
New submission from 2020 Shared Value Awards application - Investing in Shared Value Award

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Where did you hear about the Shared Value Awards?sharedvalue.org.au**About your organisation**

Organisation name

U Ethical

Organisation type

Not-for-Profit

Website<https://www.uethical.com/>**Overview**

At U Ethical, we aim to improve our world through the power of ethical investment. This is achieved through creating value for those who invest with us and value for society through a focus on industries and companies that meet our stringent ethical framework, including reduction of environmental harm.

Environmental concerns are rising, particularly among investors. This is something that U Ethical aims to address, working with industry partners and frameworks such as the Responsible Investment Association of Australasia, the UN Principles for Responsible Investment and the UN Sustainable Development Goals to offer sustainable and ethical options for investors.

What is your shared value investment project?

Name of project/initiative

Promotion of environmental sustainability through investing in financial markets

What makes your project or initiative a leading example of a shared value collaboration?

What economic opportunity does your shared value project/initiative deliver?

Australia's professionally managed investment market totals \$3,135 billion . Of this, 37% is allocated to responsible investment strategies . But what is "responsible investing"? Using the Responsible Investment Association of Australasia's (RIAA) definition: responsible investing is "an investment process which takes environmental, social,

governance (ESG) or ethical considerations into account". However, while ethical investing comes under the umbrella term "responsible investing", not all responsible investing strategies are explicitly ethical. The strength of U Ethical's process is it combines a systematic integration of ESG considerations with an ethical filter, resulting in a best in class approach to generating positive impact while meeting the financial needs of clients.

U Ethical's premise is to invest with purpose, and through our investment products we enable like-minded organisations and individuals to avoid harmful industries, and contribute to better social and environmental sustainability at the same time as generating a competitive market return.

Responding to investor sentiment which has seen renewable energy and climate change solutions a key concern, in FY20 U Ethical completed a total divestment from all fossil fuel holdings and added fossil fuel exclusions to our investment process.

Among other changes to our holdings, this resulted in a much smaller carbon footprint for our key funds compared to the broader investable universe they operate in.

At the same time as offering a greener investment alternative, U Ethical demonstrated there was no financial concession when investing ethically and that organisations can invest in a way that doesn't interfere with their values.

Our Australian Equities Trust and International Equities Trust both outperformed benchmarks by 7.3% pa and 7.7% pa respectively over FY20.

What social issue(s) does your shared value project/initiative address?

Environmental sustainability is a key concern for investors and society at large and is becoming more prevalent with each passing year. Pollution, land degradation and climate change are affecting every country and disrupting national economies and affecting lives. Doctors for the Environment Australia contend that human-induced climate change is widely regarded as the most serious, and growing, worldwide threat to human health and survival. The catastrophic bushfires of the summer of 2019/2020 are a stark reminder of the consequences of failing to reduce environmental risks.

Through our ethical investment policy, we aim to utilise investment capital to generate a return for society, allocating investment in clean energy, sustainable agriculture and recycling and re-use and away from areas such as fossil fuels. U Ethical has had an ongoing commitment to the environment, which began with our first ethical screen excluding uranium mining in the late 70s.

This importance to our clients of tackling these issues was underlined in a recent survey where our investors listed clean energy and sustainable agriculture as the two top priorities for investment. MSCI Research on the top ESG trends for 2020 also reveals that investors are keen to channel money toward green energy projects. More broadly, the environment is shown to be a key concern to Australians in general, reflective of a global trend .

While pursuing environmental sustainability objectives is the right thing to do for society, there are also financial imperatives too. Responsible and ESG aligned investment funds have recently shown to outperform their mainstream counterparts over 3, 5 and 10 years. The argument that responsible funds carry less tail risks for investors and are more suitable for the long term is now gathering steam and was ably demonstrated with the resilience of responsible investments during the COVID-19 market downturn.

Shared value solution description

U Ethical's approach to supporting both social and environmental best practice had evolved over the years, from the ban on uranium mining exposure in the late 70s to today. The main evolution towards greater environmental sustainability in FY20 was the complete divestment from fossil fuels, and the exclusion of companies involved in fossil fuels from our investable universe. U Ethical had up to this point viewed the use of natural gas as a transition fuel, however, we were concerned that the industry isn't doing enough to realise that transition and made the decision to exit.

We now offer several equity funds that aim to achieve a comparable market return while limiting capital allocations to harmful industries and seeking investments that aid environmental and social sustainability.

Australian Equities Trust – Wholesale
 Australian Equities Trust – Retail
 International Equities Trust – Wholesale
 Growth Portfolio

These funds now have no direct exposure to fossil fuels. In addition, through the International Equities Trust, we have been able to contribute to greater impact through stock selections such as wind turbine manufacturer Vestas Wind Systems and sustainable insulation company, Kingspan.

We have also partnered with industry bodies to amplify our environmental concerns. In FY20, we joined the Climate Action 100+, an investor initiative driving corporate climate action by engaging with some of the world's largest greenhouse gas emitting companies. Locally, Climate Action 100+ is working directly with Orica, Boral, Incitec and Oil Search on emission reduction commitments. The initiative has already seen some breakthrough commitments from

companies in hard-to-abate sectors, the initiation of investor engagement on climate in Asia, and a raft of disclosure commitments on corporate lobbying on climate change.

Market segment and potential for scaling the solution

There are a number of beneficiaries of our focus on greater sustainability. Firstly, existing investors are provided with solutions that don't compromise their values. Almost 90% of our retail clients agree, or strongly agree that "Ethical investing is important to me and the main reason I invest with U Ethical" while 70% would be willing to sacrifice returns to invest ethically. These investors have also indicated that clean energy is their priority investment sector, while fossil fuels are one of the top areas they wish to avoid.

U Ethical has a high proportion of not-for-profit and member association investors, and our ethical approach ensures a high degree of alignment with their mission. These investors can have ethical investment policies and environmental sustainability obligations of their own which our ethical investment practices enable them to meet.

Prospective investors also benefit, as there are signs of growing demand for socially responsible investment solutions. As we noted, the proportion of the investment market allocated to responsible investment solutions increased by 17% in 2019. The RIAA Benchmark report for 2020 also noted that investor demand has been a key driver of market growth.

As responsible investment strategies become more mainstream and they continue to meet or outperform the market, more investors become exposed to the reality that there is no performance cost for investing ethically. That is, they can do well while doing good. This will encourage more entrants into the sector and funds to pursue responsible investment strategies. This in turn will benefit society at large as polluting organisation's access to capital is restricted.

This solution is as scalable as demand will allow, with U Ethical taking a methodical approach to target values-based organisations with a strong values alignment who will benefit most from sustainable investment.

Key activities and resources including a basic development plan

In December 2019, U Ethical completed the divestment from any fossil fuel holdings. An exclusion was added to our negative screen in our ethical investment policy, prohibiting fossil fuel stocks from being included in our investable universe. This exclusion takes place during the ethical screen stage (see supporting documentation).

During this ethical screen we also target companies that have a high alignment to the UN Sustainable Development Goals such as goal 13: climate action and goal 11: sustainable cities and communities. During our stock selection process we look to continually increase our support of these goals.

This provides a highly sophisticated responsible investment approach with much more stringent screening criteria than responsible funds who rely solely on ESG ratings.

Throughout the investment process we utilise tools and platforms such as MSCI ESG Research to look at ESG ratings, sustainable impact metrics for social and environmental impact and climate-related risk and opportunities.

Measurability

The measure of success for these products is two-fold: financial returns comparable to "non-ethical" investment must be achieved, and some demonstrable impact needs to be achieved.

Financial performance of our investment products are measured at a total return basis each month which is then compared to a relevant benchmark. For example the performance of the Australian Equities Trust – Wholesale is measured against the ASX 300 Accumulation Index. This is a simple way to determine the strength of our ethical investing strategy vs the broader market.

Measuring impact of our program is more challenging but as impact measurement methodologies evolve there are some straightforward ways to correlate impact to investments.

Looking at the environmental factors specifically, we can compare the carbon footprint of stocks that we hold against those of the wider market. This obviously shows that a lower carbon footprint than the benchmark is reducing the exposure an investor has to polluting companies.

We can also look at UN-SDG alignment of our funds where higher alignment equals greater impact.

Tangible results to date

On the financial front, this year the strength of our ethical strategies has been clearly demonstrated with all of our stock based funds outperforming their benchmark for FY20.

Over FY20 the Australian Equities Trust – Wholesale outperformed the benchmark by 7.3%, and the International Equities Trust – Wholesale outperformed the benchmark by 7.7%. This was a great vindication of our systematic process and approach in a challenging year for investors.

Our approach also began converting more investors with our funds under management hitting a record high of \$1.36b in February.

We saw greater alignment to the UN Sustainable Development Goals with our investment in wind turbine manufacturer Vestas Wind Systems, sustainable insulation pioneer Kingspan and vaccine and medical technology business CSL.

Our funds also demonstrated strong reductions in carbon footprint when compared to the market cap benchmark. See supporting documentation

Please provide relevant documentation to support claims made in this application.

Upload any supporting documentation

- [Shared_value_award.zip](#)

Official endorsement

Endorsement

- I am authorised to submit this application on behalf of my organisation and confirm that all required approvals have been sought and received.
- I acknowledge that in order to finalise this application I will pay the relevant administration fee.