



# Beyond the thematic- Why ethical is not just another short term theme

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# Where does the ESG thematic fit?

## Shades of green



### ESG integration

The explicit inclusion of environmental, social and governance (ESG) factors into traditional financial analysis.

### Portfolio screening

Does or does not invest in sectors, companies, practices or countries based on ESG or ethical criteria.

### Corporate advocacy

Influences corporate behaviour through direct engagement and shareholder action

### Sustainability themed

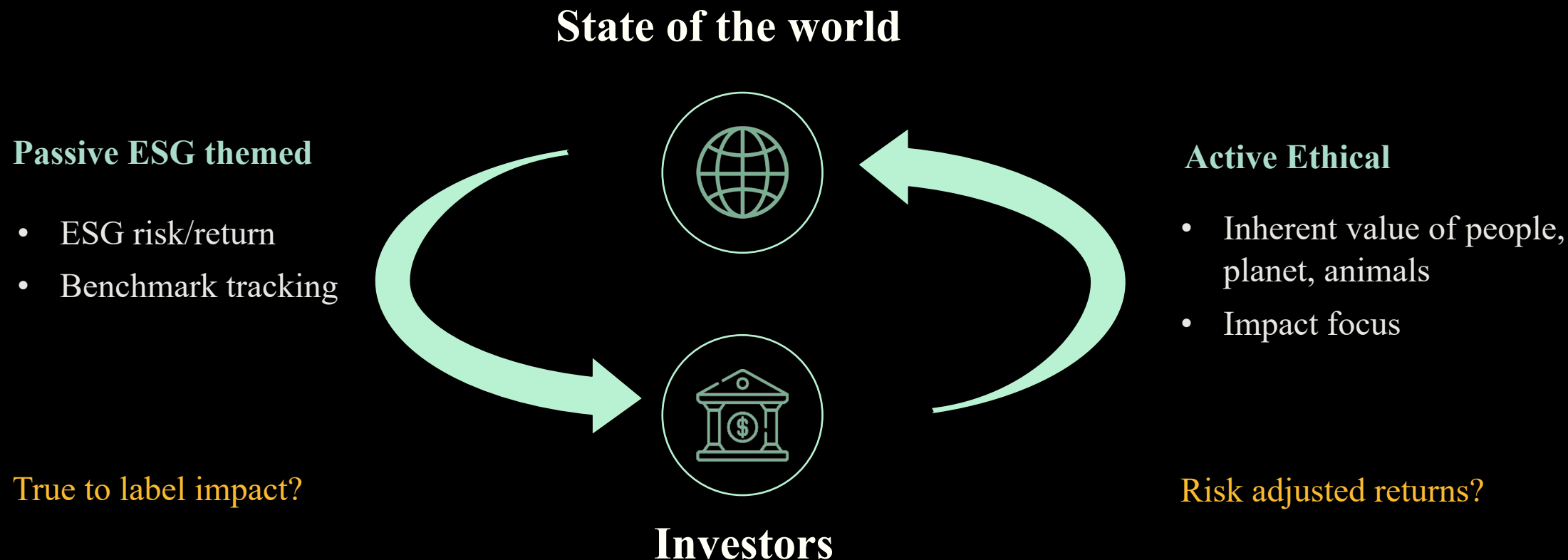
Focuses on investment in themes or assets specifically related to sustainability factors

### Impact investing

Targeted investments aimed at solving social or environmental problems while delivering financial returns

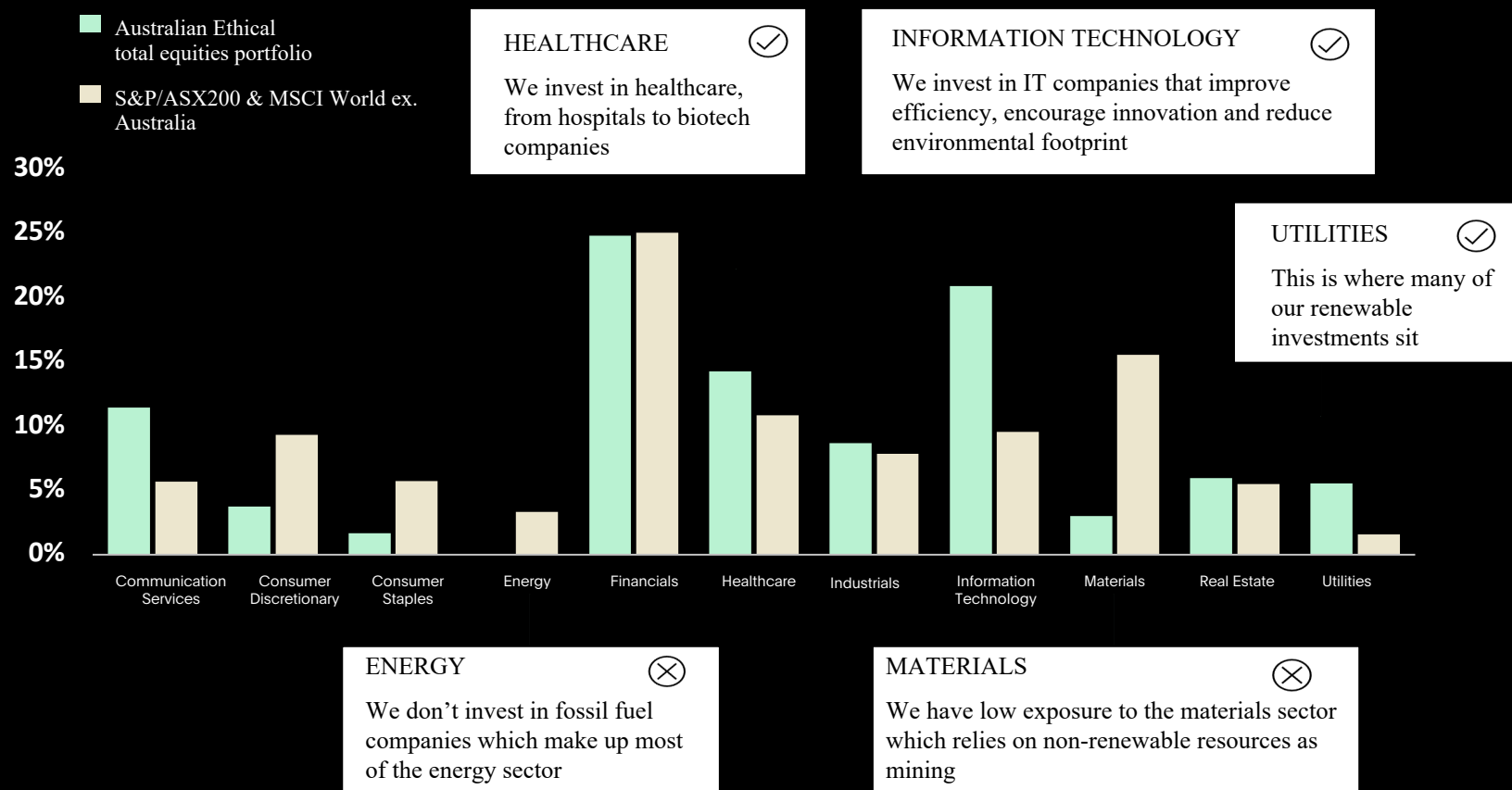


# ESG themed vs Ethical investment





# Sector allocation vs the market



As at June 2021



# How do index ESG themed ETFs measure up in Australia?

Sector Exposure:	ETF 1	ETF 2	ETF3
Financials and Realestate	38%	33%	53%
Healthcare	23%	12%	9%
IT and Communications	21%	16%	6%
Industrials and Materials	12%	35%	21%
Consumer	5%	4%	11%
Utilities and Energy	0%	0%	1%
Total	100%	100%	100%
Ethical Screening:			
% stocks screened out under AE Charter	~15%	~37%	~39%

\*as at 28 February 2022

\*\* estimated percentage of stock names screened out (not weights) basis



# Performance of ESG ETFs in Australia

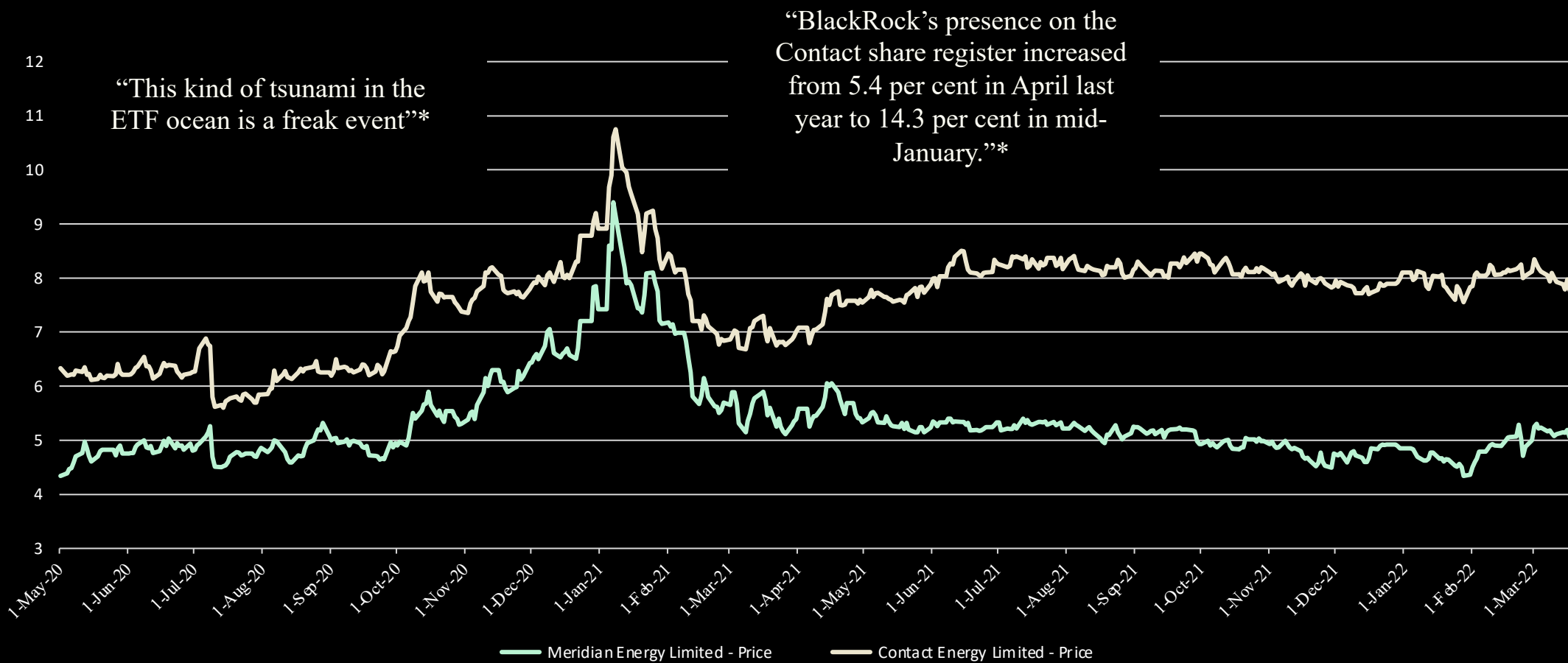
Feb-22	3 mths	1 yr	3 yr	5 yr
<b>Index Tracking Funds:</b>				
Product 1	-9.1%	9.0%	7.3%	n/a
Product 2	-6.1%	11.1%	7.8%	6.8%
Product 3	-2.9%	12.2%	6.1%	6.0%
ASX 300	2.0%	10.3%	8.7%	8.6%
<b>Fundamental Active Strategies</b>				
Active ETF 1 (dual class managed Fund)*	-0.2%	15.5%	11.3%	7.2%
Active ETF 2 (quoted managed Fund)	0.6%	n/a	n/a	n/a

\*includes performance history of unquoted managed fund prior to ETF class listing

\*\* all funds are quoted net of fees



# Passive pitfalls

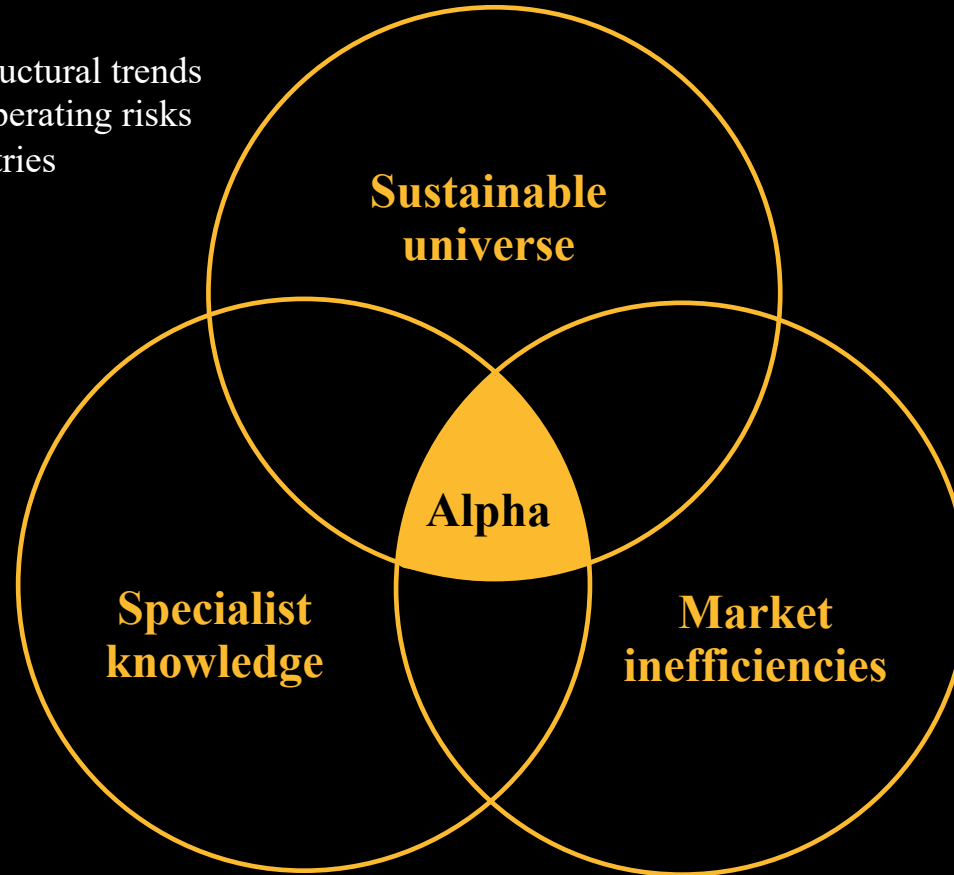


\*The Australian Financial Review, April 6 2021: *Kiwi energy players brace for BlackRock ETFs’ mega selldown*



# Thematic tailwinds and alpha

- Positive structural trends
- Reduced operating risks
- New industries



- Healthcare
- Information Technology
- Utilities and Renewables
- Financials

- Index unaware
- Fundamental valuations
- Patient providers of capital
- Portfolio resilience





# Case study: Investing in Healthcare

## 1. Thematic tailwinds

- Ageing population
- Technological development
- Essential need and social good

## 2. Business Model characteristics

- Recurring, defensive earnings
- High margins
- Global scalability

## 3. Key Risk Factors

- Regulatory
  - Product
  - Animal testing (ethical)
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# Two decades of returns of the ASX 300 Healthcare Sector



- 2012-2021 CAGR
  - Healthcare 300: 20.8%
  - ASX 300: 10.8%
- 2002-2011 CAGR
  - Healthcare 300: 4.1%
  - ASX 300: 6.1%



# Current positioning in Healthcare

## Positioning for:

- Under-levered balance sheets
- COVID volume recovery plays
- Increased role of private health
- Intersection of health with technology
- Products over services
- Capital discipline

## Ethical considerations:

- Animal testing
- Drug pricing

“When Merck set the price for its immunotherapy cancer drug Keytruda at more than \$150,000 per year, doctors and patients were alarmed.”\*



# Current healthcare exposure AEAE.CXA

## High Conviction Fund

### Global Growth

Ansell Limited  
 Cochlear Limited  
 CSL Limited  
 Fisher & Paykel Healthcare  
 Nanosonics Limited  
 Pro Medicus Limited  
 Resmed  
 Sonic Healthcare Limited

### Domestic Leaders

Australian Pharmaceutical Ind.  
 Estia Health Ltd.  
 Healius Limited  
 Integral Diagnostics Ltd.  
 Medibank Private Ltd.  
 NIB Holdings Ltd  
 Ramsay Health Care Limited  
 Sigma Healthcare Ltd  
 Virtus Health Ltd.

### Biotech

Clinuvel Pharmaceuticals Limited  
 Immutep Ltd  
 Imugene Limited  
 Mayne Pharma Group Limited  
 Mesoblast Limited  
 Opthea Limited  
 Paradigm Bio. Ltd.  
 Polynovo Limited  
 Starpharma Holdings Limited  
 Telix Pharmaceuticals Ltd.

### Global Growth Basket

Median 10 yr return pa.  
 Median PE:  
 Portfolio overweight

26.5%  
 38.2  
 -6.0%

### Domestic Leaders Basket

Median 10 yr perf  
 Median PE:  
 Portfolio overweight

12.8%  
 19.2  
 10.0%

### Biotech Basket

Median 10 yr perf  
 Median PE:  
 Portfolio overweight

10.9%  
 n/a  
 0.3%



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# Thank you!

Mike Murray

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