

HTM: Ethical Investing & Your Super (Auto-Transcript)

Sat, 10/17 5:16PM 28:00

SUMMARY KEYWORDS

company, esg, ethical, investment, investing, funds, super, investment strategy, money, important, ngs, proxy voting, members, tobacco, positive impact, invest, bit, portfolio, voting, superannuation

SPEAKERS

Skye King, Kate Campbell

- K** Kate Campbell 00:04
Hello and welcome to How to money, a financial education podcast for young Australians aimed at opening up the conversation around money. In each episode, your host, Kate Campbell brings in a variety of guests to explore everything from buying shares to starting your own business, all with the aim of kick starting your personal finance journey. Just a quick reminder that everything we cover in this podcast is for financial education purposes only. And we are not giving you any advice. If you do want advice, please seek the help of a qualified and competent professional and do some research. Remember, it's your money. So take control. Hi, Skye, thank you so much for joining me on the How to money podcast today.
- S** Skye King 00:46
No worries. Thanks for having me.
- K** Kate Campbell 00:48
Now before we get started, I'd love if you could explain a little bit more about your role at NGS Super and your career to date.

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Skye King 00:55

Sure, I'd love to. My name is Skye King. And I joined NGS Super in November of 2018. So my current role is senior manager of ESG and responsible investment. So in that role, I drive the funds responsible investment strategy, and I work with the entire investment team to integrate and monitor the ESG within our quarter investment portfolio. So NGS Super is an industry super fund. And we have approximately 115,000 members and manage approximately 11 point 7 billion in funds under management. And that's across a variety of asset classes. So we serve mainly the education and care sectors, but we're open to the public meaning you don't have to belong to those sectors to join a GS super. Prior to being an NGS Super, I worked with another small industry super fund called Quick super. And prior to that I worked with administration firm that mainly administered for industry super funds.

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Kate Campbell 02:04

Awesome. So what I wanted to talk about today, and this is really relevant to your role, and I think a lot of people are really interested at the moment all about ethical investing. And I think you're the perfect person to answer some of these questions for us. So what I thought I'd start off with is, what is ethical investing?

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Skye King 02:22

Yeah, it's a good question. And yes, I love the topic. So we'll get right in there. Ethical investing is making investment decisions based on your morals or internal belief system. So with ethical investing, there's no one size fits all. Another term for ethical investing is also socially conscious investing. And there's a few other terms that you can throw in there as well. But ethical investment strategies typically avoid what the industry refers to as sin stocks, or they could be companies that are involved in industries such as gambling, alcohol, smoking or firearms also feels there's a big long list. But that in a nutshell, that is ethical investing.

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Kate Campbell 03:07

Yeah, absolutely. And I think it's quite difficult to define it because everyone's like ethics is so completely different. And what I might think is an ethical stock, you might not, and another person might think completely differently. So it must be quite challenging, trying to work out where to draw the line.



Skye King 03:24

Yeah, and look, that's why it's always really important. Whenever you're looking at, you know, an ethical investment strategy or a product that you do go and have a look at those that product documents, so whether it be the PDF document, or information on the website to actually look and see how they define their ethical investment rules. And generally ethical investing will have negative screen. So they will screen out some of those in stocks or areas that they don't want to be invested in. But there can also be positive screen also. So they'll kind of highlight the areas which they are more attracted to in terms of investment. So that's why it is so important that you know what you're signing up for to make sure that that aligns with your own values belief system.



Kate Campbell 04:13

Absolutely. And I think this, it can sometimes be a little bit confusing when you are looking for an ethical investing type investment option. And because so many of the funds define it differently, and they use different words. Just a couple I've seen recently, impact investing ESG sustainable socially responsible, are they all essentially the same idea or others differences between them?



Skye King 04:37

Yeah, it's so confusing. I even get tripped up sometimes. But what I will say is in one way, shape or form, they are all related and trying to achieve a similar goal and that is to do better. So when explaining this to people, I always like to start with explaining the acronym ESG. So ESG is the broad term that stands for the E being environment, the S being social, and the G being governance. So generally, you can categorise all the potential issues that could affect an investment from an ESG point of view, under the E, the S or the G. So for example, an integral part of our investment strategy is that we believe that ESG integration within the investment strategy and process is really important as it gives you are because the funds sorry, another tool to reduce risk can improve risk adjusted returns for members. So to that end, like a climate related issue that a company might be facing that would fall into the E for environment. And then you might have a human rights issue, or violations that a company might be facing that would fit under the S category as a social issue. And then issues surrounding gender diversity at board level would be a governance issue. So I really find that defining that ESG is a good sort of port of call, when thinking about sort of responsible investment more broadly, you know, you can get a little bit more granular. And you can go into ethical investing, which we've discussed earlier is more morals and values based. And you know, there can be that positive screening element, which then brings us on to impact investment, which is a very big buzzword of like, you know, it's all over the place. So when you're focusing on sort of

impact investing, it means you're focusing your investment efforts in companies that are having a positive impact on society. And again, that's really broad, like positive impact can be defined in many, many different ways. So an example where we utilise positive impact is via our social impact goals. So we currently have four social impact bonds that are active. And it's as simple as investing a sum of money for which we get a financial return. And the investment commitment is used for addressing social needs and society. And they can vary.

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Kate Campbell 07:12

Yeah, so I think it's quite interesting that approach, whether you think of it as I'm putting my money, in a impactful way, I'm going to invest in companies that I believe in and doing things better for the world, or that reverse approach, which I think a lot of ETS uses just we're going to have the set index, and we're going to strip out all of the companies that don't fit our criteria is how do you approach it? Do you usually do start with zero? Or do you start with 100 stocks?

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Skye King 07:39

So with NGS Super, we our investment strategy, we appoint specialist, third party investment managers to manage our portfolio. So each of our managers have a very different process. And we spend a lot of time making sure that we understand that process, and we think that processes fit for our portfolio. But what we do is, across our entire portfolio, we have three, I guess you would call them ethical exclusions, and that is your negative things are taken out of the investment universe regardless. And that's out there in relation to tobacco, thermal, coal, and controversial weapons. And however, then our main priority is ESG integration, and we kind of discussed what the E and the S and the G means earlier. But where that becomes important, it's more of a flexible framework, because you're looking at companies. And we promote our investment managers to look at companies with good ESG scores, because companies with ESG controversies generally can attract volatility or impact to their investment returns because of said controversy. So we kind of take a hybrid approach whereby we have those few exclusions across our whole portfolio. But we also try and find best of breed companies through the ESG framework, making sure it's integrated with the entire investment process.

K

Kate Campbell 09:11

And I think people are really starting to pay a lot more attention about what these Australian listed companies are doing it just in the media in the last few weeks, I've seen a few examples of companies being sort of heavily criticised for either environmental issues

or governance issues. And actually, it's I think it's quite good to see that people are more interested and sort of care a bit more about what these companies are doing behind the scenes



Skye King 09:36

100% and like were very big on active ownership and engagement. So ESG integration goes hand in hand with being an active partner and engaging with your companies because no one is perfect, right? No company is going to get through loss without any form of hiccup. So yeah, you don't make money by dropping a company at the first sign of trouble.



10:00

first time they make a mistake, what we do is as long as there's not systemic and really major issues with the company that does warrant investment, active ownership and engagement is a key tool to influence change. And that is a value creation tool. Because if you've got a company that can positively change through engagement from various shareholders, and you know, the superannuation industry is fairly collaborative on this front, so we can essentially combine our investment power and really get a seat at that table with those companies to say, This isn't good enough, it needs to change. And this is what we want to see the company do. And that's a loud voice. And just, you know, of way, we have seen a few controversies. And we are moving the dial with really, really proactive engagement, which is good.



Kate Campbell 10:54

And I think, yeah, super funds are putting their names out there in terms of what they believe in and how they're voting at the moment. Because often just one shareholder, your votes not going but individual votes are going to make a difference. But if you have a lot of shareholders, and you've got the shareholders are talking to the superfans, and the members of the superfans actually telling the Superfund, this is what I believe in, that's actually really starts to move the needle doesn't it?



Skye King 11:18

Hundred percent. And I see all our members inquiries, and I love hearing from members because it makes me feel like what I'm doing is actually meaningful. And people do care about this. And I get regular inquiries from active members of all ages, which is really

interesting, on how we're expected to vote on x, y Zed company's upcoming AGM, and this specific resolution, how are you voting in relation to that I want to know, and that for me is beautiful engagement with members. And it makes me know that those members are actually engaged with their superannuation as well, which is, you know, an even bigger win. The other thing that's really awesome, we disclose our proxy voting live. So pretty much, you know, 24 to 48 hours, depending on where the meeting occurred in the world, our members can log on and see exactly how to fund barded. And, you know, if that's, if that's not in line with their expectations, you'll be sure I'll be hearing from from the members. That special.



Kate Campbell 12:19

Yeah. And that's probably something a lot of people haven't thought about doing. I mean, I haven't personally thought about doing that actually, sending my Superfund message and going, how you voting is there anywhere online, I can find out how you're voting on different company issues for the things I'm invested in



Skye King 12:35

hundred percent. And there's two elements to that as the retrospective How have you voted? and having that open disclosure, transparent disclosure about how funds are doing that? And the second thing is their proxy voting policies. So let me read and understand at a future AGM or proxy voting meeting, how will you vote and those policies should be available online as well for my super fun. So that's a really cool thing for members to really get up to speed on if they're interested in that in the topic.



Kate Campbell 13:08

Yeah, absolutely, it's a good way to stay a bit more engaged with your money as well. Because it may be many decades, I know for me before I'm ever going to be able to touch my super. So I definitely should be knowing what my company which way my super fund is voting. So that's definitely something I think is a good idea to do. Now, when just say I want to look at an individual company, and I'm trying to figure out whether it's ethical maybe. I guess that's really, broad, but how do I work out? If the company is operating in line with my values? Where would I stop from to work that out? And what should I be looking for?



Skye King 13:46

Yeah, so ethics, if you were trying to make an assessment as to whether a company was

ethical or not. That's really hard, because ethics are very subjective to any individual, right? So I would recommend, if you were wanting to make an assessment on how sound a company is, from an ESG point of view, and I know that's broad as well, that's a little bit easier. So from the ether, the environmental side of things, you can look at how the company operates and the impact, whether it be positive or negative on the environment, you know, have they been polluting the environment? Are they negatively contributing or positively contributing to the circular economy without big plastic war that we've got going on? Has the how, how is the company being a responsible corporate citizen in promoting the longevity and sustainability of our environment? So a lot of listed companies these days have all of this information available on their website. So they normally have a CSR report, corporate social responsibility report or similar that you can download and read through and I know it sounds like it is a long report, but there is some really valuable information in those in those reports on the social side. So that's the S and ESG. You can look at how a company manages their relationships with customers, how they treat their staff, stakeholders, and importantly, the communities in which they operate and serve, again, that CSR report can be gold on that. And also just doing a quick Google and looking at, you know, clicking the little news tab. Because generally, if a company's done something wrong in any of these areas, someone will have reported on it, you know, always just filtering through the news, if you've got a specific company that you're wanting to look at is definitely a good way to go there. And then finally, on the governance side, that's where you're looking at the company's leadership. So that includes the C suite at management and the board. So looking at their remuneration reports, their latest latest auditor's report,



15:55

you know, you can get some insight of looking at those reports into how well the company is controlled from an internal controls point of view. And that comes back to audit as well, how they treat their shareholders. And recently another buzzword is culture at the company. Because I think we all know that when there's a bad cultural, systemic cultural issues that accompany that generally leads to poor governance practices. So culture is a bit of a hard thing to get a read on. Again, the news filter, and searches is a good way to do that. But yeah, culture is very important.



Kate Campbell 16:34

I know one of my friends actually looks at Glassdoor reviews of previous employees for that. Often people only write reviews if they really, really happy or really unhappy.



Skye King 16:44

Yeah, and look, that's not a bad I do like that. Like, obviously, as a super fund, we have access to, you know, I'm trying to tailor this for you know, a member to be able to go and get publicly available information. But as a super fund, we have access to a lot of information that gives us very deep insight into the E s and the J of every one of the companies that we invest in. So it's definitely worthwhile to do.



Kate Campbell 17:11

And I think if you do a bit of that digging it if you are trying to invest individually in different companies, you might find out all sorts of things, not just from the the ethical standpoint, but you might find out if there's any red flags as well, because I think often if you're looking for those ESG elements, they do bring up just searching for each of them does sort of show you if there's any red flags about a company as well.



Skye King 17:33

Yeah, completely. I totally agree.



Kate Campbell 17:36

Yes, sir. I was wondering if you are able to give us an example of a investment you've made recently in a company that fits under your ESG framework?



Skye King 17:45

Yeah. So I think, for us as a super fund, we appoint investment managers, so we aren't actually they're responsible picking individual spot stocks. However, there are super funds that do have internal investment teams, where that is their sort of purpose and role. And then they're super funds that have a hybrid approach where they have some, you know, outsourced investment managers, and they'll internally manage some funds as well. So for us, when we're choosing because we're one step removed, we spend a lot of time looking at the investment processes of the managers that we appoint, in terms of how they integrate ESG truly into their investment process. And what we look for there is I'll use the word true and to get integration. So we want to say that E, S and G risks are actually being considered when they're deciding whether or not to put a company or company A or Company B into the portfolio. Because the other important thing is we can't all have 100 companies in our portfolio that has a plus on their ESG rating. But what we want to see is when as a company that might be a C on ESG, that the risk and the return has been

processing accordingly. That that is a company that has some work to do on ESG. And that's an engagement opportunity. So then with that these managers we expect them to have an ability and a proven track work record to engage with these companies, because that's where shareholder value is created, you know, bringing a company from a C, all the way up to an A. So not only does NGS Super directly engaged with companies within our portfolio, we expect our investment managers to do that engagement as well.



Kate Campbell 19:37

Yeah, one of the common arguments, I think, against ESG and ethical investing is that it underperforms over time are you able to comment on that?



Skye King 19:47

Yeah, that's a hard one. Look, I think what I can say is I think that considering ESG risks when building an investment portfolio definitely improves.



20:00

Term risk adjusted investment returns. And that's what we focus on at the end of the day, when a company is faced with an ESG controversy is generally affects the share price and effect could be short term volatility, which is, you know, as expected, or it could be systemic and long term. And that's what we're trying to avoid by integrating ESG into our investment strategies. By virtue of this, we're hoping that that then improves long term risk adjusted returns.



20:31

Hmm. And because often you weed out red flags, yeah, weed out bad companies as well while you're doing that research. So even though it might not sort of outperform per se, and might outperform because you've taken out,



Skye King 20:44

it's almost like you can sometimes see the perfect storm brewing. You know, it's not always the way that you can be in that position. But, you know, if you'll live to the ESG issues of your portfolio, and the stocks that are in your portfolio, and you having regular dialogue with the companies, which all of our managers are, you know, that sort of identification is key to reduce risk and improve the long term returns of the portfolio?



Kate Campbell 21:10

Absolutely. So, do you think as investing actually has a positive impact on the world?



Skye King 21:15

Again, with ethical investing, I think it comes down to a set of those beliefs and values, but through an ethical exclusion lens. So that's where you're sort of taking out, you know, those areas where you've said, no, that breaches my ethical or moral values. We don't want to be invest in that. If you asked me, you know, if refusing to invest in tobacco manufacturers and producers was gonna have a positive impact on the world, I would say 100%. Yes. Like, why, I guess, you know, it's proven that there's no safe use of tobacco, it contributes to the early death of two out of three smokers. So there's a good reason. And then you turn your mind to the impacts of the healthcare system worldwide from tobacco use and addiction. And there's also really prevalent human rights issues within the tobacco industry, which is not something that we think is accretive to shareholder value, and just introduces more risks. So depending on the issue, I definitely think that ethical investing can have a positive impact on the world.



Kate Campbell 22:18

And as more super funds, which sort of have a massive amount of power here take money off the table from these companies that aren't sort of within these ESG framework and put money into companies that are doing really positive things and sort of inventing new things and environmental things for Australia that will start to have quite a big change as that money shifts slowly as sort of more people tell their super funds they want to their money invested within a sort of ESG framework



Skye King 22:46

100%. And, you know, it really does, there's been a lot of divestment of tobacco over the more recent time, and GS super and a lot of other super funds and members of the tobacco free portfolios movement, which is a really, really important initiative headed up by Dr. Bronwyn King, there are so many reasons why we shouldn't be investing in tobacco producers or manufacturers. So you know, it's a really good, really good example of how you know, the superannuation industry can actually have a positive impact on such an important issue.



Kate Campbell 23:22

Absolutely. And before we finish, I was wondering if you can provide some suggestions on how other young Australians can take control of their money and invested in line with their values and beliefs.

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Skye King 23:33

Sure, love to. So advice for young Australians, I would say, before you start looking at all the products that are out there, because it can be overwhelming. You know, we've spoken this, you know, the last 20 odd minutes about how subjective some of these definitions and meanings are, I would suggest you take some time for yourself, you and just a piece of paper and jot down what's important to you as a person, what seems to your values and beliefs. And the reason I say that is because there are so many options out there. And it's really good to start without any influence, just that blank sheet of paper and you jot them all down. Then after that, I would suggest starting looking at where your super is invested. So that's always good to know, then read the PDF, which can be a little bit boring, but I urge you to read it. And also most funds these days have a really robust responsible investment section on their website, which can be a little bit kinder to read. You know, it's less heavy than the PDFs, it still is important to read the PDFs and understand, you know the ins and outs of the options that you're actually in. But definitely suggest digesting some of the information on the responsible investment sections of the websites out there because they are it is very user friendly. So if you're reading things that aligns with your values, That's great. But if not, you need to look at other options that are out there, you know, either other options within your fund or other super funds that are offering similar options and just do that by are embarking on the same process, the responsible investment section of their website, the PDFs, or the offering documents for the investment options. But one thing I'd love to stress is before making any investment decisions to switch your money or, or anything like that, I would highly recommend speaking to a financial planner or someone authorised to give financial advice. It may sound daunting, but it really isn't, you know, most super funds these days like NGS offer this service to their members. And it can be as simple as a phone call. But it's really important. And the reason why it's so important to chat to a financial planner before making these decisions is as you pointed out earlier, you know, we've got a long time to invest before we can actually realise these retirement savings. And we want to make sure that working as we think and we expect them to be working and that we have enough for retirement. So you also need to ensure that your investment meets the objectives and needs. So a plan that will ensure that they take into account not only those values and belief that beliefs that you've spent so much time sort of trying to determine yourself and doing a little bit of research self inform yourself. But they'll also take into account important things like diversification, you know, of your investment strategy, your risk appetite, so how likely or how comfortable you are with negative returns, and then your

overall investment strategy and objectives. And I think we can't lose sight of the fact that superannuation is that vehicle to retirement. So we can't just blindly go values and beliefs, this is where I'm putting all my money, we really need to have that grounded view. And that's why a financial planner is really, really helpful in that sense, just to make sure that we're still meeting the overall objective superannuation, which is, you know, to give us a great retirement.



Kate Campbell 27:06

Hmm, absolutely. Well, Skye, thank you so much for coming on today. If people want to learn a little bit more about you and NGS Super, where should they go?



Skye King 27:14

I think, why don't you head over to the NGS Super website, or yet, contact us. We'd be all happy to chat to you.



Kate Campbell 27:24

Wonderful. Well, thank you so much for coming and sharing a little bit more about ethical investing on the podcast today.



Skye King 27:30

Thanks for having me. I really enjoyed it.



Kate Campbell 27:33

Thank you for listening to this episode of the How to money podcast. If you enjoyed this please leave us a review on Apple podcasts and send any questions our way via www.howtomoney.online. You can also catch us on Twitter and Instagram @HowToMoneyAUS and we'd love to hear from you. You've been listening to the How To Money podcast.