

YOUR MONEY YOUR CHOICE

A Guide to Ethical Investment

Your Money - Your Choice will help you to change your day-to-day finances to benefit both you and the wider world around you. Your money can work to promote human rights, help disadvantaged communities, or benefit the environment.

AUTHORS

The two organisations responsible for this document are the Ethical Investment Association (EIA) and the UK Social Investment Forum (UKSIF).

Ethical Investment Association

The Ethical Investment Association represents financial advisers with specialist expertise in matching the values of individuals and organisations with their financial requirements. Membership of the EIA is open to all financial advisers as a forum for acquiring and sharing knowledge about ethical investment.



Financial advisers are welcome to attend one of our training days with presentations by leading authorities and fund managers involved with specialist management and research.

If you are seeking ethical investment advice, the EIA website has a list of financial adviser members around the UK. Please note that all EIA members are financial advisers authorised and regulated by the Financial Services Authority.

Further information on the EIA is at www.ethicalinvestment.org.uk or email info@ethicalinvestment.org.uk

UK Social Investment Forum

The UK Social Investment Forum was launched in 1991 to act as a national focus and voice for the different strands of socially responsible investment (SRI). Its purpose is to educate the public and the government about SRI in the UK.



UKSIF runs a wide range of events, reflecting the full spectrum of interest in this growing field and members include financial institutions, financial advisers, research providers, consultants and others concerned with SRI.

A full list of UKSIF members and further information on the organisation can be found at www.uksif.org Email: info@uksif.

HOW DO YOU FEEL ABOUT

- **Animal testing**
- **Companies selling arms to military regimes**
- **Corporate social irresponsibility**
- **Directors' pay awards unrelated to performance**
- **Genetic modification**
- **Global warming**
- **Human rights violations**
- **Nuclear waste**
- **Pesticides in food and water**
- **Pornography and the exploitation of women**
- **Poverty at home and abroad**
- **Racial or sexual discrimination**
- **The hole in the ozone layer**
- **Tobacco and youth smoking**
- **Unequal opportunities**
- **Workers' conditions in poor countries**

If any of these or other issues concern you, a financial adviser who specialises in social, ethical and environmental investment can provide advice on the fund that most closely reflects your personal concerns.

WHY ETHICAL INVESTMENT?

HAVE CONFIDENCE IN YOUR INVESTMENTS

If you decide to make an ethical investment, you won't be alone. More than £4 billion is invested in UK retail ethical funds and around 78% of the assets of the largest pension funds have begun incorporating SRI principles into their investment process. In the USA, one in every eight dollars is invested ethically, and this trend is expanding globally. By joining this fast growing movement, you will be helping to shape the future.

Investments are being made in your name every day. Some of them may not be consistent with your personal values. By making financial decisions through your choice of mortgage, bank or building society accounts, investments, pensions or insurance, you can influence how your money is invested.

Whether it's your bank or building society account or pension and insurance policy you hold, large institutions are deciding in which activities and companies to invest your money on your behalf, largely through stocks and shares. Their primary aim will be to select financially sound companies which they anticipate will bring good returns.

However investors have not traditionally concerned themselves with how companies make their profits, whether their activities benefit the environment and the communities where they operate, whether they pay their employees a living wage, and a range of other issues. More and more people now believe that companies should incorporate these matters into their business strategy.

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Investing in funds with specific ethical and environmental criteria is one important way of **expressing your values**. These funds are run by specialist fund managers and researchers who avoid investing your money in the most negative companies, and seek out progressive companies that they consider will also give you good performance.

Ethical investment enables you to make a positive contribution to goals such as environmental protection, fair trade or human rights whilst still receiving competitive returns.

MANY HAPPY RETURNS?

Ethical investment needn't mean lower rates of return. The business case for favouring companies with good records of environmental and social performance is increasingly apparent. Social and sustainability indices, which select shares in companies identified as leaders in terms of their social and environmental performance, have performed comparably to mainstream indices.

Managers of some of the biggest investment and pension funds are now looking at company performance in a different light. They realise that a company which pays inadequate attention to environmental issues, ethical and boardroom behaviour, and community involvement may carry higher risks and possibly reflect how the business is managed as a whole. Both these factors may affect the companies' long term performance and thus the value of their and your investments.

In order to assess these factors, fund managers are increasingly asking questions and monitoring company performance in this area. Some - though not all - ethical funds and financial institutions use the influence of their shareholdings to encourage companies to be more socially responsible, while others reward companies showing good practice by investing in them. This means ever larger sums of money are being governed by ethical principles.

Private ethical investors also play a vital role in this process. Some ethical investors put in large capital sums while others invest only modest amounts, perhaps through monthly savings schemes. Whatever your contribution, as an ethical investor you will be making a difference by choosing to manage your everyday and longer term financial arrangements in a way that reflects your personal concerns.

Ethical investment, also known as socially responsible investment (SRI), describes financial services that combine financial objectives with concern for social, environmental and ethical issues. SRI offers a means by which we can advance positive social and environmental goals. **Ethical Screening** is the selection of stocks and shares in investment portfolios on ethical, social or environmental grounds, either by excluding unacceptable shares or actively selecting shares in companies with superior social or environmental performance. **Shareholder Influence** means seeking to improve a company's ethical, social and/or environmental behaviour as a shareholder through dialogue, support for responsible management and voting at AGMs. **Cause-Related Investing** supports a particular cause or activity by financing it through investment.

HOW ETHICAL INVESTMENT CAN WORK FOR YOU

To assist with your decision making, you may find it helpful to speak to your financial adviser. If you do not currently have an adviser, it makes sense to contact one who specialises in ethical investment. Your adviser can introduce you to a stockbroker who specialises in ethical services for individuals, charities, trusts and organisations with

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£100,000 or more to invest or with an existing portfolio, perhaps of inherited shares. Financial advisers with a particular interest in ethical funds are likely to belong either to UKSIF, or to the EIA, or to both organisations.

ETHICAL FUNDS

Around half a million people in the UK now invest in ethical funds. During the 1990s the annual percentage increase in ethical investment outpaced total investment in unit trusts and investment trusts in every year but two. There are now more than 60 UK ethical funds, which may be ISAs, Unit Trusts, OEICs (open-ended investment companies) or investment trusts. Ethical Bonds and Pensions are also available.

Each fund has its own assessment criteria for making investments, in addition to its financial characteristics. Some funds focus on screening, while others seek to improve the social, environmental and ethical performance of companies in which they may invest. Some financial institutions are developing corporate responsibility and environmental policies to run alongside their investments.

A number of funds operate according to very strong principles, excluding a large proportion of leading companies from their portfolio - and therefore a significant proportion of the stock market. They tend to invest in small and medium-sized companies and may offer a higher level of risk or volatility. However over the long term such funds can still demonstrate good performance while investing in innovative companies.

Other funds may simply avoid companies which do not meet their criteria - e.g. involvement in the arms trade - and invest in largely mainstream companies without seeking to change their policies. Others may invest in a broad range of sectors including oil and mining, but enter into dialogue with companies to ascertain how they plan to develop in the future. They may also work to influence company policy and encourage positive change, based on the views of their investors. Guidance on finding the right fund and institution to match your personal values and your financial needs is best provided by a financial adviser with specialist knowledge of the ethical investment market.

ETHICAL PENSIONS

Since July 2000 the trustees of an occupational pension fund must declare in its Statement of Investment Principles, what extent, if at all, they take ethical, social and environmental factors into account when instructing investment managers on behalf of pension members. They are not obliged to include any ethical screening, although some now do so. If you are a member of an occupational pension scheme, you may like to enquire about what policies your scheme has adopted, and how the effectiveness of these policies is monitored.

Ethical fund choices have been available for some time on many personal pension and Free Standing or in-house AVCs. A number of stakeholder pension contracts also offer an ethical-fund option. A pension is a long-term investment, so it makes sense to get advice from a specialist ethical financial adviser.

THE MEETING POINT

There are many practical ways in which you can help to ensure that your financial planning reflects your personal concerns. Both your day-to-day transactions and longer term financial planning can be made through financial institutions offering an ethical perspective. There are now many ethical investment options. So how do you decide which best meet your financial and ethical preferences - and also satisfy your requirements for investment risk?

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OTHER FINANCIAL PRODUCTS

Ethical versions of current accounts, mortgages and savings accounts are all available. Some banks and building societies have clear ethical and environmental policies and offer services including current accounts, cash ISAs and savings accounts, mortgages and other lending facilities. **Details of such institutions can be found on the UKSIF website.**

BUILDING SOCIETY ACCOUNTS

Although many building societies have de-mutualised, a number remain committed to retaining their mutual status - their ability to be run by members for their joint benefit. As well as offering mortgages and savings accounts, some of these mutuals also offer a range of banking services. Look in your Yellow Pages for building societies in your area and ask them for their policy on mutuality.

CAUSE-RELATED INVESTMENTS

These enable investors to support a particular cause or activity, such as job creation or increasing social capital in disadvantaged communities, by financing it through investment. This type of investment takes many forms but typically helps encourage regeneration by providing cheaper loans to enterprises in under-invested communities, assists organic farmers during their conversion period or helps producers in the developing world to export their goods to fairtrade markets. To maximise the social return on their money, investors receive a below-market financial return on their investment.

CREDIT UNIONS

These financial co-operatives are owned and controlled by their members, who are primarily savers - but the money they save can be loaned to other members at reduced rates. Credit unions are a proven means of tackling financial exclusion and can help to support your local community whilst still enabling you to receive a return on your deposit. The Association of British Credit Unions Ltd (tel: 0161 832 3694) has further details on how you can become involved.

ACTION YOU CAN TAKE NOW

Take a look at your present savings and investment accounts to find out what your money is currently supporting. Question the policies of your current financial providers: they make use of any money in your account, investing it to earn interest while you are not using it.

Ask your bank and other financial service providers about their codes of business ethics and policies on environmental and social issues, and how they apply these when investing your money. You can also ask about their **corporate governance** - the standards of business conduct that apply to the board of directors which oversees the company's business. Additionally, ask for information on its investing policies, and whether investments are screened for their ethical, social or environmental impacts. It is worth remembering that these impacts may be positive as well as negative.

If you hold company shares directly, you could also ask these questions of the company and find out if they produce an environmental or social report. If you are a member of a pension scheme, ask for a copy of the Statement of Investment Principles relating to your fund. If this does not take environmental or social considerations into account, ask them why.

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ETHICAL FINANCIAL PRODUCTS & SERVICES

Available to you on the market today are a selection of day-to-day financial products and services which take into account your personal values.

These include:

- Bank accounts & services
- Building society accounts and services
- Credit cards
- Community Investment
- Insurance - residential, travel and commercial
- Investment schemes, including unit trusts and ISAs
- Mortgages
- Pension schemes, including stake holder pensions
- Saving & borrowing facilities
- Stocks and shares portfolio
- Unit and investment trusts and OEICs
- Venture Capital

If you have any queries or comments, please contact us.

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