



## MONEY DUE REWARDS:

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### Are You a Green Investor?

The idea of “socially responsible investing” is hardly a new one. A number of years ago, some smart characters in the investment world discovered that there were a fair number of wealthy individuals about who were sufficiently motivated about social issues that it would actually influence their investment decisions. The result was the release of a rash of SRI’s, i.e. “socially responsible investment funds” by various fund managers.

For a time, these performed fairly well, however after a few years and some disappointing investment returns, their popularity declined somewhat. Since then, with immense amounts of money being made in the resources boom, many investors seem to have decided that being “green” is a luxury that they can only afford if it’s profitable. Even now, it appears that investors are generally unlikely to choose such a fund if they think their investment returns will suffer.

The idea has not gone away, however, and what we have seen is the incorporation of “environmental, social and governance” (ESG) factors into the mainstream investment world. The idea here, is that there are a number of such factors which, if incorporated in a company’s business, will actually improve the financial results rather than damaging them. For example, excellent board skills, corporate governance standards and employee engagement by management can be cited as features of some of the best performing companies with superior financial results. This concept, expounded in Goldman Sachs’ 2006 report entitled “Good corporate governance = good investment returns”, has really opened the door for social issues to become much more of a mainstream issue in the financial world. In 2006, for instance, the UN developed a series of principles for responsible investing called UNPRI, (i.e. UN Principles for Responsible Investment). Since that time, it appears that almost half of the Australian funds management industry has signed up for the implementation of these.

So what does all of this mean for investors? Does it mean that investment returns are going to be low from now on?

In my view, not necessarily, but if you invest in managed funds it may well mean that you are a “green investor” whether you decided to be or not. In the case of some fund managers, it may well mean nothing much, as it is pretty easy to sign a protocol and to start using green stationery and logo with very little changing at all in relation to the actual investments being placed.

Nevertheless, with such a major degree of uptake by the funds management industry, I don’t think that there is much doubt that it will affect life in a pretty real way. For a start, companies whose business practice runs foul of the ESG principles may well find themselves under real financial pressure, as large and influential investors desert the share register. On the other hand, there will inevitably be “market darlings” of the ESG crowd – stocks in industries such as renewable energy – which will attract sizeable investments and will consequently trade at high prices.

In either case, there will be winners and losers from an investment point of view. See a professional advisor if you would like more information about the world of “ethical” investing.

Greg Southwell is an authorised representative of Lonsdale Financial Group Ltd, an Australian Financial Services licensee. He is also a SMSF SPECIALIST ADVISOR™, a CA – FINANCIAL PLANNING SPECIALIST, and a director of Dawson & Partners, a Cootamundra based accountancy and financial advisory firm, which was established in 1913. Dawsons have a division specialising in self-managed superannuation and sharemarket investing. The information in this article is general advice and has been prepared without taking into account your objectives, financial situation or needs.

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