

INFRASTRUCTURE TRENDS - #7: SOCIAL AND ETHICAL INVESTMENT

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Legal Briefings - By **Robert Bileckji and Simon Haddy**

In this series of short articles we look at the [current trends affecting infrastructure investment in Australia](#). This article considers trend # 7 – social and ethical investment

Social and ethical considerations are gaining increasing prominence in Australia and globally and an appropriate approach to these matters is now a key feature of the investment landscape and an important selling point for financial investors.

It is now the case that more than 50% of all professionally managed assets in Australia operate under a responsible investment strategy.

Socially responsible, ethical or sustainable?

Most clients we work with in the funds management space adopt some form of socially responsible, ethical or sustainability criteria as part of their investment approach.

While often used interchangeably, these terms encompass a broad spectrum of approaches and commitment.

Broadly:

- **ethical investing** seeks to screen investments and exclude those deriving revenue from “undesirable” sectors (such as gambling, tobacco or weapons). Positive screening may also be a part of the process to specifically target “desirable” sectors (such as healthcare, education and affordable housing);

- **socially responsible investing** also applies negative screening by reference to investments in particular sectors but may proceed where the commitment to social responsibility is assessed to outweigh the negatives;
- **sustainable investing** involves selecting investments by reference to how well the relevant targets manage social, corporate governance and environmental factors (rather than by reference to specific sectors); and
- **impact investing** goes a step further by intentionally seeking investments with the dual objectives of creating financial returns for investors and having a positive and measurable social or environmental impact.

HOW ETHICAL IS YOUR INVESTMENT?

The variety of approaches to embracing social and ethical investment considerations can make relative comparisons difficult.

In Australia and New Zealand, the Responsible Investment Association Australasia (**RIAA**) - the peak industry body for responsible and ethical investment - seeks to bring guidance. The RIAA runs a program through which fund managers can apply for certification of a fund, product or financial service to demonstrate its commitment to growing and developing responsible investment in Australia. Certification is also subject to external audit. Managers and investments which get the seal of approval are published and carry an RIAA certification symbol, providing a reference point for prospective investors.

Similar processes apply in Europe and the US through Eursif and the US Forum for Sustainable and Responsible Investment.

Organisations such as the Australian Centre for Ethical Research also provide independent research into the environmental, social, governance and ethical performance of companies and investment portfolios.

ETHICAL INFRASTRUCTURE

There is also a movement for infrastructure investment to consider broader social issues and to play its part in supporting an economy that provides socially equitable growth within and between generations.

This can be seen in more recent initiatives to support Australia's transition to a lower emissions economy, including encouraging growth in renewable energy. AGL, for example, will exit coal-fired power generation by 2050. Its development focus going forward is on renewable energy sources, with support from gas and batteries to enhance the value of renewable technology. AGL is seeking to manage the closure of its coal-fired power stations in a responsible and sustainable way, to avoid a market electricity shortfall and manage carbon risk.

There are also initiatives in the social infrastructure sector to promote a focus on desired outcomes such as preventing future service demand for social housing, health and correction services through education, safety measures and other programmes.

For example, the NSW Social and Affordable Housing Fund is an innovative approach to the delivery of social and affordable housing in New South Wales, with returns from the fund targeted to facilitate access to 2,200 new dwellings in the first phase. Broadly, rather than the Government taking a direct interest in underlying property, social housing would be treated as an accommodation service with the provision of co-ordinated support services (health, education, employment and community services) designed to assist social housing tenants to move into the private rental market. The services arrangements will involve a payment stream to service providers over a 25 year term which funds the gap between provider equity, tenant revenues and costs of the services package, together with a 'payment for outcomes' regime.

AN ETHICAL FUTURE

- We expect the focus on social and ethical issues to continue to grow – both for financial investors and policymakers.
- This trend is likely to give rise to opportunities including a growing demand for socially and ethically responsible asset classes and potential transaction activity as portfolios are rebalanced to align with evolving investment criteria.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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