Inclusionary (positive) screening

Purchasing or overweighting securities from companies deemed to have higher ESG ratings than its industry peers.



Impact investing

Targeted investments often made in private markets with the dual objectives of creating positive environmental and/or societal impact alongside financial return.

DOES ESG INVESTING AFFECT YOUR FINANCIAL RETURNS?

Socially responsible investing does not need to come at a detriment to financial returns. Recent research reported that core responsible investment Australian share funds and multi-sector balanced funds have both outperformed their benchmarks over three, five and ten years. Likewise, the Harvard Business School concluded that portfolios providing material ESG metrics provided superior returns and may outperform in the medium to long-term.

“Portfolios providing material ESG metrics provided superior returns”

At Carnbrea, we believe that by investing in organisations with superior corporate responsibility practices, we can safeguard and enhance returns for our clients. As such, our tailored investment solutions will seek to reflect the ESG issues that clients care most about.

As members of the Responsible Investment Association Australasia (RIAA), our investment team is experienced in assessing ESG considerations for use in our investment decision-making process. We will work with you from start to finish to seamlessly incorporate ESG objectives into your tailored portfolio. Currently, our team is helping an institutional superfund investor transition their conventional portfolio to encompass ESG considerations.

Our experienced team of advisers welcome the opportunity to discuss your particular requirements and how we may facilitate you in making the change you desire.

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