THE AUSTRALIAN

Power to reprimand Russia lies in the hands of investors

STIRLING LARKIN THE AUSTRALIAN JULY 26, 2014 12:00AM

Russian Prime Minister Vladimir Putin, right, with Gazprom head Alexei Miller. Source: News Limited

The role of wealth advisory is not only to guide investors towards the best yielding opportunities but also those which reflect their personal preferences, convictions and moral boundaries.

This consultative process is designed to give investors a chance to ask that certain considerations are made, which respect their moral, ethical, personal beliefs and worldviews.

It is then incumbent on a contemporary wealth adviser to acknowledge any such "antipathies" when establishing and managing a client's portfolio.

Today, such requests often include instructions to avoid, in any way possible, the commercial support of tobacco and smoking products, gaming and gambling, blood diamonds, workshop child labour or geopolitical atrocities such as Darfur, Syria, Sudan or North Korea, to name but a few.

Further to this, there is a growing recognition that charity and philanthropy are not the only ways we can make a meaningful difference to the world in 2014.

Notwithstanding, a concerning misconception continues in Australia that believes that only institutional or ultra high net worth investors can make these types of effective investment decisions and that other investment communities have little influence and therefore can, at best, only make token efforts. There is no greater time to debunk this misconception than now.

Private individuals, from many walks of life here in Australia, can take their own personal steps to sanction the Russian Federation for its callous and heinous atrocities against Australians last week.

The MH17 disaster and Russia's continuing disregard for international law, which would allow an impartial international investigation and the respectful repatriation of victims, is thought by many Australians to be beyond the pale and viewed by most as unequivocally unacceptable.

For investors who hold such convictions, they too can take their own direct action to discontinue supporting this regime, which largely finances its geopolitical activities not through their own domestic tax base but through their stakeholding in largely monopolistic state-owned enterprises, such as Gazprom.

It is thought that, in Australia, our superannuation savings are close to $1.6 trillion.

According to Deloitte, it is projected this pool of assets should grow to $7.6 trillion by 2033, or, in real terms, from less than 100 per cent to about 180 per cent of Australia's GDP over the next 20 years.

However measured, Australia's superannuation pool is one of the largest in the world and is thus obviously taken seriously, by all global investment markets.

Even in light of the disproportionate press that self-managed super funds receive, the bulk of Australian superannuation is still held within super funds, where most Australians, who receive a salary and pay PAYG tax, nominate to which fund and to which "strategy" their superannuation savings are directed.

Given a thousand different names, in essence, these "strategies" can often be reduced to three simple choices: low growth, balanced or high growth.

It is near impossible to know, in "aggregate", how many individuals in Australia choose the high-growth options; however, what is known is how these options are constructed and constituted.

After the "genesis" of the BRIC (Brazil, Russia, India and China) theme in 2001, direct emerging market (EM) investments have grown in popularity and, as importantly, in acceptance.

Today, much of Australian super funds high growth allocations are still put towards EM investments, even in light of the recent volatility and downside pressure due to the tapering of US Federal Reserve "quantitative easing" and thus reduction in what is referred to as "easy money". Even though the EM theme is much broader than simply BRIC's, Australian Super Fund portfolio managers still display a clear bias towards allocating a large chunk of their high-growth allocations towards direct BRIC investments.

There is no universal definition of how BRIC allocations should be made; however, in all variations, direct Russian investments account for, at very least, a quarter and often more. This quarter is almost always constituted by direct and ADR (American Depository Receipts) investments in three Russian oil and gas majors: Gazprom, Lukoil and Surgutneftegaz.

The Russian economy and government rely directly on the commercial success of these three businesses and have become, in a way, a "one-trick pony".

They have failed to diversify their economy since the end of communism and the double edged sword, such created, in putting all their eggs in the Oil and Gas monopoly basket is that, if the international community makes the hard decision to boycott and sanction Russia for its geopolitical overreach, then Russia's powerbase is very weakened.

Unknowingly to those Australians who passively allocate their superannuation towards high-growth strategies, they are often directly supporting the investment base of Russian oil and gas majors through these allocations.

If we presume that three quarters of Australia's $1.6 trillion in superannuation is managed by superannuation funds and guesstimate that then a quarter of those funds is allocated to high-growth options, which most likely invest anywhere between a tenth to a quarter of those EM funds towards direct Russian gas majors, then, unknowingly, Australians are supporting Russia by maintaining investments of between $3bn to $7.5bn annually.

If Deloitte is correct in forecasting that Australian superannuation is set to grow fivefold in the next 20 years, then these levels of direct Russian investments can inevitably only grow.

As important as it is for our federal government to pursue its own sanction and punitive options, private Australian individuals, if they wish to do so, can also take decisive steps to seek redress and ensure that their investments are not only allocated to the best-yielding opportunities but also reflect their own personal convictions, ethics and moral positions.

Everybody hopes Russia will at some stage accept its global responsibilities but if they continue to fail to do so, we can all take direct steps to ensure we will no longer support them. Ignorance is no longer an excuse.

Larkin Group is a Wholesale Wealth Adviser focusing on high yielding global investments. www.larkingroup.com.au