



**Ethical Managed
Funds**

Hunter Hall Investment Management Limited

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Ethical investing – the challenges and opportunities



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What is ethical investing?

Ethical investing – choosing to invest in companies that operate ethically, provide social benefits, and are sensitive to the environment



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Approaches to Ethical Investing

Negative Screening – avoid certain sectors/ stocks believed to have a negative social/ environmental/ human impact

E.g. Hunter Hall restricts investments that its Board believe are harmful to people, destructive to the environment or cruel to animals

In practice – no armaments, tobacco, gambling, factory farming, logging of old growth forests and uranium mining



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Approaches to Ethical Investing

Best of Sector/Sustainability investing – invest in the ‘best’ stocks in most sectors using, triple bottom line criteria (environmental, social, corporate governance)

Often a relatively ‘low’ tracking error portfolio, due to lack of restrictions



Approaches to Ethical Investing

Engagement/Activism – environmental, social, corporate governance

May attempt to engage corporations at a board level or use proxy voting to make change



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Approaches to Ethical Investing

Positive Screening/Sustainability investing – only invest in those sectors/ stocks believed to have a positive social/ environmental/ human impact

E.g. The Hunter Hall Global Deep Green Trust (GDG) invests in sectors/stocks involved in;

- renewable energy,
- technologies and products which reduce environmental damage,
- medical services and devices,
- education and communication,
- agriculture conducted in an environmentally sustainable and humane way, and
- emerging activities such as carbon credits



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Case Study 1 – an ethical dilemma

Great Southern Limited – Australia's largest agribusiness investment manager listed on the ASX

- HH considered buying the stock in 2007 as it met HH's strict valuation criteria, however
- Great Southern were cutting down old growth forests in Tiwi Island off Darwin to clear land for additional plantation
- Due to HH 'negative screen' (restricts investments in logging of old growth forests), unable to buy the company



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Case Study 1 – an ethical dilemma

Pfizer Inc – world's largest research-based pharmaceuticals company based in USA

- HH bought a position in Pfizer in 2007, as it met valuation criteria, despite,
 - HH's restriction to invest in businesses involved in activities that are harmful to animals
- HH invested in Pfizer which conducts animal testing despite HH's ethical restrictions, why?
 - The US Food & Drug Administration requires animal testing, prior to approvals for human use
- HH Board agreed that as Pfizer is working to prevent life-threatening and debilitating illnesses, the company would not be screened out and HH could invest



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Case Study 1 – an ethical dilemma

Woolworths – over 700 supermarkets in Australia

- Previously HH could own Woolworths - as primary business was retailing, even though it distributed tobacco
- In 2004 Woolworths bought ALH Group (gambling operations in hotels)
- Due to HH ‘negative screen’ (restricts investments in gambling), unable to buy the company as part of Woolworths primary business is now gambling



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Case Study 2 – ‘positive screen’ example

CMA Corporation is an integrated scrap metal group with operational sites in Australia and NZ. It operates and has the Australian licence for the largest de-zincing plant in the Southern Hemisphere

- Scrap is sourced via a trading arm and also a sizeable collection network (in excess of 1,000 bins)
- Stricter emission controls globally are seeing a move towards Electric Arc Furnaces (EAFs) which use scrap metal as feedstock
- Major manufacturing companies around the world are becoming increasingly aware of recycling and other environmental issues. Recycling scrap conserves raw materials, landfill space and energy



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Case Study 2 – ‘positive screen’ example

- Chinese government seeking to rationalise steel industry by creating a few large scale steel makers. The rationalisation into more efficient steel mills should see an increase in scrap usage as feedstock
- Steel is the most recycled material globally. Recycled scrap metal comes from products such as cars, appliances and demolition/construction
- For every tonne of scrap metal recycled, ~1.8 tonnes of other mined raw material is saved



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Case Study 2 – ‘positive screen’ example

CMA Corporation	2009 Forecast
Issued Capital (m shares)	397.5
Share Price (A\$)	0.54
Market Capitalisation (A\$m)	214.7
Net Debt (A\$m)	90.0
Enterprise Value (A\$m)	304.7
Sales (A\$m)	593.7
EBITDA (A\$m)	57.6
EV/EBITDA	5.3x

Source: Bloomberg, CMA Corporation



Case Study 2 – ‘positive screen’ example

The Hunter Hall Global Deep Green (GDG) invests in activities that will have a positive outcome on the wellbeing of people, animals and the environment

- CMA Corporation meets the ‘positive screen’
- CMA is 1.3% of the GDG at March 2008



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Can ethical investing add value?

- Ethical investing is about good economics – in the long term
 - Not paying for externalities, the common factor in most unethical investments
 - Companies that don't manage their assets properly are in an analogous position
 - Countries that have regulatory environments that allow this to persist will also pay the price
- No longer accept that the financial bottom line is the only criterion for measuring investment success



Hunter Hall - Competitive advantage

- Leading dedicated ethical fund manager in Australia with \$2.3bn of FUM
- Experience – a global equity manager for over 14 years with research offices in Sydney and London
- Adopts a ‘negative screen’, being the process of eliminating stocks from the universe based on ethical grounds
- In 2007 Hunter Hall launched the Global Deep Green Trust, which aims to generate a positive outcome for the wellbeing of people, animals and the environment
- Most importantly - committed to performance



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