Insights and Investment Solutions

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Welcome

In this edition of Insights and Investment Solutions magazine, learn about the latest market update on local and international markets.

We take a look at sustainable investing and how investors are increasingly interested in how a company makes money, not simply how much it makes.

Finally, we look into the super pay gap, and how Australian women are still playing catch up when it comes to their superannuation.

Until next time – happy reading.

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Market update

Investors brace for another bout of market volatility as US-China relations take a turn for the worse, with a brewing tech cold war now on the agenda.

Equity markets lost steam over May breaking the start of 2019's four-month rally. Though, on a total return basis, the US S&P 500 was down -5.1%, the ASX 200 defied global momentum, rising 1.7% mostly supported by rising iron ore prices, and the Coalition's election win.

In latest US-China developments, President Trump has blacklisted Chinese tech firms deemed a national security threat, restricting the likes of Huawei and ZTE from doing business with American companies, following a breakdown of trade negotiations and a subsequent increase in tariffs. The move has aggravated China who has since signalled little interest in resuming talks with the US while retaliating with threats of their own.

The International Monetary Fund (IMF) has warned that the US-China trade war has already caused substantial damage, and that a failure to resolve differences alongside further escalation in other areas could dent business and financial market sentiment.

While the US Fed's patient approach towards monetary policy is believed to be appropriate for now, the Fed will be watching incoming economic and financial data closely to assess the case for a shift in monetary policy direction. A cut to interest rates could become a more attractive option if inflation continues to disappoint with annual core PCE, the Fed's preferred measure of inflation, having been reported to hold at 1.6%, below the Fed's 2% target.

Of some relief, the Eurozone economy was reported to have expanded by 0.4% in the March quarter. The past month's data has been positive, with the final reading for core consumer price inflation in April recording the firmest pace since mid-2015 at 1.3% year-on-year. Meanwhile, Italian political tensions heighten as the country's Deputy Prime Minister grows increasingly prepared to breach EU Budgetary guidance. On Brexit, the path remains clouded with uncertainty as Prime Minister May announced her resignation, following an attempt to push her many-times amended Brexit deal through parliament for a fourth time.

Domestically, the Reserve Bank has left the cash rate unchanged at 1.50%, but with unemployment having inched up to 5.2%, despite ongoing jobs growth, consensus is favouring up to 3 cuts in the cash rate over the next few months. In other news, the Coalition retained government having won the Australian Federal Election, against all expectations of a swing in favour to the Labor Party. The Morrison Government's victory served as a relief to the markets with the threat of Labor's policies targeting franking credit refunds and changes to negative gearing off the agenda.

Information current as at 3 June 2019.

Sustainable investing

There is no doubt that interest in responsible investments is growing.

Not only in Australia but globally, investors are increasingly interested in how a company makes its money, not simply how much it makes.

While some investors may focus on the longer-term viability of a company and its behaviour, others may hold particular values they want their investments to mirror. How these two strategies play out in the investments context can be different. We explore the rise of sustainable investing in more detail.

Changing investors' perception

Even at the highest level, investors are shifting from only looking at short-term returns to a broader focus on long-term value creation, including the impact a company is having on those around them.

In his 2017 letter to the CEOs of the companies his firm invests in – Blackrock CEO, Larry Fink, highlighted this exact issue noting that "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate".[1]

More and more investors are asking CEOs to focus not only on creating shareholder value, but also on long-term vision for the company, and, by extension, the impact it will have on society via investing sustainably.

It's not a new idea

Today, many investment managers, including BT, use environmental, social and corporate governance (known collectively as ESG) knowledge and data. It can help to inform the analysis of important areas including risk and innovation to engagement and voting practices.

Examples may include a company's interaction with the environment, such as water and air pollution, social factors like employee diversity or safety standards, along with the company's governance structure, such as how the board is composed and compensation structures. This approach seeks to add value or manage risks through broader, more comprehensive investment analysis, decision-making and engagement with companies.

Investing opportunities

For investors, navigating the world of responsible investment can be complex. Terms like ethical, sustainable and impact investing are often used interchangeably by investors seeking to ensure that their money is invested in companies or funds that mirror their values and beliefs. In reality, these terms each relate to a specific type of responsible investing – depending on what the investment is trying to achieve.

Ethical investing verses sustainable investing

Arguably, the most well-known responsible investment strategy among investors is ethical investing. This strategy's primary purpose is to exclude certain industry sectors, companies, practices or even countries that meet specific criteria from a fund or portfolio, based largely on the client's preference not to be invested in these activities. Traditional ethical investment strategies seek to avoid issues like tobacco, weapons, gambling, and pornography, however, investors are increasingly interested in strategies that avoid sectors linked to climate change or abuse of human rights.

1. https://www.blackrock.com/corporate/investorrelations/2017-larry-fink-ceo-letter

Sustainable investing, in contrast, is a type of responsible investing that considers ESG issues in an investment, alongside standard financial measures when assessing a company's performance. This might include how a company approaches employee relations, executive remuneration and anti-money laundering legislation.

Sustainable investing also lends itself to longer-term investment horizons and strategies. If more investors use a sustainable strategy in their investment decision-making, more and more companies will be encouraged to behave sustainably and address ESG concerns and opportunities in their business.

Impact investing is a rapidly developing field

You may also have heard about the rapidly developing field of impact investing. Impact investments preference the social or environmental purpose of an investment over or alongside its financial results. Whilst there are currently few opportunities to access impact investments for most retail investors, many people are attracted to the idea of investments that aim to deliver a positive outcome as an alternative, or complement to traditional philanthropic funding.

Women and superannuation
how the pay gap can impact your super

When it comes to super, Australian women are still playing catch up.

According to the Australian Bureau of Statistics, women are retiring with 37% less than men in their super accounts[1], which is a frightening thought considering women, on average, live up to five years longer.[2]

So, what's behind the super gap?

The super gap is partly due to the lower average earnings of women, data from the Workplace Gender Equality Agency, reports that the full time remuneration gender pay gap in Australia is 21.3% compared to males.[3] While many have blamed the "wage gap" on gender, Harvard Business Review research suggests women 'ask' for pay rises as much as men do, however, they are far less likely to actually get them.

The study also suggests that while men are successful in negotiating a pay rise 20% of the time, women were only successful 15% of the time (despite both genders' concern about damaging their relationships in the workplace).[4]

This in turn impacts retirement savings, as the less money you earn, the less superannuation you will received because your Superannuation Guarantee contributions are based on your level of income.

The second reason for the super gap, is that women typically take time out of the workforce to raise children. The absence of ongoing superannuation contributions can have a significant impact on the final amount women can end up with in super.

What can be done to address the super gap?

One of the simplest way to catch up on lost super contributions, is to make additional contributions to super along the way. Small amounts over longer periods of time may be easier to commit to, for example, making additional contributions may be enough to narrow the gap caused by taking time out from the workforce.

If you are getting closer to retirement, you may consider maximising the amount you are contributing each year in concessional contributions up to the $25,000 limit. Keep in mind, however that any contribution you do make to super will be preserved, and unable to be accessed until you meet a condition of release from super. Most commonly this would be reaching your preservation age and then retiring.

In addition, it's worth considering if you are in an appropriate super fund, which meets your needs, including the level of insurance cover you have and whether you may reduce this if you no longer need it.

Consider the fee structure of the super fund and also pay attention to how your super is being invested, for example - if you have a long time until retirement, you may benefit from increasing your exposure to growth assets.

For women in relationships, a problem shared could help close the retirement gap. This is because your spouse can split up to 85% of their concessional contributions each year with you. Further, if you earn less than $40,000 per annum, your spouse may be eligible for a tax offset of up to $540 for a $3,000 contributions (made with after-tax money).[5]

Three tips to closing the super gap

1. See how your salary compares with those doing a similar role and seek out regular reviews.
2. You may wish to consider seeking advice or, outside of that, whether making additional contributions may help bridge any super gap.
3. Take control of your super as soon as possible; little changes early can potentially make a big difference in the long-term.

1. https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4125.0~Sep%202018~Media%20Release~Slow%20growth%20at%20the%20top,%20but%20equality%20challenges%20remain%20%20(Media%20Release)~11
2. https://www.who.int/gho/mortality_burden_disease/life_tables/situation_trends_text/en/
3. https://www.wgea.gov.au/data/fact-sheets/australias-gender-pay-gap-statistics
4. https://hbr.org/2018/06/research-women-ask-for-raises-as-often-as-men-but-are-less-likely-to-get-them
5. https://www.ato.gov.au/Individuals/myTax/2017/Tax-offsets/Superannuation-contributions-on-behalf-of-your-spouse/

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