



How to build a responsible portfolio

ASSET looks at how an adviser can build a portfolio based on responsible funds.

By Philip Macalister

A question often asked is this: “Is it possible to build an ethical or responsible portfolio without sacrificing returns?”

One of the arguments advisers use for not adopting responsible investment portfolios is that it sacrifices returns. But there is now clear evidence that investing responsibly can be beneficial to investors.

Arguably, the poster child for this argument is New Zealand’s specialist ethical investing fund manager Pathfinder Asset Management.

Returns from Pathfinder’s conservative and balanced funds have exceeded their Morningstar benchmark in the past five years with returns of 4.1% a year and 7.75% respectively compared with the Morningstar benchmarks of 2.6% and 7.66% respectively.

The company’s growth fund has achieved annual returns of 9.43% over five years, short of the Morningstar benchmark return of 10.29%.

Responsible investing is now mainstream and not some niche, hippyish fad. There are a significant number of funds available in New Zealand that can be classified as “responsible” and the number keeps growing.

Indeed, one of the observations made when putting this feature together is that a significant number of funds ethical investment advisers use are mainstream funds used by advisers who are not adopting an ethical approach to portfolio management.

For this feature we wanted to demonstrate how an adviser can build ethical portfolios for clients. Our approach was to ask four of the top ethical advisers to provide us with their recommended fund lists. As part of this project we agreed not to identify advisers and their specific lists, rather we have aggregated them into one list.

There was commonality between advisers with managers and funds but equally some advisers had funds others didn’t use.

Our next step was to engage Chris Douglas at Mapua Wealth to evaluate the list. Douglas provided a breakdown of each fund.

“Responsible Investment is a broad church,” he says. “Almost all funds now have some form of responsible investment approach, however, as always with investing, the devil is in the detail.”

A good example is global equity funds and the different approaches managers have taken to exclusions and even the threshold for including a sector.

He says the list of funds provided “didn’t have any surprises”.

“All the funds you could term

‘responsible investments’, even the three fixed income funds termed ‘Not specifically RI fund though reasonably ethical’ stake up pretty well. They all have some exclusions, incorporate ESG into the process (aside from Simplicity NZ Bond) and would meet the standard of most investors.”

Mapua Wealth categorises the funds into three different approaches to responsible investing as follows:

- **Light green:** Index-aware with some exclusions, reduced carbon footprint and ESG integration
- **Positive bias:** Highly active, focusing on a broad range of thematics and alignment with UN Sustainable Development Goal
- **Green thematic:** Funds focusing on one thematic such as climate change, renewable energy and water.

Douglas observes the advisers take different approaches. Two of them have a greater focus on the Positive Bias funds, while the other two have a mixture, including the Light Green funds.

“When it comes to good portfolio construction, it’s difficult to build a portfolio with only Positive Bias funds, many of those funds have suffered relatively poor returns over the last few years, especially if their approach has led to a small/mid-cap growth bias,” he says.

“So, you need to be aware of your biases and I would argue that it’s good to have a few Light Green exposures to ensure you have a well-diversified portfolio.”

RI asset classes evolving

Douglas says investment focus has only recently turned to fixed income, with most advisers adopting an SRI/Ethical framework to their equities first.

Reasons to embrace ethical investing

Rodger Spiller could well be called the godfather of ethical investing in New Zealand. His journey down this path began way back in 1983 when he graduated from university and won an accounting for a paper he did on corporate social responsibility.

He laments the dearth of advisers who have embraced ethical investing and thinks for many “it just goes in the too hard basket.”

“There’s a lot on any adviser’s plate these days, and the necessity to avoid greenwashing to avoid being inauthentic is increasingly in the spotlight.

“So if an adviser’s going to offer a solution in this space, they need to demonstrate that they’ve done the study, they’ve done the research, and they can

Funds ethical investment advisers use

Alphinity Sustainable Share Fund
Amova NZ Bond Fund
Amova NZ Corporate Bond Fund
Artesian Green & Sustainable Bond Fund
Australian Ethical Australian WS
Australian Ethical International Share Fund
BetaShares Australian Sustainability
BetaShares Global Sustainability Leaders Fund
Booster Socially Responsible Investment KiwiSaver
Coolabah Short Term Income Fund
Devon Global Impact Bond Fund
Dimensional Australian Sustainability PIE Fund
Dimensional Global Sustainability
Evidential STFF
Federation Alternative Investments
First Sentier Responsible Listed Infrastructure Fund
GMO Climate Change Trust
Harbour Australasian Equity Fund
Harbour Australasian Equity Income Fund
Harbour NZ Corporate Bond Fund
Harbour Sustainable Impact Fund
Harbour Sustainable NZ Shares Fund
Impax Sustainable Leaders Fund
Kernel Global ESG Fund
Kernel Global Green Property Fund
Kernel Global Infrastructure
Kernel S&P Global Clean Energy Fund
Kernel Wealth NZ Commercial Property Fund
Mint NZ SRI Equity Fund
Nanuk New World Fund
Pathfinder Ethical Trans-Tasman Fund
Pathfinder Global Green Bond Fund
Pathfinder Global Responsibility Fund
Pathfinder Global Water Fund
Pathfinder KiwiSaver
Pengana Emerging Companies
Pengana WHEB
Perennial Better Future
Schroder Global Sustainability Fund
Schroders Specialist Private Equity Fund
Simplicity Global Equity
Simplicity NZ Bond Fund
Simplicity NZ equity
Stewart Investors Leaders Sustainability Fund

This table represents a variety of funds used by four advisers who specialise in ethical investments. It is representative to illustrate that many of the funds are “mainstream” as well as some specialist funds. There may be other funds used too.

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Chris Douglas



understand the difference between the different levels of ethical investment offerings,” he says.

“We know there’s quite a range from what I call ethical strong to medium to light. And for many advisers getting their heads around the education, the research, the insights that’s required is a step too far.

“But I really encourage everyone to do that. It’s obviously on the one hand, essential because if you say you got to know your client and you’ve got to meet the client’s needs, if you don’t ask them about their ethical concerns and their values, then how can you say that you know your client and that you’re meeting their needs?”

Spiller believes the demographics point towards there being a real, and growing demand for ethical advice. Research shows there’s going to be a massive transfer of wealth from the older to younger generations.

“Many younger people, they do have these ethical values. They do want to ensure that the money they’re receiving is invested that way. So right across

the demographics from grandparents to parents to children and even grandchildren, what we’re seeing is there’s this conversation going on about what kind of world do we want to be living in and making sure our money is aligned with that,” he says.

“So I’d encourage advisers to really get into it.”

An active approach

Carey Church says the epiphany that resulted in her becoming a specialist ethical investment adviser was that “for two years all our new clients were asking for ethical investing. It reflected our personal values and with Mindful Money research we could have a genuine approach to help people understand investing that reflects their values.”

Her approach to ethical investing can best be described as a full on one.

As an adviser with many years’ experience she was trained, and still believes, in active management.

But that doesn’t exclude passive funds. She has four passive funds which she calls “defined index funds” in her portfolio.

Three are from Betashares and one from Kernel.

These funds, she says, work within strict frameworks.

“They are not going to go outside of their constraints.”

Church’s approach is really a deep dive into ethical investing as has been acknowledged in the Mindful Money awards.

Back in 2020 she and others in her business completed the PRI Diploma in responsible investing.

That led to a full review of their existing fund managers. This process was deep and detailed including reviewing all the publicly available information, sending questionnaires to managers and requesting one-on-one meetings.

The whole process took more than a year to complete and threw up some interesting observations. Amongst these were that Australian managers were far more open than their New Zealand peers and many already had material available which answered their questions.

This demonstrated that Australia is more advanced in ethical investing than

New Zealand, she says.

Likewise, some managers opened them with open arms and full transparency and others treated them appallingly and refused to provide information or answer questions.

“It really showed the gap between Australian and New Zealand fund managers,” she says.

In many ways Church and MoneyWorks have become specialist researchers in ethical funds.

No Nasties

It’s not a technical term, but it is one Church uses a lot, avoiding nasties.

It is a nice way of talking to clients about what is, in industry jargon, negative screening.

Church has six types of “Nasties” and these are the same as what Mindful Money uses (she buys Mindful Money research and gets the charity to research funds).

The six nasties are:

1. Environmental destruction
2. Human Rights violations
3. Weapons
4. Social harm
5. Fossil fuels
6. Animal cruelty

Perhaps the most complex is social harm which can cover things like; gambling, alcohol, pornography, tobacco etc.

Some clients suggest it is hypocritical to exclude alcohol when they enjoy a wine with dinner, or a beer in summer at the beach. Or maybe they like buying a Lotto ticket every now and then.

This leads to an important aspect of ethical investing, getting know your client.

Getting to know your client is a

fundamental part of ethical investing and in some jurisdictions is built into regulations.

This may surprise some advisers, but Church says: “it is impossible to avoid nasties.”

The challenge is to identify them and make sure the client knows about them.

A great anecdote she provides is around a client who wanted no weapons in her portfolio.

The client had around 0.5% of her portfolio exposed to weapons. Church explained why this was the case and what it meant for the portfolio and why they were there.

In the end the client wanted 0%, so that is what she got.

“It’s really about education and talking,” Church says.

She tells clients how much they may have exposed to nasties and asks: “How do you feel about that?”

Fixed interest

This is nearly the easiest part for Church and she uses three managers:

- Artesian
- Harbour
- Amova (formerly Nikko AM).

Artesian is an Australian manager distributed by Devon in New Zealand and is, in her view, “the gold standard.”

Harbour has great ethical credentials but does not rely on them for marketing purposes.

Over the years we have written about Harbour and its approach to investment management. It screens all listed New Zealand companies against a proprietary questionnaire asking questions about sustainability and how they manage various issues.

When the results of this screening

Doubling Down on Impact

Why fixed income is the quiet powerhouse of ESG investing

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“At its core, this is a global fixed interest strategy designed to deliver strong returns - first and foremost relative to the global aggregate bond universe. What makes it different is that it also has sustainable features as a key strategic objective” said Matthew Goldsack, General Manager Investments at Trust Investments. “The fund allocates around 40% of assets to securities with measurable positive impact, targeting outcomes that benefit society and the environment”, Goldsack said.

Why fixed income? Because the biggest lever for change isn’t always equity. In 2024, global sustainable bond issuance exceeded US\$1 trillion, up 20% year-on-year. Cumulative issuance since 2018 has surpassed US\$4 trillion, with green bonds leading the charge. Bloomberg Intelligence projects ESG assets to reach US\$40 trillion by 2030, with fixed income playing a central role.

While some institutional managers are retreating from ESG commitments, Trust Investments is doubling down. Businesses increasingly recognise that transitioning to cleaner, more efficient operations isn’t just ethical - it’s financially sound. The demand for sustainable debt structures continues to grow, driven by investor appetite and the need to fund real-world solutions.

“Nuveen’s impact platform alone manages US\$10.3 billion in fixed income securities targeting affordable housing, climate resilience, and natural resource protection”, Goldsack said.

The Trust Investments ESG International Bond Fund is built for advisers and investors who want to align portfolios with purpose - without compromising performance. It’s about investing in a future that works - for markets, for people, and for the planet.

Learn more at www.trustinvestments.co.nz



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Rodger Spiller

E+S+G

Part of our equation

At Milford, we undertake detailed analysis of the businesses we invest in, including their Environmental, Social and Governance credentials.

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You can find more detail on what our RIAA Leader status means on our website: milfordasset.com/sustainable

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are put against performance there is clear evidence that companies which embrace sustainability outperform those who don't.

Church is open to looking at new funds when they come to market, like Nuveen, which Trust Investments is distributing in New Zealand. (See sidebar).

However, like all the other managers and funds Church uses, it must go through her rigorous research process.

This, she says, may take a year.

KiwiSaver

Church says KiwiSaver is a problem area as it is very hard to get information from managers, with the exception of Pathfinder – who, as you would expect, is very open and transparent.

She uses two other managers and has dumped others as her view is they didn't walk the talk. What they put on the tin was very hard to prove.

In her view KiwiSaver has become a big marketing exercise by fund managers to hoover up funds, rather than something based on investment management.

Peter Lee

Peter Lee is also a previous Mindful Money Ethical Adviser of the Year Award winner and, like Church, his decision to go down this route is personal.

"It's a combination of us as individuals, and what we saw as a real need in the world.

All of us at the firm are driven by a strong desire to help make the world a better place, knowing that finance and money can be a force for good.

"We want our

children to live in a more sustainable society," he says.

"It's clear from research, such as the annual surveys by Mindful Money and RIAA, there is a huge demand for investments that don't compromise society or the environment, and also help to create that sustainable future.

"Our own experience is exactly the same – clients really do want to take care with how they invest. For example, three quarters of all New Zealanders want to avoid investments that have negative impacts. By offering ethical investment advice, we help bridge the gap between desire and opportunity."

Lee reinforces the view that ethical investing is not all that different from what most advisers do anyway.

"At its heart, our process is little different to that of any good advisory firm, just with a few more questions asked around values/beliefs and preferences.

"We have a series of model portfolios, as this is generally the best way to meet the needs of most investors. Over time, we have optimised the portfolios in conjunction with our research house, to find the best and most optimal balance between diversification, efficiency, cost and good ethical outcomes.

"It also means we can meet the needs of more clients than we could if we try to individually tailor to each individual client."

"We have found there are two broad types of client which you could loosely categorise as 'light green' and 'dark green' and we have a series of portfolios for each."

The "lighter green" portfolios are largely based on negative screening, which works for a large proportion of his clients. The "dark green" portfolios are designed for clients who want to favour sustainability-focused companies, themes, or bonds as well as avoiding certain industries.

"On top of that, we can cater for those who have a stronger interest in one or more themes through a core/satellite approach, preserving the integrity of the main portfolio," he says.

Lee takes a different approach to investing, compared to Church, which demonstrates that ethical investing is flexible.

"Our house view is that markets are generally efficient and that, in the long run, despite the additional management fees, it is difficult for active managers to consistently outperform relevant benchmarks.

"Our models are all built on index/rules-based funds as their core – this meets the needs of our investors for strong ethical criteria while remaining evidence based. We tweak the Sustainable Plus series to allow some active funds so that we can favour certain themes or types of investment and not merely avoid.

"This is done at strategy level, not client level. It suits clients who are comfortable with a slightly higher overall portfolio cost and slightly reduced diversification. Because those active funds are not a large percentage of the portfolio, we still keep the average cost low."

Like Church, Lee says a key part of the process is the fact find. He follows the same six-step process most advisers do.

"The extra step we bring in is through an ethical preference questionnaire. That helps identify the areas of most concern that the client wants to avoid, but also areas they may want to favour. The relative strength of these, together with our interactions with clients, gives us a very good indication as to which of the two main model portfolio options is likely to be the best for the client."

Lee notes the menu of funds he can use is evolving. In the past year a number of new PIE funds from Australian managers have come to market which has improved tax efficiencies for most investors.

"Changes in our approved product list are revolving around new thematic funds, such as funds with a stronger social impact, specialist water funds and private equity with environment/social themes."

"Most of our funds would also be ones other advisers might use as they will have a good track record, be well-diversified and reasonable costs. More specialist

funds include the GMO Climate Change Fund, given its focus is of significant concern to many of our clients. A rather different fund that we are bringing on is the Federation Alternative Investments II Fund, which is in essence a private equity fund with some liquidity.

"While not specifically promoted as an ethical fund, it has the hallmarks of a good responsible fund, is targeting companies that are making a sustainable difference, and is RIAA Certified. It caters well for clients with a higher risk profile as part of a core/ satellite approach."

Fixed interest is almost always via bond funds. "We have specific allocations to New Zealand and global bonds, including using Artesian's Green and Sustainable Bond fund. We see the emergence of new bond funds such as Blue/Green bond funds."

The big question: How's performance?

Church has done some back testing of portfolios but came to the conclusion that it was meaningless as she was testing her old portfolios from years ago when things were different to current portfolios in today's environment.

But one observation she made from her research is that the older (pre-



'It's really about education and talking.'

Carey Church

2010) portfolios did better, but as time has moved on and ethical investment management and funds available has changed, the newer ethical portfolios had proven to be better performers.

Lee says a good example of performance "would be our Sustainable Balanced portfolio, based on index/rules-based funds, and with many clients invested."

The five-year return to June 30, 2025 was 7.6% annually (net of management fees but before tax), compared to the benchmark 7.1% annually and peer group average of 6.1% annually. (The performance start date was 1 July 2021 so the 5-year return includes a calculated backdated return for the first year).

It's not that hard to be good

Investors are wanting ethical portfolios and demographics suggest that there will be a growing demand.

Advisers who have embraced ethical investing have grown successful businesses. They have shown that being ethical isn't too much different from mainstream advice.

The funds used are largely the same, with some specialist funds thrown in. A key difference is the fact find builds a stronger relationship with clients, and arguably one which has longevity.

Advisers in this area may know their clients better than those who are not asking questions about values and ethics. Knowing your client is a fundamental part of financial advice and ethical investing unlocks this.

As for the hoary old chestnut, investment performance; this has well and truly been cracked. **A**

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