



Ethical investing: Frequently asked questions

Purpose

This guide aims to support financial advisers in confidently raising, explaining, and implementing environmental, social and governance (ESG) and ethical investing conversations with clients.

It focuses on:

- Why sustainable investing matters for client outcomes and professional standards
- How to raise it neutrally and effectively
- What evidence supports informed recommendations

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QUESTION 1

Why ESG belongs in advice conversations



Client demand is strong

The Responsible Investment Association Australasia (RIAA) reports that 88% of Australians expect their investments to be responsible or ethical (RIAA 2024).



Adviser engagement is growing

According to HUB24's whitepaper Investing for the Future, with Clients of the Future (2023), nearly one in two Australian advisers now provide advice on ESG investments - up from one in five in 2016. This growth largely reflects increasing client demand for responsible and ethical investment options.



Regulatory alignment

The FASEA Code of Ethics requires advisers to act in the client's best interests and to consider their broader values and preferences.



Financial relevance

ESG factors can materially influence company performance and portfolio resilience — making them an essential part of prudent investment analysis.

Sources: Responsible Investment Association Australasia (2024). Responsible Investment Benchmark Report Australia 2024. HUB24 (2023). Investing for the Future – with Clients of the Future (ESG Whitepaper).

QUESTION 2

ESG integration: what it means in practice

Incorporating ESG can lead to enhanced risk and opportunity analysis

Investment managers increasingly incorporate ESG into core research rather than treating it as a separate overlay.

Key integration pathways:

1. **ESG as a risk lens:** evaluating issues such as climate exposure, supply-chain integrity and board governance alongside credit, liquidity and valuation metrics. The outcome: improved downside protection and resilience.
2. **Integration into financial analysis:** combining ESG data with traditional measures such as cashflow, leverage and profitability.
3. **Stewardship (active ownership):** using engagement and voting to influence better corporate behaviour rather than simply divesting.

Client framing

"ESG integration adds an extra lens to analysis, helping investment managers to identify long-term risks and opportunities so portfolios are better positioned to navigate future challenges and trends."

QUESTION 3

Investment performance

Does sustainable investing reduce returns?

Evidence from multiple long-term studies (MSCI, Morningstar, RIAA) shows that ESG-aligned portfolios tend to deliver returns broadly comparable with, and in many cases slightly better than, traditional benchmarks on a risk-adjusted basis.

Why performance can hold up

- ESG often overlaps with quality investing, focusing on well-run, financially disciplined companies.
- Better governance and risk management can reduce volatility and drawdowns.
- Exposure to long-term structural trends (clean energy, health innovation, technology) supports potential growth.

Short-term outcomes will vary depending on market conditions, (e.g. commodity cycles are doing well the ESG portfolio will likely lag). Over a full market cycle, the risk-adjusted performance of sustainable portfolios has generally been similar or marginally superior to mainstream peers.

Client framing

"Sustainable investing doesn't mean giving up returns, it's still about identifying quality companies, just with added focus on long-term risk management."

Why do sustainable portfolios look different?

The investable universe changes when ESG criteria are applied. Firms with higher environmental, social, or governance risks, or those that don't meet defined sustainability standards, may be underweighted or excluded. Companies with strong ESG practices or positioned to benefit from long-term structural trends may receive higher allocations.

Typical patterns include:

- **Underweights:** fossil fuels, materials and utilities, reflecting carbon intensity or transition risk.
- **Overweights:** healthcare, technology and services, sectors better aligned with future-economy themes.

Client framing

Sustainable portfolios are intentionally structured for the evolving economy, focusing on companies positioned for future growth and resilience, while managing exposure to industries likely to face long-term headwinds or stranded-asset risks.

QUESTION 4

Raising ESG with clients

Introducing ESG considerations early ensures client values are understood and incorporated into portfolio decisions.

When to ask

Treat values and sustainability preferences like any other discovery question.

"Some clients prefer us to consider sustainability factors; others don't, either approach is fine. Where do you sit on that spectrum?"

How to ask

Avoid binary yes/no questions. Offer a short spectrum instead:

- A) Performance is my priority
- B) I prefer to avoid a few sectors (e.g. tobacco, gambling)
- C) I want my investments strongly aligned to my values

Explain why you ask

"I ask this the same way I ask about your goals or risk appetite, to make sure your portfolio aligns with what matters to you."

For clients who already trust you

Reinforce trust by showing diligence

"To keep your portfolio aligned with your values, I check in periodically to see if anything has changed, are there any updates to what you'd like your investments to reflect?"



QUESTION 5

Avoiding greenwashing

Greenwashing is the practice of presenting an investment as more environmentally or socially responsible than it actually is. This can occur deliberately or unintentionally, for example due to incomplete information, inconsistent reporting, or misunderstanding of ESG practices. It's important to distinguish genuine ESG strategies from marketing claims by looking for evidence and measurable outcomes.

How to identify genuine ESG

Look for three evidence layers:

1. **Portfolio evidence:** clear investment policy, documented exclusions, transparent holdings, and credible third-party assessments and ratings (e.g. RIAA Certification, Lonsec Bees, Zenith RI, Morningstar Globe/Leaf).
2. **Stewardship evidence:** published voting policies, engagement case studies and measurable escalation outcomes.
3. **Real-world outcomes:** progress reports and independent verification.

What to ask from managers

- ESG and investment policy statement
- Full holdings lists
- Engagement and voting records
- Independent certifications or audit references

A credible manager should be able to explain how ESG insights influence buy/sell decisions, not just screening criteria.

Client framing

We don't take claims at face value, we look for data, transparency and measurable progress.

QUESTION 6

Implementation and scale

A structured approach helps advisers implement ESG preferences efficiently while accommodating different client values.

Serving different client values efficiently

Use a core-satellite approach:

- **Core:** diversified ESG-integrated model portfolio
- **Satellite:** optional tilts or impact themes (e.g. renewable energy, gender equality) for clients with stronger views

This approach allows consistent implementation without bespoke workloads.

Scaling ESG advice

- Include brief values questions in your fact-find
- Map responses to approved ESG model portfolios or SMAs
- Use research-house or associations ESG assessments and ratings for due diligence
- Reconfirm preferences at annual reviews, not every meeting

HUB24 research shows nearly half of advisers already provide ESG advice, with demand continuing to grow.



Efficiency principle: structure, not customisation, drives scalability.

QUESTION 7

Technology and compliance

AI and digital platforms can streamline ESG discovery and product matching by applying consistent prompts and reducing unconscious bias.

However, advisers remain responsible for ethical judgment and suitability.



Technology enhances consistency, advice remains human.

QUESTION 8

ESG through a retiree lens

For retirees, ESG investing prioritises companies that seek to deliver long-term financial stability, reliable income, and strong governance, rather than activism.

Benefits may include:

- **Capital preservation:** better governance reduces risk of capital loss events.
- **Sustainable income:** companies with disciplined cashflow and governance tend to maintain dividends more reliably.
- **Avoiding value traps:** ESG data highlights businesses at risk from structural decline or stranded assets.



For income-focused clients, ESG is about reliability.

QUESTION 9

Market and demographic trends

Growth in ESG and sustainable investing is progressing at different rates across regions, driven by local policy, regulation, and investor adoption.

Region	Indicative growth	Key drivers
Australia	~20–25 % p.a.	Policy support and rising adviser participation
Europe	~20 % p.a.	Regulatory integration (EU Taxonomy, SFDR)
United States	Mixed	Political polarisation and disclosure inconsistency
Global	~18–19 % p.a.	Institutional adoption and retail inflows

Estimates based on extrapolation of 2023 growth rates; not guaranteed forecasts.

Supporting data

- **RIAA:** Australia's responsible investment assets reached A\$1.6 trillion in 2023, up 24 % year-on-year.
- **Netwealth:** "Emerging Affluent" Australians (aged roughly 25–44) now control about A\$1.8 trillion in household wealth and show higher interest in sustainability and purpose-driven investing.
- **HUB24:** Nearly half of advisers already provide ESG advice, reflecting mainstream adoption.



The shift is now about transparency and evidence, not just scale.



QUESTION 10

Quick reference conversation scripts

Situation	Sample language
Neutral entry	"Some clients prefer us to consider sustainability; others don't. Either approach is fine — where do you sit?"
Trust framing	"You trust me to manage your portfolio; I just want to ensure I understand what matters most to you."
Performance reassurance	"We focus on strong, well-run companies. ESG simply adds another lens for long-term risk management."
Portfolio differences	"Sustainable portfolios look different because they're built for the future economy"

Compliance reminders

When discussing ESG or ethical preferences:

- Record preferences in your fact-find and Statement of Advice.
- Align recommendations with those preferences.
- Reference credible data sources; avoid unsubstantiated claims.
- Maintain neutrality: ESG discussions are client-led, not adviser-led.
- Reconfirm preferences periodically.

Summary



Why

ESG is part of modern risk management and client expectation.



How

Ask neutrally, act transparently, align with client preferences.



Value

Strengthens trust, meets best-interest duties, and supports resilient long-term outcomes.

References

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Money Management (2023). "Australians prioritising advisers' knowledge of responsible investment."



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