

A photograph of a family of four (a man, a woman, and two children) sitting on a wooden bench in a forest. The image is overlaid with a teal color. The text is in white.

INVESTSMART

Don't let three letters ruin your retirement

NATHAN BELL

PORTFOLIO MANAGER

It's time to take ESG seriously

- Higher returns
- Increasing risks for businesses
- Investors are becoming activists
- The fall of the Professional CEO
- Governments are getting involved
- ESG is becoming the norm



What industries are out?

- Industry standard negative screen
- Standards evolving
- Currently avoiding businesses that earn most of their revenue from the following sources:
- Fossil fuels; Pay day lenders; Alcohol; Gambling; Junk food and beverages; Supply chain concerns; Armaments;



Responsible Investment Association Australasia (RIAA)

	1 yr	3 yrs	5 yrs	10 yrs
Average Responsible Investment Fund	11.3%	9.8%	11.7%	5.4%
Large Cap Australian Share Fund Average	12.2%	8.0%	9.7%	3.5%
S&P/ASX300 Accumulation Index	11.9%	8.8%	10.2%	4%

Source: RIAA Responsible Investment Benchmark Report 2018

II recommendations

Ethical vs Unethical

14.8% vs 10.1%



Increasing risks from ESG concerns

- The market or government will expose you
- Hayne (Financial Services) Inquiry
- Aged Care Inquiry – Who's next?
- Renewables replacing fossil fuels
- Coca Cola – Sugar taxes; changing consumer preferences
- Increasing shareholder activism e.g. NAB
- Millennials more socially conscious



To improve is to change; to be perfect is to change often.

Winston Churchill

- Not changing the 'Il way'
- Stocks must pass fundamental hurdles
- Adding an ESG filter to reduce risk



“

It was never my thinking that made the big money for me, it was always my sitting.

Jesse Livermore



High quality businesses

- High insider-ownership
- Long growth runways
- A large discount to intrinsic value

Special situations

- New CEO
- Re-capitalised
- Spin-offs
- Hidden assets

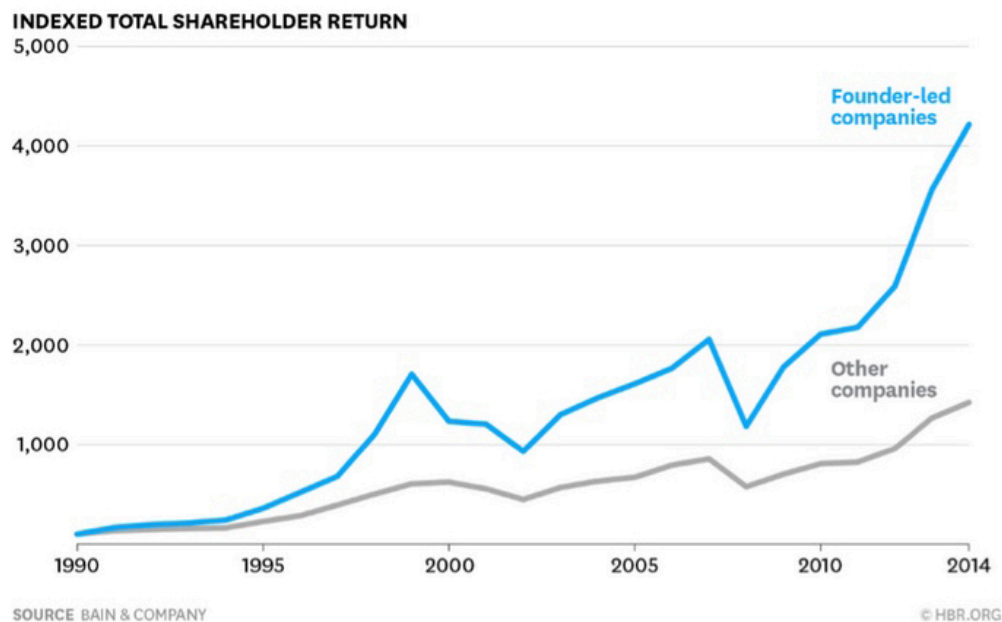


THE BEST CORPORATE GOVERNANCE IS
HAVING SKIN IN THE GAME

Founder-led companies vs S&P 500

Founder-led companies outperform the rest

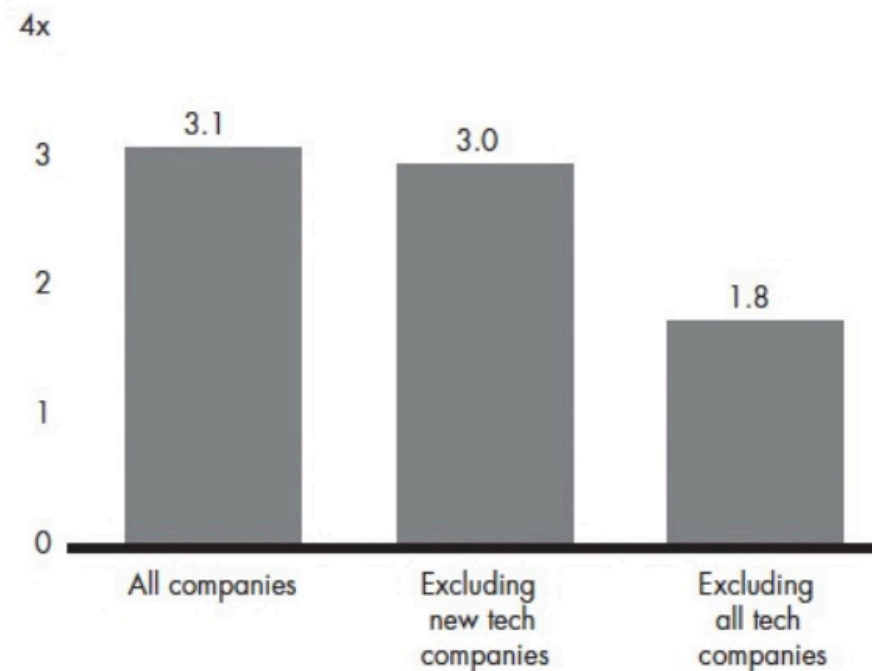
Based on an analysis of S&P 500 firms in 2014



Source: Bain & Company via Harvard Business Review

True even with tech companies excluded

Founder's Index vs other S&P 500



Source: Consultancy.UK

WHAT HAPPENS WHEN YOU DON'T HAVE INSIDE OWNERSHIP?

NEWS

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BHP's \$50 billion shale oil blunder

By business reporter [Stephen Letts](#)
Updated 23 Aug 2017, 1:39pm

Roll the clock back to February 2011, and BHP announced its arrival as a big and very ambitious player not only in the US shale oil game, but global energy.

It slapped \$US4.75 billion (\$6 billion) down on the table to buy the rights from Chesapeake Energy to around half-a-million acres of prospective shale gas reserves at Lafayette in Arkansas.

By June, it upped the bet significantly.

This time, it was \$19 billion, in a friendly takeover of Petrohawk and its 1 million acres of prime Permian Basin shale oil real estate stretching from Louisiana to Texas.

Oil was on the tear. It had risen from its GFC lows of around \$US40 a barrel, to be up around

RELATED STORY: [BHP pro](#)

RELATED STORY: [BHP Bill](#)
[slashed](#)

RELATED STORY: [BHP Bill](#)
[as too costly and risky](#)

Key points:

- Energy analysts v around \$13 billion invested
- Within two years price collapsed 7
- BHP favours a tra patient in getting

The Sydney Morning Herald

WORLD

Rio Tinto's billion-dollar mess: 'unprincipled, shameful and evil'

By [Daniel Flitton](#)

19 August 2016 – 4:12pm

f t w e | A A A

The gaping hole carved into mountains was at one point the world's largest open-cut copper mine. Right on Australia's doorstep, it delivered riches beyond imagining and a mess big enough to tear a country apart.

The Guardian

AMP chair Catherine Brenner resigns after scandals uncovered by banking commission

**Brenner leaves reported \$660,000-a-year role, as directors have
25% of fees stripped for this year**

The chair of financial services giant AMP, Catherine Brenner, has resigned from her \$660,000-a-year role, the latest casualty from the unfolding scandals uncovered by the banking royal commission.

Australia's largest wealth manager will also strip directors of 25% of their fees for the rest of the year. AMP's general counsel, Brian Salter, is also leaving, and the company has warned there will be "employment and remuneration" consequences for others involved in the fees-for-no-service scam.

ETHICAL COMPANIES (MOSTLY),
SUPERIOR BUSINESSES

CSL vs BHP

- Superior Return On Equity
- Truckloads more Free Cashflow
- More consistent profits and dividends
- Avoiding yesterday's heroes
- Focus on sunshine industries



ESG is becoming the norm

- Reflects changing social attitudes
- Increasing pressure on governance
- Reducing risk is good business
- Woolworths considering selling its pubs
- Management remuneration e.g. Dulux



It's easy

- Buy and sell just like a regular stock
- Ready-made portfolio
- Same Intelligent Investor long-term approach
- Focus on high quality businesses
- Long-term holdings help minimize tax
- Semi-annual distributions
- Regular reporting and candid communication
- Management fee; no performance fee



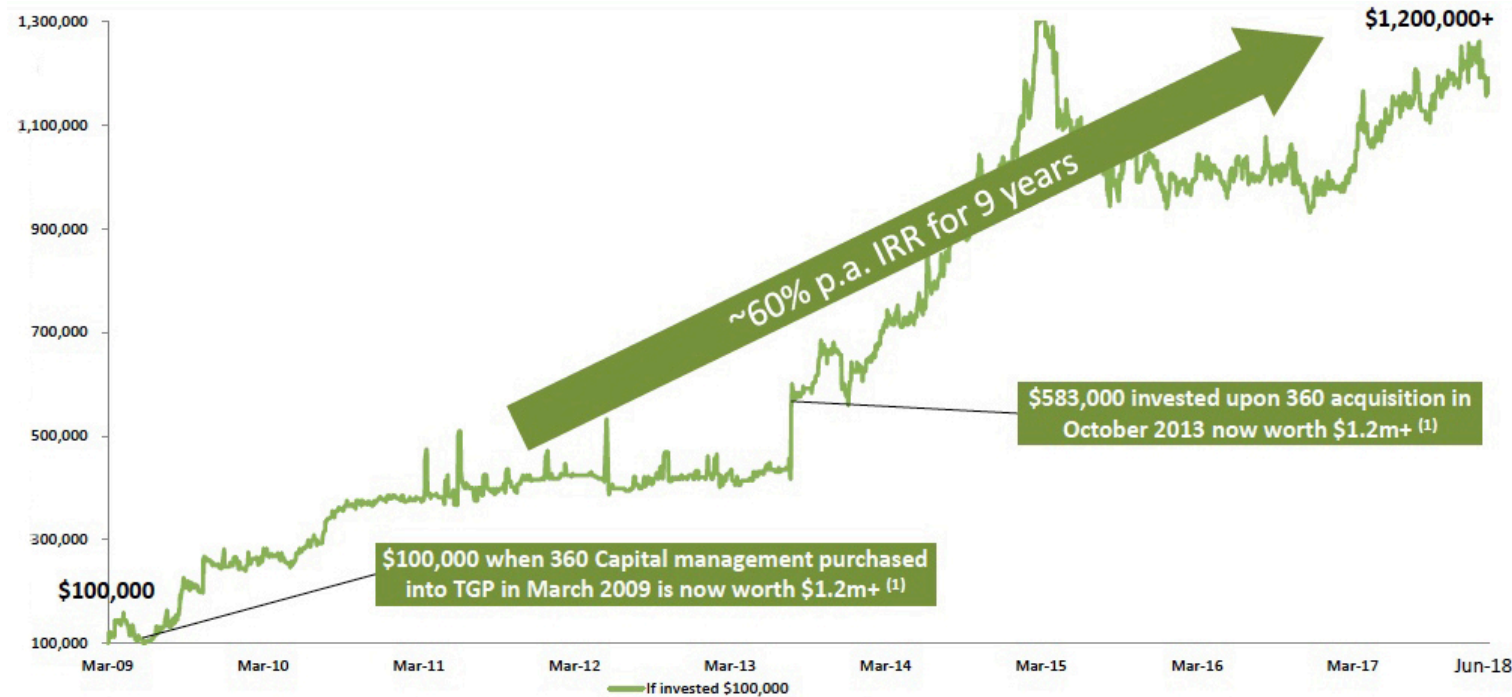
360 Capital

ASX:TGP

HIDDEN ASSETS

360 Capital

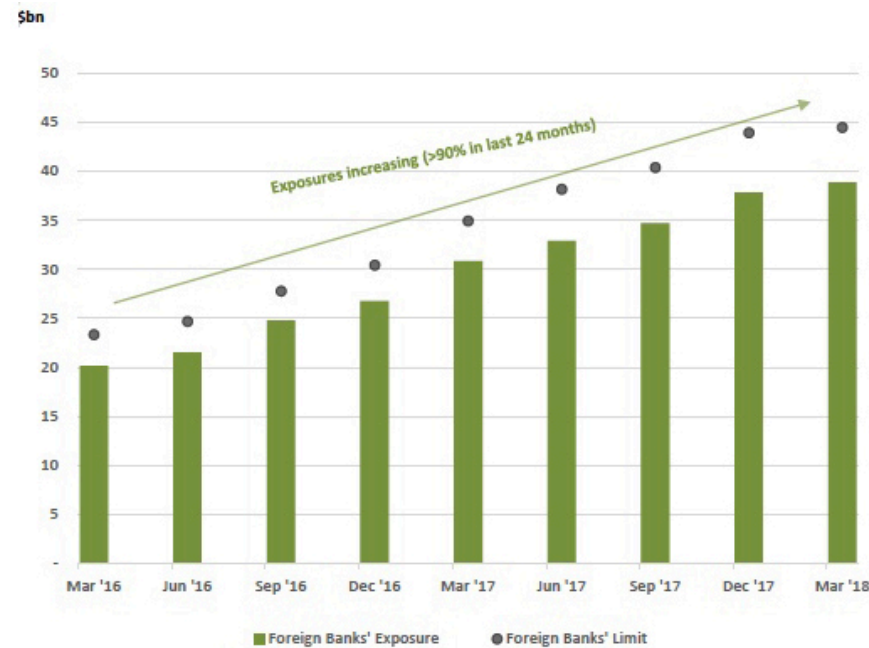
TGP's total return post 360 Capital's management involvement



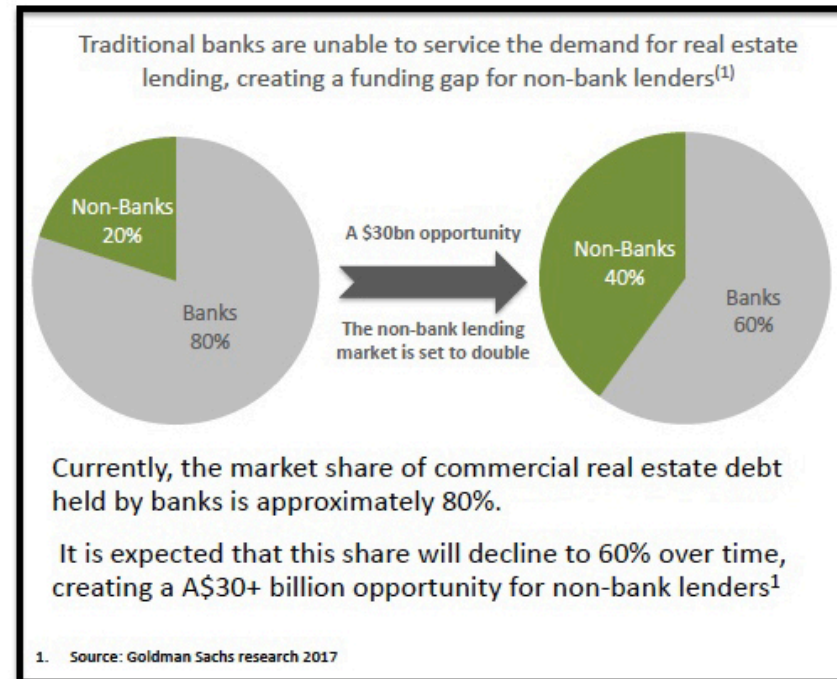
- Commercial property investment and funds management group
- Market Cap: \$207m; Trades at NTA; no value for 50% stake in AMF Finance
- CEO: Tony Pitt
- Major Shareholder: Tony Pitt (27%)

Source: TGP 2018 Annual Results Presentation

Foreign banks increasing exposures, a sign of increased regulatory pressures on local major banks

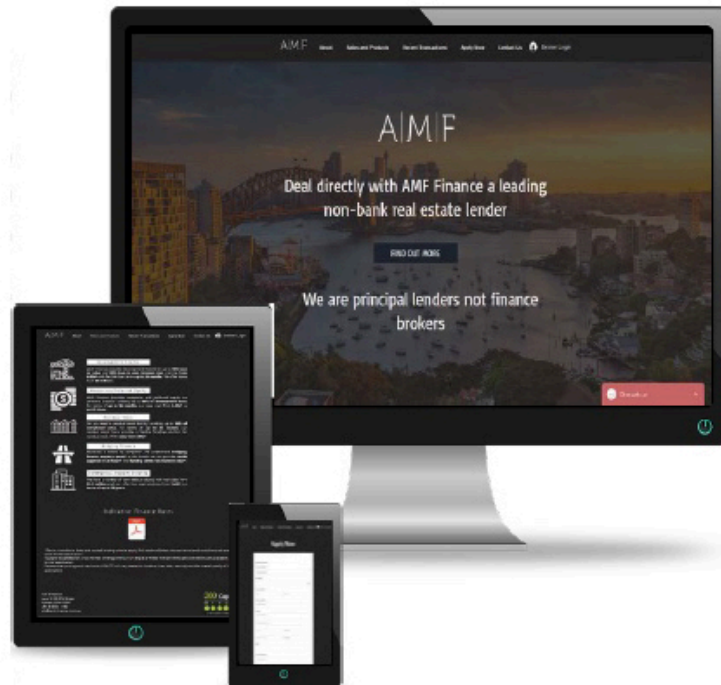


Source: APRA ADI Commercial Property Exposures March 2018



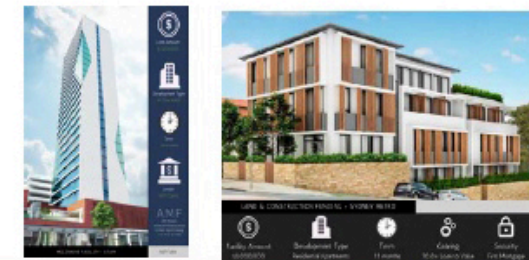
Source: TGP 2018 Annual Results Presentation

AMF Finance



www.amf-finance.com.au

- Over 7,500 finance brokers get regular updates
- Broker accreditation and login
- Tracks every DA submitted in Australia updated up to four times per day
- Introducer incentivisation program
- On-line applications across eight loan products
- Over 33,000 developer, advisors, agents, architects etc receiving regular correspondence
- Standardised loan documentation; capable of financial close within 24 hours
- Digital marketing strategy has generated significant deal flow and market awareness



Source: TGP 2018 Annual Results Presentation

Q&A



Contact us on 1300 880 160 Email us at support@investsmart.com.au