Dear Friends

Yes, ethical economists do exist

And that's where the whole 'Ethical Investing' (or Environmental, Social, Governance Investing – ESG) debate becomes interesting.

ESG has become a regular topic for discussion within investing circles; and it is being driven largely by enquiries from you, our clients – and from our potential clients.

Once again, I've joined forces with fellow economist Sam Molloy, client, member of my Board of Advice and long-term friend, to discuss this topic. You may recall that Sam has contributed to several editions of eGrow in 2020 on the merits of adding ESG investments to our licensee 'Approved Products List' and during this process we have debated on just 'whose ethics' were involved (should you wish to revisit the discussion so far, you can do so here and here). I should also point out that for both Sam and I, ethics are at the core of how we operate.

Our most recent discussions were prompted by American historian and academic Stephen Kotkin's comments in an article on 'greenwashing' (or in other words, making misleading or unsubstantiated claims about how environmentally sound one's products or services are). The article, which you can read here resonated with us both.

According to Stephen Kotkin, greenwashing is pervasive because governments continue to sign on to mandates they cannot meet, and investors pledge commitments they cannot redeem. Kotkin contends "if governments in the largest economies focused on just two areas – carbon pricing and reinventing the (electricity) grid – the greenwashing sector might crater as fast as it arose".

Sam thinks that this is a sound observation (at least from an economic perspective). Governments should be focused on putting a price (and cap) on carbon emissions, and getting out of the way of anything that the market can then do the lifting on. He believes that building an electricity grid that can support de-carbonisation is one obvious area where government intervention is likely to be needed, and there may be others.

With the right regulatory framework in place, the markets would be, as described by Sam, "brutal on carbon misinformation." As it stands, they are not.

I'm noticing client appetites are changing, and of course, markets will respond. Sam wants to use every lever he can reach to push change forward. He wants ESG options, and he particularly wants low carbon investment options. I think he is in the vanguard, but I also believe that eventually there will be plenty of people who follow.

How do I see this change in the investment markets occurring? Like anything new, there will be (as Sam puts it) the 'Three Is' of Innovation – the 'Innovators', the 'Imitators' and the 'Idiots'.

Sam believes that I should use my role as a 'professional sceptic' to cut through the 'greenwashing' and find options that deliver maximum ESG bang for the buck for our clients. He sees my role on ESG as no different to any investment opportunity; understanding the needs of clients, using industry knowledge to avoid bad choices, and to help them get the outcomes they want, with efficiency.

I remain more than a little sceptical for now. Based on the three 'I's index, I think we are still at the Innovation stage, and market forces have not yet squeezed out the 'Idiots' and the 'Imitators'.

My experience over the last 24 months with investment funds marketing themselves as Ethical /Environmental Investments (ESGs) is that they are expensive, and they underperform relative to the broader market indices.

As we have learned, however, some investors are prepared to pay this premium in exchange for conscience satisfaction.

Of course, ESG isn't just about the environment – there's the social and governance aspects as well. But right now, the debate is focused on the 'E'. I endorse Sam's view that our leaders need to make carbon reduction a national priority and depoliticise this, as well as so many other aspects of climate sustainability solutions.

Our investment committee has researched and approved an 'ESG aware' index offering which is available at minimal extra cost compared to our 'Non ESG' Index solution (which due to its transparent nature does score very highly, at 64 per cent against the ESG filter). This is available for those clients who wish to act now, rather than wait for market forces to do their job on our preferred, Non ESG Index solution.

While I support the ESG concept in theory, until the market forces described by Sam are brought to bear, I won't be committed. I am very happy to help those who are resolute about investing in products branded ethical (or ESG) to buy what I consider the best available on the market – however I will also always explain the performance limitations, so they fully understand their decisions.

I remain sitting on the fence on ESG investing.

And one more thing:

It is estimated that nationwide, 5,000 financial advisers have left the financial planning industry over the last 12 months. The exodus is due to a combination of issues: ageing, COVID-19, AMP's struggles and most importantly, the requirements of the Haine Royal Commission for increased education and the refocusing of businesses towards client, rather than provider, interests.

I am proud that Marinis Financial Group, beginning almost 15 years ago, started the process of re-shaping our business model, becoming 'self-licensed' more than a decade ago. All of our client-facing staff are appropriately qualified, and as a financial advisory organisation, we comfortably exceed the standards required on all metrics. We are staying.

Media:

If you would like to see my recent contributions to the national discussion on financial services and retirement, please click this link here.

As always, if I or any of the team can be of assistance, please don't hesitate to call us on (08) 8130 5130 or email admin@marinisgroup.com.au.

Yours sincerely

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