

**TAM INTERNATIONAL INVESTMENT NOTE**

## **SOCIALLY RESPONSIBLE INVESTING**

### Millennials: An opportunity?

Some say they're just out of nappies, others say they're the next world leaders, we say that the Millennial generation (those born between 1980 and 1999) are transforming the image of socially responsible investing (SRI). Knowledgeable and well-connected, the Millennials are using their power to drive the investment universe to cater to their demands for investments which not only provide competitive financial returns, but also deliver measurable environmental and social benefits. Several studies have in fact demonstrated that incorporating environmental, social and governance (ESG) data in investment analysis correlates with superior risk-adjusted returns at a securities level. No longer are investors willing to sacrifice returns for the good of society - the Millennials are demanding more.

The belief that SRI is merely for the 'do-gooders' of the world who are not concerned with the level of returns on their investments is fast becoming an outdated view, dismissed by the generation of young and trendy 16 to 35 year olds. The Millennial's generation is in fact on track to becoming the most educated generation to date (according to data from Pew Research Centre), though ironically, they are also the generation struggling the most to find jobs. For those lucky enough to land a job, salaries are lower than ever, while rent and property prices, particularly in London, are soaring. Oh and let's not forget those £27,000 plus university loans hanging over their heads!

Doom and gloom aside, the positive and far more interesting thing to emerge from all this, is that the circumstances of these young people have forced them to be much more prudent and shrewd with their incomes, becoming more independent and outcome-orientated than their predecessors. More importantly, the interest in SRI has evolved out of the fact that the Millennials are the first generation of 'digital natives', growing up in a technology and media-saturated world. They are therefore increasingly more aware of cultural and political issues and deeply engaged in current affairs such as human rights issues, environmental protection and business behaviour and ethics. They are looking to make a difference to the world and with the internet as their life blood, information can be tweeted, shared and liked within seconds, so their opinions matter more than ever.



The SRI universe must constantly develop and adapt to cater to this demanding generation of socially conscious and entrepreneurial investors. We are beginning to see the market grow and become more sophisticated as new types of funds and products are emerging, particularly in the passives space. There has also been a shift in the attitudes of ethical investors, from a focus on the negative screening aspect of SRI (i.e. the companies which should be excluded from the fund), towards funds with an emphasis on positive screening and engagement. This is known as **impact investing** - investing into companies, organisations and funds that have the intention to generate a positive social and environmental impact, alongside a financial return. This new strategy does away with the rigidity and formality SRI has previously been associated with, which often placed barriers up for the wider investor base who struggled to see past the fact that they were being 'excluded' from investing in certain areas of the market.

### **TAM think that the Millennials are onto something...**

Our most recently released performance data for the first quarter of 2017 is evidence again of how ethical investments are not always the bridesmaid, and can deliver superior returns over and above those of mainstream investments. Although short term, the first quarter of 2017 saw our Ethical portfolios not only comfortably beat their own non-ethical benchmarks by delivering returns in the range of 2-3%, but also outperforming their corresponding risk profile in standard investments. For example, the average Premier Balanced portfolio encompassing more conventional investments (which the majority of the market believe should outperform ethical investments given their wider universe of opportunity) returned 2.5% over the quarter, while an average Ethical Balanced portfolio returned 3.1%, with both beating their respective benchmarks. There is also evidence of outperformance of ethical investments over the longer term, with the FTSE4Good benchmark returning 25.5% in the past 5 years, versus a 21% return from the FTSE All-Share.

Whilst we are pleased with the performance of our Ethical portfolios, we are continually looking for innovative new investments that aim to enhance clients' returns. Our approach to ethical investing is becoming increasingly more aligned to the shift in priorities of ethical investors towards making positive change, rather than simply avoiding certain areas of investment, driven by the Millennials generation. Our portfolios are classified as 'socially responsible', meaning we are continually on the lookout for funds that are increasingly focused on strategies such as responsible engagement and 'social investing', rather than just negative screening. For us, it's simple: a well-governed company which is managing its exposure to ethical, social, environmental and sustainability issues likely to perform better overall.



In our opinion, the interest in socially responsible investing is only going to grow in the years ahead, despite some negative sentiment towards ethical investing recently, which resulted from the election of Donald Trump as US President, who claims that *“the concept of global warming was created by and for the Chinese in order to make US manufacturing non-competitive.”* If we have been taught anything by the recent events, it's that there's nothing like a hard-headed politician making outrageous claims to get people's spirits raised and fired up to fight for a cause that they truly believe in. We have no doubt that the Millennials can use their strong influence in society to drive a positive change for the future of SRI. They will pass the baton to the next generation of investors who have looked up to the Millennials as role models, likely to be ever more alert to the deeper issues our society is facing and determined to push for positive change.

We endeavour to stay up-to-date with the latest trends in the ethical investing space and will actively seek funds which strive to cater to the demands of our new generation of ethical investors. With a little help from Millennials, we see a future where socially responsible investing will become the norm, and no longer a niche market. Make some room, because ethical investing is most certainly here to stay!

JOIN THE CONVERSATION ON  

This document is not intended in isolation as an offer or solicitation or recommendation to use or invest in any of the services or products mentioned herein. Investors should be aware that the value of the portfolio and the income from it can go down as well as up so you may get back less than you invested. Past performance is not necessarily a guide to future returns. The value of investments denominated in foreign currency may fall as a result of exchange rate movements. The investments and services referred to in this document may not be suitable for all investors and, if in doubt, you should seek qualified independent financial advice. Any opinions, expectations and projections within this note are those of TAM Asset Management International Limited, represent only one possible outcome and do not constitute investment advice. TAM Asset Management International Limited is a subsidiary of TAM Asset Management Ltd and is regulated by the Financial Services Commission of Mauritius. TAM Asset Management Ltd is authorised and regulated by the Financial Conduct Authority in the United Kingdom.