The Australian Finance Podcast Episode Transcript

Episode: How to Invest Ethically in Australia
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Speakers: Kate Campbell & Owen Raszkiewicz
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Episode transcript:

Owen:
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Kate Campbell, what's the definition of a long-term investment?

Kate:
For me, it's at least 10 years, but I think for most people would be seven to 10 years invested in the product or the ETF or the share.

Owen:
I'd say it's a short-term investment gone wrong.

Kate:

Just a joke for the day.

Owen:
Yep. Okay. So this episode of the Australian Finance Podcast, you and I, the two of us and every listener sitting along at home listening, whether in the car, on a commute, whatever you're doing, hello, and we are talking about ethical investing, how to do it, what it is, the ins and outs, whether Kate and I do it, controversial and everything in between. And we're doing this because we've just launched a new course.

Kate:
Yes. A brand new free course. You might think that we've been launching a few courses this year and that is true. We had my FIRE course, Financial Independence, Retire Early, come out a month and a half ago now. So that's had a really successful launch and it's been really encouraging to see all the feedback there and some definite recommendations that we can include in the next version. And then this month, it just all tied together that we launched all the things around the same time. We finally got our videographer organised.

Kate:
So yeah, this month we just launched out Ethical Investing course, which was mostly done by Owen this time. And it's really about working out what your values are, how you want to invest, how to cut through all the noise and the marketing, and actually look at what's under the lid. So I guess we can talk a little bit more about the course further into the episode, but I guess the thing we want to start with, what is ethical or values-based investing because there is so many terms out there describing it? I mean, even just a few like ESG investing, Ethical, Social, Governance. So there's impact investing, negative investing, positive investing. What's your take on this Owen because I know you did a big survey of our community last year about this?

Owen:
Yeah. And that was mainly from the Investors podcast. That's the other one, the yellow podcast that you might see in your podcast player. If you don't already, subscribe to that one. As a side note, some of the feedback that we get on the podcast is sometimes we're not talking about the more advanced topics if there are such things. If you want advanced investing topics, you can go to the Australian Investors Podcast, where we have Australia's biggest and best investors on there.

Kate:
Yeah. So that's definitely next level. If you've listened to everything here and you feel like you're ready to take your knowledge to the next level, tune in to the Australian Investors Podcast, which is our more advanced version.

Owen:
That's it. So what is ethical investing? Max Wagner, former ETF analyst for us, he did some digging into this initially, and then we jumped on it together. And basically, the way we compartmentalize the differences between the types of investing is this. So responsible

investing is when you take into account really anything other than just profits and dividends. So if you want to be responsible, that's the phrase that the industry applies, Responsible Investment Association, for example, is the name of the big organization in Australasia. If you want to be responsible, that's great. But then within that, if you think about that as like this umbrella over the top, all the different types of ethical, ESG investing, sustainable investing, socially conscious investing, impact investing, they're all under there. So at one end of the spectrum, we have absolutely no thought really for what is an ethical investment. And at the other end, we have something called impact investing. And impact investing is the most extreme form of responsible investing.

Owen:
When you're impact investing, you're going for the maximum impact on the company. So if it's like a fossil fuel company, you might buy a lot of shares to try and influence that company's board when you have your next vote. And at the other end, where you have really no ethical filter, what we're talking about is basically just buying an index fund or like buying anything vanilla. And somewhere in the middle of that, somewhere between no filter at all and all the way out the other end, which is impact investing, which is that super green, positive type thing, somewhere in the middle is ethical investing, I would say.

Owen:
And so ethical investing is about, and this is where the key distinction is, there's another key distinction here, which is ethical investing is about your internal compass. So what do you care about? Whereas sustainable investing and socially aware investing, they're probably more on the left-hand side if you think of it. They're more towards the no filter end. So they're just like sustainable investing is basically taking society's values or socially conscious values. Ethical investing is more about you. So you had a good example just before about smokers, right? What was the example?

Kate:
Oh, I was just talking about if you've had an experience in your family where someone has passed away or got really sick from lung cancer, you might have really strong views about tobacco companies, whereas someone else who hasn't been affected by that might not have the same intense views about tobacco companies. So they might still not like them, but they might not like them to a very different level. And then when you get companies that are putting filters over the top, sometimes they'll filter out tobacco companies, but then they might not filter out other companies that have association with tobacco companies. So it can become really complicated if you just use one basic filter, whether you're actually investing in the way you want to.

Kate:
So I guess one of the things that we talk a lot about in the course was actually working out what your own ethics are and your personal values. And I think it's just a process of teasing out what you want to invest in and what you want to be associated with and what's important to you. And I think that really adds to that sleep at night factor because you're comfortable with what you're

investing in. And all the different labels, some of them overlap. They sometimes are just versions of the same thing, but it's all about what works for you. And often, if you just go with a company like an ETF that's an ethical ETF, they'll just put a basic overlay on it, a filter that might say, hey, we'll just cut out anything that's investing mostly in tobacco or forestry or weapons. There's even some that cut out gaming and things. There's really diverse array of filters. So these filters might not align with your personal filters, which is sometimes the challenge of just a basic ESG filter on an ETF.

Owen:
The challenge that we have Kate, there are a few things we're going to jump into some myths in a minute, but the challenge that we have is the ESG, which stands for Environmental, Social and Governance. So those are the three big, I guess, factors that we look at when we're looking at studying companies or investments. So how does it impact the environment? How does it impact society like communities think of rural communities, think of cityscapes, et cetera? How does it impact the governance of the business? So how does it impact employees, stakeholders?

Owen:
If you looked at, say a pokies company, a company that creates gambling, what they're actually doing is they have no impact on the environment really, other than maybe greenhouse gases, which you might bet up say they put solar farms in the roof or whatever, but then society, what do they do for society? Well, indirectly, they target the lowest socioeconomic bracket. And then what do they do for governance? Well, what are they actually doing for their stakeholders internally? And what are they doing for their stakeholders? And this edges on community and society is kind of like, what are their actual consumers getting from this? So that's just an interesting way for us to look at things.

Owen:
And what the important thing is, and this is my point, is that the market for ESG like investments or ethical investments, sustainable investments, responsible investments, whatever you want to call it, it's still finding its feet. But I don't want to say that it's not good. I'm just saying that it's growing and it's at the early stages of growth. In fact, I think this will be one of the biggest things that any investor considers over the next 20 years. I think that this will fundamentally change the way we invest money, but we're just at the early innings.

Kate:
And I think that really correlates with the increase in us being more interested in whether the products we have are sustainable, whether they're organic, the clothes we buy are actually paying the workers a living wage, whether the products we get, like if we're getting garbage bags now, I think we were talking with one of our colleagues this morning, do we go and get the green recyclable ones that are going to break down? Or do we get the stock standard one? And I think we have so many more options now and that's getting us thinking more about ethical investments. And I know all the ethical, super funds are really pushing at the moment. I'm

seeing it all over social media and TV, because I think they're seeing that this is their time to start getting the word out about their products.

Owen:
Yeah. And the thing is, and this is we're referring back to your ETF comment before about it maybe being a little bit of a blunt instrument. There are some big, well, I'm going to name some names, there are some big ethical ETFs from BetaShares. Vanguard has one. There's the E200 ETF, which I think is our of SPDR. Don't quote me on that. But there are some we can, it's actually a list on our best ETFs website. So we'll put that in the show notes. So these are all ETFs and they're all relatively new, even the big ETHI and FAIR ETFs from BetaShares are new. The VSG from Vanguard is new, but some of these super funds have been around for a very long time.

Owen:
The fundamental difference between the ETFs, the ethical ETFs and the ethical super funds is that the super funds, the 100% ethical super funds. So you probably know who I'm talking about, will probably raise their name throughout the chat. They use an active strategy. So they actually have people like you and I, Kate, analysts, that look at the investments and study them. But some of these big ETFs, as far as I'm aware, all of them don't actually have that individual input at their business. They have that, they might outsource it and they might get it from another company to provide ethical overlays, but they don't do it themselves. And so what you end up with is you may get an ETF that's not a 100% aligned with the values. It might be 90% of the way there.

Owen:
But then the active super fund side, if you go to a super fund, they're very, very clear about what their values are and you can say, oh yeah, that is a 100% me. I don't want to invest in fossil fuel. I don't want to invest in anything that could be involved in animal cruelty like cosmetics, that type of stuff. I don't want that. So you can actually find the one that fits for you. There's also Goodmans. They have an ethical overlay. So these things are coming Raiz.

Kate:
Yeah. And even the robo-advisors of starting top, Stockspot and Six Park now offer portfolios made up of ethical ETFs. And yeah, Raiz. I think even Spaceship have an earth portfolio now. So in the last 12 months so many different options have started popping up and most of them are using some of the ethical ETFs available on the market. There's not too many products that are direct investing, but also micro indirect stocks apart from Spaceship Earth.

Owen:
So this is the thing, this is the kind of, I don't know if this is a matter of marketing, but so when I talk to fund managers and when I've done my research in the past, most of them have rules around ESG, but most of them don't tell people what they are. And why? Because if they get branded as an ethical fund 10 years ago, when it wasn't cool to be ethical, I believe that they may have thought that they've got punished for that, but now it's like you could ask a fund

manager, do you invest in cluster munitions? Yes. Okay. Do you invest? And you could just go down the list and you could ask them directly, what's your ESG policy? So what I mean to say is, if you're invested in one of these funds already, ask them before you go and pull your money out. Just ask them because they might actually do it and they just don't market it. There are a lot of really good marketers in the finance industry and some of those are the ones you don't want to go with.

Kate:
Yeah. And a lot of them might, they might still be establishing what their company's views are. So they're actually just talking to them and providing them some input, would probably be really helpful for them if they hear a lot. And a lot of these products have just developed because of consumer demand, because the financial advisors and the people in the industry have realized that clients are actually wanting more when it comes to what they're investing in, they're wanting more transparency and they're wanting to know what they're excluding and they want to know exactly what's in their investments. So they're just more and more all the time of popping up.

Kate:
I mean, in the last few weeks, we've seen new ETFs popups. So there is the demand, there's going to be more and more ETFs on offer even in the US because it's such a much bigger market. There's some very niched ethical ETFs there that probably wouldn't float in Australia yet, but you can get very niche on your values once you've got the size and the demand. So as consumers want more, there's going to be ETFs pop up that provide very niche, ethical viewpoints and overlays, which is really interesting to watch.

Owen:
It is. Yeah.

Kate:
I think that was just a climate change or climate energy focused ETF that BetaShares launched the other week or they're launching soon.

Owen:
I did see something like that.

Kate:
Yeah. I don't know if that was coming soon or launched yet, but it's really interesting to see what's popping up because of consumer demands. So definitely, getting contact with your company or super fund and ask them what their views and policy is.

Owen:
One of the things that you'll note if you go to one of your current super fund and it's, let's say it's not an ethical super fund, it's just an all-rounder, you'd want to find out exactly what their policy is first. That's the first step. Second step is actually look inside the portfolio. Most super funds have it available on their website, this is what we're invested in, in this option.

Owen:
So if you're a balanced investor inside AustralianSuper, for example, go to the section of the website where it shows you exactly what they're invested in, or if you're an ethical investor option inside AustralianSuper, I don't even know if they have one of these, I think it's called like socially aware or something. You'd go there and you would look in the portfolio and be like, hold on a second. They say they don't finance anything to do with child exploitation, yet they own shares of Westpac, which was just fined by the anti-money laundering authority for one of the biggest, they didn't do it on purpose, but it's alleged, but it's alleged that they enabled that type of behavior. So you don't want to be invested in that. Well, then ask them why.

Owen:
And you can actually circumvent their marketing and just ask them, why did this happen? And so, if you want to learn all about this, please go into the course, because it's honestly, we can't do it justice. But Kate, do you invest ethically? What do you do? Anything at all special?

Kate:
Yeah. At the moment, it hasn't been a big factor. I mean, you've always got that gut feeling, whether you look at a company and you go, hey, that's just a bit iffy. The board's been up to a bit of mischief in the past. They've been involved in a company that really did some bad things. Maybe I don't want to be involved in that, or they're doing really bad things to the environment and they've had some really bad publicity because of that. Those sort of factors are probably in my mind when I'm looking at individual companies, but I haven't been personally too focused on that. I haven't gone, does it align with my ethics? I've just had that gut feeling. I have not personally invested in any ethical ETFs or I don't have an ethical super fund at this point, but I think after doing the course, it's definitely something I've been thinking a little bit more about, what are my personal values and how do I want to invest for the future based on that?

Kate:
And I guess one of the things that we've talked about is that, if a company is doing good things for the environment, it's doing good things, it has a diverse range of people working for them, it has a mixed board, it's doing good things for the country and the world, it's often going to be doing good things for your portfolio as well. And companies that are getting up to a lot of mischief in the last year have been quite often penalized in the market. So I guess it does make you consider, well, what are your personal values? How do you actually want to be investing? And what is your sleep at night factor? Which is something that's grown on me in the last year since COVID is, how comfortable am I with my portfolio every day? Am I needing to check it all the time? Am I worried? Am I anxious about it? Whereas if I know my companies are doing good things, then it takes a lot of stress off your shoulders.

Owen:
Totally. Yeah. I was just thinking about it as you were saying that. I think I still own the A200 ETF by BetaShares. I've held that for a long time, because it was a recommendation from Rask Invest Domain to lift the lid on this, but it's actually, now that I'm going to reflect on that and

actually consider if it's the ETF that I want to own longer term. And this is the thing, the reason why I thought about that, as you were saying, the course changed your mind because it did actually change my mind in a few ways during the research, but the first thing is I would never own shares, not today. I may have owned them in the past when I was younger, but I would never own a company like Crown Resorts. It doesn't bother me that anyone else invests. No, that's perfectly fine. But Crown Resorts owns Crown Melbourne. They own some assets in Macau and et cetera, over the years. And you can go online and read all about all the things that go on there.

Kate:
Media coverage.

Owen:
They have media coverage. And so I wouldn't own a company like that. There's another company on the assets called Aristocrat Leisure, which is one of the biggest pokey companies and gaming companies. And again, it's been a really good business from an investment perspective, but it's not something that sits well with me. There are some companies in Australia that have businesses which operate in the defense sector. Defense is vital function in terms Australia's infrastructure and security, particularly in APAC, but it's not the type of thing I want to be involved in. Google, a few years ago, I owned Google shares or Alphabet, Google quite a few years ago was involved in something which actually a lot of engineers walked out on because of some drone-related things that you can dig into the web and you can find out about. And that made me question my investment.

Owen:
So one of the things that you can do as an investor, who's looking to invest ethically, that's, again, your definition of that, the easiest thing you can do, and this is where you get the distinction between ethical and sustainable. So sorry about the confusion here, but the easiest thing you can do as a first step is avoid the things you don't like. And so for years, that's the strategy that I've used is avoiding things that don't sit well with me. So we talked about sleep at night factor. We talk about sleep at night factor from just a money wellbeing perspective, but also from an investment perspective, I wouldn't want to be invested in a company that's known as a sin stock. So it's like tobacco, those things.

Kate:
And again, that's such a controversial. Even alcohol in Australia, that's a really controversial. Some people might want to be completely avoiding alcohol-related industries because of maybe the impact that it has. And other people, that's completely fine. And I think that's part of what the course made me think about is actually one of my personal values, because if you're just putting a slap bang overlay and screening out some things, it's very hard to have that aligned a 100% with you. So it does come back to actually working out what you want to avoid. And even just maybe going through the top, print a list of the top 100 stocks in Australia and have a look at each of them and maybe cross out some and work out from there, well, what industries do I want to avoid? That could even be a way to do it.

Owen:
Or we're going to get list of a 100 resources in the ethical course. So you can go and check it out. But one of the things, another example might be Woolworths. For many, many years, Woolworths was one of Australia's largest pokey providers. I keep on bringing up pokies. If you play the pokies, if whatever, go for it, it doesn't bother me, but from an investment perspective, it always made me, I like Woolworths, the business, reasonably well, but I was like, I can't really bring myself to own it. I'd just rather own calls, which owns another type of vice was just Bunnings for me. Okay. That's a positive advice I'd say. So that is another thing. And sometimes what you have to do is you have to dig into the reports. Again, we've profiled a company called Cochlear, which makes the implantable hearing aids or the Baha devices, which is in a lot of ethical super funds by the way. So we go through how to actually determine all that stuff, and where do you get the information on this? And where do you get the information on that?

Owen:
Kate, I just want to just talk to you about one thing that I didn't actually have in our list of things to talk about today, but there's this little section. And I was blown away by this. And it's the section that we have about getting to know your carbon footprint. And it comes from the course. And what I was particularly amazed about this, and this is all about greenhouse gases and it's basically your impact on the environment. And so one of the things that we know is that if you recycle well, we bucketed this around the house, if you recycle well, you put your cardboard away, you separate your beer bottles and all that sort of stuff and you put them in the right bins, that's a great impact. And some of the studies that we've seen, and this comes from some academic research, you'll find all of the assumptions and all of the sources in the ethical course, we found that the annual carbon impact in terms of positive impact is around about 0.23 tons of carbon emitted effectively, right? 0.23. So if you recycle well, you're saving 0.23 tons.

Owen:
Now what's the impact of choosing a decent, I'm not saying great, a decent superannuation, ethical/sustainable investment option? It's about two tons. So around 10 times better if you choose that option. And this is before we even consider by just selecting an ethical option what the impact that it has on the environment long-term, because by asking, to your point before, you said, this is something that more and more people are considering if we actively vote with our wallets, then that puts the money in the "good super fund companies" hands. Then they influence the board of the companies and then the companies make good decisions based on what their shareholders are saying. And then that trickles through to savings in terms of carbon emissions, in terms of quality, whatever you want, however you want to define your ethical investing. And so two tons.

Owen:
And then the final one is there, and this is, again, the science is a little bit different here. An average super fund balance of $38,000 is what was used to calculate these super fund returns on carbon, if you like, seven tons for the highest impact super funds in terms of the

environmental impact, seven tons of the saving. So compare that to 0.23 for cycling, eating a plant-based diet, which is-

Kate:
What you've tried.

Owen:
Yes. Still doing. Still doing it months later. So eating a plant-based diet is around 1.05 tons saving a year. Now the reason I bring this up, because I did a cheeky thing in an article the other day, I effectively said you could become vegan or you could invest in an ethical option and you get the benefit of two vegans. So I was trying to quantify it in terms of vegans, which is a bit of tongue in cheek, of course, but you can stack these things as well. So, if you're already eating a plant-based diet or you've cut out whatever, or you're living and you bought an electric car or you're living carefree or whatever you're doing, investing in particularly inside the super fund is a very easy way to save a bucket load of environmental impact.

Kate:
And I think we don't often talk about how much power these super funds and the large ETF providers actually have to start talking to the companies they're invested in. Like in the US, Vanguard and BlackRock own maybe 10% sometimes of companies listed over there. So they have a lot. They have a big stake in the company suddenly just because millions and millions of people are invested in that ETF or super fund. If enough people care about this because you're investing in their products, they can actually vote for certain things to go certain directions and they can come and talk to the board and the CEO and actually say, here's what our investors think. They don't want you to be doing this X, Y, and Z. And that's one of the reasons why putting your money in these products, it actually starts to put a lot of power for them to negotiate and them to discuss things with the board and the company.

Owen:
Totally. It makes the conversation. So there was some instances, and this is not necessarily like a generalization, I'm just using an example. One super fund said that they went to a company in Japan that they're invested in, they said they raised the ESG issues and it was a bit of a different culture over there, presenting to a board with more than 10 people, mostly males. That wasn't a discussion and there was no impact from the super fund speaking with the company that they had invested in. So that divested that company. And so that's not necessarily meaning that their company is going to go out of business. It just means that some other shareholder can come in and be their shareholder. And eventually, if enough shareholders do that, then it creates an issue for that company because they do need to raise capital or they need to have their stock price propped up or whatever.

Owen:
Another example is when I was doing fund management research for another company that I worked for, we had this guy come out from the UK and he was a big shot investor, probably worth tens of millions, if not hundreds of millions of dollars. So it was like royalty in the

investment world. And he'd done extremely well for 20 or 30 years. And he had about 30 to 40% from memory of his portfolio just in tobacco stocks. And the first thing we said to him was, so do you think about the environmental impact or do you have ESG overlay? And he's like, "When I come to Australia, the first thing you guys always ask me is about the tobacco." He's like, "Everywhere else in the world doesn't ask me. Only in Australia."

Owen:
But again, this is not a knock on anyone that invest in tobacco. It's just an observation that the conversation is happening. There are differences and there's always going to be differences, but this is a very simple way for people to get started investing. So we've talked about a few things, Kate, how can people get started thinking about this or investing in a way that aligns with their values?

Kate:
I think a good place to start is thinking about the different negative and positive screens and some of the key issues to consider. And we've got a great table in the course, but I thought I could mention a couple now, just when you're starting, if, I guess this probably helps a little bit more with direct companies, but you can also use it when you're looking at the filters that a particular super fund or ETF is applying to its product, but a negative screen might be those companies you want to avoid at all costs. So it could be something for you like animal cruelty. It might be about fossil fuels. You might be wanting to avoid any company that has things to do with weapons and defense. You might be wanting to avoid companies that have things to do with gambling. And we've got a whole list in the course, but writing down at least those things initially that you want to avoid at all costs is a good place to start.

Kate:
And then you might actually think about what are some of the positive screens. So I actually want to actively look for companies that are helping in areas such as recycling or I want to look for companies that are fair trade, they're doing stuff in the organic sector, they're helping with planting forests, maybe they're doing things in healthcare and biotechnology, they're working to cure certain diseases or build machines that are going to help something. So firstly, the things you want to avoid at all costs. So that's good to write down and be aware of, and then maybe identify some of the areas that, and that could be things you're interested in because of your job or your hobbies or from personal experience, but you think that you'd want to look for companies and investing companies that have things to do with this area and different ways that they're making the world a little bit better.

Kate:
And I guess the third thing we've got in this table, as well as just things to consider that when you're doing your research and maybe there'll be things that are important to use such as gender diversity on a board. And that's something that I would be looking for. If I see the whole board looking identical, then maybe I'd be a little bit worried there. And it's always a good idea to look at the board of the company anyway.

Owen:
Oh, yeah. For more reasons than one.

Kate:
Yeah, even if you're just the traditional investor, most of them would go, I want to look at the board, I want to see their background, their history. Have they been involved in any companies that have had some dodgy dealings back in the day?

Owen:
Most likely.

Kate:
It's usually a good idea. And most people would already be looking at senior management, but you're just putting maybe a different perspective on that. And you're saying, well, do they align with what I want the world to be like? Maybe you want to consider in your research what's the company's carbon emissions and what's their policy. And you can often do that by googling or going down to the bottom of the page on the company's website, looking in their annual reports, maybe they publish a specific report. How do they treat their employees? And I know that's one you do as an investment analyst, looking at websites like Glassdoor, finding what's the employee sentiment, are there employees that have left the company and they really angry about a particular issue? And sometimes companies do things, they get things wrong. So maybe has the company had an issue, but have they made good attempts to fix that issue?

Kate:
So it's also interesting to see how a company has responded in the past to a controversy, or if they've made a mistake, have they gone a long way to fix it, or if they just tried to ignore it or sweep it under the rug? And even just looking at what court cases are they in, just from a law perspective, what have they been involved in some issues in the past there? And they're just a few things to consider. You might want to mention a few more on.

Owen:
Yeah. There's, I mean, there's-

Kate:
There's a lot.

Owen:
There's a lot and it all depends on what you want. So we've created a list, which you can just go through. It's just like an ESG checklist. So in the course, you can download it. Don't print it because that's the whole paperless. Now you can go through and you can tick the box about what's important to you and how you can go about looking at that. We provide some prompts. And like I said on Cochlear is a case study, but we ask you to do the research and then point you in the right direction.

Owen:
One of the things that we talked about, and actually Sophie Ymer, our head of design and just guru all around. She was talking about one of the investments and one of the ideas that we had inside Rask Invest, which is our paid service. It's called Pushpay Holdings. It's on the ASX:PPH, and we've held it for quite a long time and is a company that I own shares in. And the company does church donation software. And so that means that it helps churches to collect their donations. So instead of passing the basket around on the Sunday morning, you can just get the app and you can stay up-to-date with church news and what's happening in the community, et cetera. And you can set up a recurring billing. So like a subscription, where you donate regularly, because that's a big thing. It's principally in the US, or you can just donate once off. Anyway, that sets the same for the next part of it. So what is the ethical dilemma here?

Owen:
Now, some people don't want to invest in Pushpay because they believe that more money should be left for the church. You shouldn't make a profit at the churches or the church goers expense. Then some people, and this is what Sophie said, don't want to invest in it because of the opposite reason. They don't want to necessarily provide the software for that type of giving. And even Apple. Apple's an interesting case, because Apple, a lot of these apps go through the App Store, and Pushpay's app actually requires you to go through a web browser. They don't let the donations happen through the app. And I'm not saying that's an ethical thing.

Kate:
Like Netflix. They don't have to pay the cut.

Owen:
Yeah. But I'm not saying that's from an ethical perspective, it's probably more so because of like money laundering and all that sort of stuff, they don't want to be involved in it. But it's just interesting how the world shakes out in terms of what we do or don't perceive to be ethical. And this comes back to your point earlier on about what is or isn't important to you. And the only way to really know that is to sit down and go through the different things that you consider important. And if anything else, the course on that table, just give you a chance to sit back and go, actually, I hadn't thought about that.

Kate:
And sometimes it might take you a really long time to not throw it. I mean, I've been very torn with the whole buy now, pay later industry for a long time now. On one hand, it's much better than someone getting a credit card and getting stuck with 20 or $30,000 of debt because the credit limit is so high. And on the other hand, it does promote that, get it now or getting addicted to that, having a constant form of debt and getting, even now companies popping up that are giving you like 10% of your pay packet early. They can be quite dangerous to get in that habit. But I can understand that if something, emergencies come up and you need that flight or something, now a buy now, pay later service, if you don't have an emergency fund, which is something we're very passionate about you building, and we've done episodes on that before, a

buy now, pay later service could be a much better option than getting stuck on a 20% interest per annum credit card debt or getting a personal loan or anything like that.

Kate:
So I've been very torn the last few years and I've had a lot of debates and conversations about people, and I've heard the impacts on both sides and we've spoken to a financial counselor in one of our episodes. And even today, I'm still a bit torn on that. Ethically, I don't personally invest in any buy now, pay later services. I did maybe four or five years ago, but even now it's very torn issue. And a lot of these things, once you think through them, you may see arguments for and against a particular issue, like something like energy storage or recycling. It might be very fierce opponents on either side or one company might be doing some great things, but it might also be doing some really bad things.

Kate:
And sometimes some of the great, I know, I was reading an article recently about some of the, not beyond meat per se, but just that fake meat, and the energy some of the companies were using to produce this product and the packaging, because everything was so packaged up compared to a restaurant just buying a bulk amount of other normal meat versus having to get individually packaged fake meat. And suddenly, it was doing one thing good, but it was also doing one thing bad. So it does take a lot of research and you're not going to come to an easy answer. And sometimes there just won't be an answer. And you're just going to have to keep that in mind as you go through and look at different companies.

Owen:
If you think about this, and what Kate and I are saying is that there is no easy answer. There is no one-size-fits-all. So anyone that tries to sell you, this is your ethical investment. No, you've got to consider them for yourself. But I think, and the line is, and it's a hybrid of David Gardner's line. It's that, invest in your most optimistic and best vision for the future, maybe not optimism, but your best version of the future is David line. Invest in your best version of the future. And if your best version of the future doesn't have coal-fired power plants, then don't invest in them. If your best version of the future doesn't have gambling, don't invest in gambling. If it does, if it has a little bit of gambling, have a little bit of money invested in that. That's okay too.

Owen:
But I think the really important thing is just that you take stock and you can do ethical investing through your super, super easy. You can do it through ETFs. You can do it through unlisted funds like managed funds. A lot of fund managers consider ESG. You can do it through individual stocks, which is still my preference because it's still the most flexibility. You can do it through robo-advisors. You can do it through like those rounding up apps. You can do it through so many things right now.

Kate:
Even through which bank you choose to put your savings with, and depending on what they're doing, when they're learning out the money, that's even one-

Owen:
We're really talking about investing and I think all the other stuff. We've actually got some sections in the course there that talk about some of the products that you buy and who you're buying them from is probably is attacking this issue from the other end. That's super important too. And we've got some things to get you started there too, but this is about investing, but there's a whole other personal finance side. And the banks is just like a kettle of fish. So, Kate, I feel like this podcast we have already looking at, yeah, we've gone for about 35 minutes is a good drive home, very positive drive home. What else do we need to talk about?

Kate:
I think the last thing we're up to was just five takeaway tips for share investors wanting to look at the ESG, Environmental, Social, Governance overlay. And you did it, this is just a summary of what's in the course, but the first tip was just avoid industries you don't like. And I think that's, if you don't like gambling, just avoid gambling. It's pretty simple. Then you can be very straight with that. Any company having any association with gambling, you just avoid it. And so that's a very simple initial filter. And even if you're looking at your ETF, does my ETF, this ethical ETF I'm looking at have any companies in it that are involved in gambling? If yes, get rid of it.

Owen:
Yeah. That's just an example.

Kate:
Yeah. That could be just one basic filter, the avoidance filter. And the second one, which is probably more up your alley, Owen.

Owen:
Yeah. This an example that we put in the course. So you don't have to, if it sounds a bit confusing, just enroll and you'll get some videos and prompts for it, but just understand the business. And bearing in mind that some businesses are a little bit coded in how they send you signals, like one of the companies on the ASX says, we create technology for creativity. It does online casinos. So yeah, maybe, but, you just got to read through that a bit.

Owen:
So we've got some prompts, as I said, but you can read the annual report. And that in the annual report, the very first thing in most annual reports, which you can get on the website PDF is the chairman's letter, chairperson's letter. And then you've got the CEO's letter or notes. That's normally a good overview. If you want to get into the weeds, you would go down to like two thirds through the report, there's a thing called a segment report. And a segment report is for big companies. If they have multiple businesses, you go to the segment report and it tells you what the different business lines do. And then finally, you can just go to the About Us page. If you just want a quick and easy answer, just go to the About Us page on their website and see what they do and see if you feel comfortable with it.

Kate:
Yeah. And even just research interviews that the CEO or chairperson has done in the past, maybe at their annual general meeting, how have they answered questions? Because chances are that someone's asked the question about some of these issues before, and how do they respond? And do they respond with disdain or are they happy to engage with their shareholders? I think that's another interesting one.

Kate:
The third one was checking the environmental, social governance policies. There's a lot of policies that you'll see a company put out in their website, especially if they're listed and you'll be able to see what their approaches to environmental issues, they may put a governance policy out. You can even have a look at their employee handbook, that might show some of the ways they talk to their employees. A lot of these documents, even if they're not public documents, a quick Google will probably bring up the PDF. You'll probably have to find it or somewhere online. And even just looking about what's their approach to diversity in the workplace, how do they deal with employee issues? What is their trading policy? All sorts of things like that are really interesting to have a look through.

Owen:
The website is the go-to place for all of these things. Some big companies do have it, some little companies don't because it just does take a lot of their time to report. Good example is Commonwealth Bank. They have a sustainability report. So you can go and Google CBA's Sustainability Report. Many of the companies do it. I'm just looking online now.

Owen:
Another company that I own shares in is called Salesforce, does software. And I'm trying to think of the name of what they called it, but basically, and I'm sorry, anyone that works for Salesforce, but basically, this is a company that does technology. And what they do is they actually, and they have a full report on this is US company. And what they actually do is they talk about the different ways that their employees and their company gives back, so whether that's donating some of your money, whether it's donating some of your time, so like 1% of your time, or like one day, every three months, employees are allowed to go and donate their time to any charity or any worthy cause. And it might be even just like carbon impacts and that sort of stuff. So you have to google for that sort of stuff. It can get a bit tough, but hey, if it's worth it to go and do that.

Owen:
So you've got number four here would be workplace culture. Glassdoor, SEEK for Companies. Basically, how you use SEEK to find jobs while you can use SEEK or Indeed or Glassdoor, which is the US one and global one to find reviews of the companies, bearing in mind that a lot of employees who are disgruntled or former employees go on leave quite scathing reviews. What you're looking for is a trend in the reviews that are-

Kate:

Somewhere between the extreme opinions on either side, you get to the facts in the middle.

Owen:
Yes. Somewhere between the one star and the five stars, look in the middle. And you're looking for a lot of reviews, keeping in mind, I'll give an example here, again, of flight Centre. Flight Centre was always a company that I had a personal association with, with a family member that worked as one of the sales agents or travel agents. Didn't really like the environment because it was a hard and fast kind of alpha sales, sales, sales focused environment, but then when you think about it, the business is, if you're in a sales role, you want to be the best in sales. So that may require you to be good at it. So that's something to consider. And the final one, Kate, which is a really interesting one, people take it for granted, what is it? Number five, ESG investing.

Kate:
This is something that you probably should do for any type investing, but before you invest, explain the investment and your case and your reasons for buying it to someone else, whether that's your family, friend, to some colleague that's not really interested. It's a really good idea to be able to articulate why you're investing in this, do you understand your risk tolerance? Do you understand the timeframe that you're investing in? Do you know what's under the hood? Have you thought through all the risks? And if you can explain it well to someone else who doesn't know much about investing, then you've probably understood it, or they might ask some questions that really pick it apart. And if you tell them, hey, I try to avoid any companies that invest in X, Y, Z, and then you talk about why you like this company and why it actually doesn't invest in that, they might come up with some sort of questions to challenge your view there.

Kate:
So that's always a really good thing. And I think that's something I like. Always watching on Twitter people sharing their opinions on different companies and the reasons why, and then other people will just in the comments go, hey, but you didn't think about this, or did you realize that we were associated with this? And that's a good, by speaking to other people about it, challenges your views. Make sure you've considered everything. And it may uncover something you don't know about. So I always like to look at both sides of the story before I ever invest in anything.

Owen:
Yeah. This is just wonderful. It's called the Feynman Technique, comes from Richard Feynman, the physicist. And basically, it's not about you being right. It's about you finding holes in your knowledge, because if you teach it to someone, you're more likely to crystallize that knowledge and retain it for future use. And by reviewing your own knowledge, you identify gaps. So at the end of the day, we can talk all we want about ESG investing, but people, you can enroll in the free, 100% free Ethical Investing Course. Almost everything we do, it's free. So you can go and check that out at education.rask.com.au. Most of you will know the website or you can google.

Kate:

Yeah. I think if you just google Ethical Investing Course, we're on the first page. So you'll find us there or otherwise, I'll put all the links in the show notes as well. And if you have any questions following this episode, following the course, because ethical investing is such a big area, there's no right answer, there's going to be diverse views on different things, which is a great thing because we don't all think the same. And that's why the world's fun place. I mean, if we all thought the same thing, what would be the fun? So ask your questions, ask your open-ended questions in the Facebook community. We'll put a link in the show notes below, and you may get some different opinions, some different resources to check out and get people to challenge your views. I think that's a great way to continue that discussion and continue the learning.

Owen:
Yeah, that respectful disagreement is what we're looking for, not necessarily sure if we could use a sporting analogy, play the ball and not the man, the ball being ethical investing. We're not looking for any types of, it's been nothing like that at Facebook communities, it's a great place to be. I actually typically avoid forums for that reason. They can get quite, I guess, playing the man, if you like, or playing the woman. We've actually had some really constructive questions and some experts in there. I know that there's some property experts in there. One of whom we've got a course coming out with soon.

Kate:
If you have friends of the podcast lurking in there.

Owen:
Friends of the podcast or in the Facebook group, we've got accounting experts, we've got investing experts. I don't know if they're just snooping. Maybe, but they're in there. So if you ask questions, there's going to be some great opinions, there's going to be some people in there who might probe you and prompt you in different directions. Kate, as always, thanks for joining me on this episode of the Australian Finance Podcast.

Kate:
Thanks for listening everyone. Thanks for tuning in to this episode of the Australian Finance Podcast, where our mission is to improve the financial futures of all Australians. If you'd like to learn more, create a free account at rask.com.au/account to download free episode, workbooks, bonus resources and take our amazing free personal finance courses.

Owen:
You can also join our online community by following the link in the description. If you enjoyed the show, what we'd love is for you to leave us a snappy review on iTunes, and you can follow us on Twitter and Instagram, @RaskAustralia. Kate and I are also on both of those channels. Finally, if you have any feedback, suggestions for episodes or guests to come on the show, or you just have a question for us, shoot us an email at podcast@rask.com.au.