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Funds without ethical lens risk being left on shelf

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As ethical investment continues to enter the mainstream, super funds and managers that do not incorporate ethics into their decision-making risk being left behind, Banking and Finance Oath founding director Clare Payne has warned.

Speaking at the PortfolioConstruction Forum Strategies Conference 2017 in Sydney on Thursday, August 24, Payne observed there has been a shift in the way people think about businesses and their purpose. Businesses that lack moral and ethical awareness are now viewed unfavourably.

Payne attributed this shift to three main factors: the public’s concern about the future of the planet, the need to hold the business community responsible for causing some of those concerns, and the public having better access to information that enables people to make good ethical decisions.

An expanding market

“There is a growing movement around calling things out and saying what is a legitimate way of making money and what’s not,” Payne said.

Currently, \$622 billion is invested via “responsible investment” strategies in Australia and it is predicted that, in the next three to five years, the ethical investment sector will add an extra \$50 billion and about 700,000 new investors, Payne said.

The potential for getting into this lucrative market depends solely on asset owners and portfolio managers “prioritising ethics”, Payne said.

“We have, as humans, what I’d like to call ‘unreliable gut, reliable bias’. We can’t presume we know what everyone is thinking or cares about. We have to find out, and we also have to get awareness of our own position.”

She argued that for investment managers to improve their ethical awareness, they need to outline the purpose of their business and be prepared for clients to hold different views. It is key to understand the values that matter most to clients, be it gender equality, diversity, innovation or sustainability. It is also important for managers to define their position and their clients’ positions on big issues such as wealth inequality and change.

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Another factor that it’s important for funds and managers to recognise is the increase in women’s wealth, because women, who control \$72.1 trillion globally by 2020, are twice as likely as men to invest ethically, Payne said.

InFocus

“Currently, our financial system is oriented towards men and the majority of clients have been men in the past, but they won’t be in the future,” she said.

Another trend Payne said presents an opportunity for portfolio managers is the “rise of the individual”, meaning people are more likely to trust an individual than the company for which they work.

“It’s a time to reveal your own ethics and to understand other people’s ethics,” she said.

Payne encouraged money managers to take three steps to make ethics part of their portfolios: become a signatory to the Banking and Finance Oath, remove all tobacco products from portfolios and “look at the news with an ethical lens” to become actively aware of how ethical issues are likely to affect the businesses in which they invest.

[BANKING AND FINANCE OATH](#), [CLARE PAYNE](#), [ETHICAL INVESTMENT](#), [ETHICS](#), [PORTFOLIOCONSTRUCTION FORUM STRATEGIES CONFERENCE 2017](#), [TOBACCO FREE PORTFOLIOS](#), [WOMEN](#):

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