Guide to ethical investing

Part of our '*Simply Talking*' series

Purposeful • Money

How and why sustainable investing evolved. A brief history.

Socially responsible investing dates back as early as **1758**, where at an annual meeting the Pennsylvania Quakers decided to prohibit members from partaking in the slave trade. Another group of London-based Quakers later formed the committee for the abolition of the slave trade that eventually brought down the abolition in **1807**.

Along the years other Acts were passed that established the groundwork for Parliamentary intervention on conditions of things such as employment, workers' rights, racial inequality- all of which have created the roots for SRI.

In **1984** Friends Provident launched their first ethically screened investment fund in the UK- they began to offer investors access to a negatively-screened investment fund which excluded alcohol, tobacco, armaments and oppressive regimes.

Also in that year, after heavy campaigns for divestment among US College Funds, Barclays Bank and GM were the first key corporations to cease their activities in South African markets. Other large corporations followed suit and boycotted other business undertaking in South Africa- the rapid outflow of money was one of the tipping points of the anti-Apartheid movement.

The largest pension fund in the world, the Government Pension Fund of Norway establishes ethical guidelines for investment after it discovered that its $1 trillion fund was invested in some highly controversial companies with involvement in tobacco, arms production and fossil fuels. Since **2004** the Government Pension Fund has divested from around 60 companies, including: Airbus, Imperial Brands and Boeing.

In **2006** the UN launches their principles for responsible investment based on principles that Environmental, Social & Governance can adversely affect the performance of investment portfolios – they should be considered by institutional investors to fulfill their duty to clients. The principles saw a marked increase in signatures in the wake of the Global Financial Crisis.

In **2015** The UN Secretary General, Ban Ki-Moon addressed nations by saying **"We don't have any 'plan B' because we don't have any 'planet B'"** – this guided the development of the United Nation's 17 Sustainable Development Goals. Countries adopted the goals, aimed at ending poverty, protecting the planet and ensuring prosperity for all with each goal having a specific target that is to be achieved by 2030.

In 2017 Purposeful.Money was formed.

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Why invest Ethically?

It might be an easier question to ask why wouldn't you invest ethically?

If you currently invest in a pension or an ISA there is a very strong chance that your money could be financing, among other things, weapons production, animal exploitation or environmental damage. If you care about the impact that your money may have on issues such as these then responsible investing is definitely something that you should consider.

Below we have considered just some of the main reasons why it makes sense to invest in a more thoughtful and Purposeful way.

It is now easier to match an investment to you own values.

Over recent years the amount of damage that can be caused by irresponsible company behavior in such areas as the environment and communities has become more apparent. The exciting thing nowadays is that as an investor you have a choice and a very powerful way to have your say in these issues. By investing more purposefully you are striking another blow against the company's that are acting irresponsibly and helping to take another step towards a positive change.

One of our primary objectives at Purposeful.Money is to ensure that our portfolios are free from fossil fuel extraction and exploration companies. This is an important step in the development of our proposition and we continually monitor the portfolios to ensure that this objective is maintained.

We take the time to explore each clients individual values and ethical concerns. We can't promise that we have a perfect solution but we can show you how our portfolios match up to your individual views.

You can avoid the negatives.

Some funds ensure that your money isn't supporting companies which engage in activities that might be in conflict with your own values. Examples of this might be animal welfare issues or fossil fuels.

You don't have to sacrifice financial returns.

It is commonly understood now that ethical investments can perform as equally as well as traditional funds, if not better. It is important, to understand that there is no guarantee that this will be the case and the value of units can go down and may be worth less than was paid in– just like any investment. Investing in an ethical and purposeful way is now acknowledged as a sound medium to long term strategy.

Your investment can make a difference.

Your investment can make money and make a difference at the same time. Your investment could help to create a gradual shift towards better corporate social responsibility, and ultimately shape the future of the planet.

It makes sense!

Longer term solutions are needed for environmental concerns such as global warming and pollution, and investments supporting these tend to hold firm in times of volatility.

What actually is Ethical Investing?

There is no simple answer to this question. Ultimately ethical investing is dependent on the individual investors view. It is all about how you, as an individual, personally feel about an industry or practice such as Animal Welfare, arms manufacturing or climate change.

"Socially Responsible Investing (SRI) is the practice of incorporating ethical and moral criteria that account for environmental, social and corporate governance factors in the financial investment process". It's concerned with three areas, collectively known as **ESG:**

- **Environment:** the most obvious SRI category with constant news regarding climate change and pollution. Greenhouse gases emitted by cars, factories and agricultural activities are seen as a serious threat to the planet. Since the environmental movement has increased over the last few decades there has been an increase in options for investing in an environmentally friendly way.

- **Social:** refers to the way in which business affects society- issues like economic equality. 'Sweatshop labour' is an increasing concern to consumers aside from the material impact. Businesses that have sweatshop labour are pressurised to lower their wages as much as possible. Workers usually only have few employment opportunities so accept what they can, making a lot of businesses act unethically.

- **(Corporate) Governance:** concerned with how a company makes its decisions, how it's managed and how it implements policies such as hiring practices, diversity policies and so on. Companies with poor corporate governance, such as banks that lend recklessly, act poorly due to management decisions and actions.

Problems arising due to definition

As discussed, individual opinion differs on what the definition of 'ethical' truly is and there are numerous terms that come under the umbrella term of 'ethical investing' e.g. responsible investing, values-based investing, morally responsible investing, ethical investing, sustainable investing—so what qualifies as a 'green' investment is also a gray area.

Buying a stock which is an industry leader in terms of employing environmentally-conscious businesses practices in a traditionally 'un-green' industry, like the oil industry, may be seen as a green investment by some but not by everyone else. A gas company might be taking precautions to prevent any direct damage to the environment in its day-to-day operations of drilling for gas, but the burning of fossil fuels is still the leading contributor of climate change.

Similarly, there is no right or wrong answer with the ethical concerns a person may have. Even though alcohol retail and production are one of the oldest screening criteria in the history of ethical investing – a number of people nowadays do not have a problem with investing in a fund that supports it. Another example is a person who is strongly against intensive farming might not see a problem with a fund investing in fossil fuels.

The most known and 'popular' screening issues are called the 'sextet of sin' which include:

- Weapons
- Alcohol
- Nuclear power
- Gambling
- Pornography

However, it's important to remember your ethical concerns are individual to you and no one should prescribe their feelings onto them.

Different approaches to Ethical Investment

There are several ways of integrating ethical investing in to your financial objectives, the first of which being exclusion, which is simply where one determines what activities they do not want to approach or invest in. As previously mentioned tobacco, weapons, alcohol, nuclear power, gambling and pornography are the most common exclusions.

In order to have a say on the investments in your portfolio, a process called screening must take place. Screening is an undertaking where securities are excluded or included based on ethical criteria. This enables an investor to identify companies they wish to support or avoid. Investment managers on the other hand use investment screening as a method to eliminate specific risks from their portfolio, protect the organization's reputation and respond to the expectations of the key stakeholders around ethical standards. There are two types of screening, these are:

Negative Screening

This approach specifically excludes companies which do not meet established ethical criteria. This involves screening out the stocks of companies involved in activities such as the following:

Fossil Fuels
Armaments manufacture
Animal Welfare issues such as intensive farming and fur production
Alcohol
Tobacco
Human rights violations

Positive Screening

Targets the stocks of companies that are committed to responsible business practices without sacrificing portfolio diversification or long-term performance e.g. companies with good minority hiring records, good environmental records, good community relations. Positive screening pushes the idea of sustainability not just in the narrow environmental or social justice sense, but also in the sense of a company's long-term potential to compete and succeed.

Positive screening incorporates both normal investment risk analysis as well as consideration of ESG criteria in order to assess which companies perform best measured against similar corporations in an investment universe so, the investment manager can gain insight into risks or opportunities that a strict financial analysis will not uncover.

Examples of positive screening are:

- Respecting animal welfare
- Promoting organic farming
- Promoting alternative energy

Impact investing

Essentially this is where the fund manager looks for companies to invest in who try to make a positive contribution to society and where they have good corporate governance and working practices. In most cases the fund would also naturally exclude companies in sectors traditionally seen as unethical as very few, if any, would meet the funds ethical criteria. As an example one of our flagship funds WHEB Sustainability is entirely focused on companies providing solutions to sustainability challenges so every company they invest in has a product that is addressing a critical social or environmental challenge. Furthermore engagement is one of the pillars of WHEB's investment process by using their influence to improve the way that they operate. Purposeful.Money are strong advocates of the approach taken by WHEB and utilize their Sustainability Fund in all our portfolios at this time.

The 'Purposeful' approach to ethical investing

Purposeful.Money maintain 5 risk based Socially Responsible Portfolios that are designed to deliver positive returns for the longer term investor and at the same time invest in funds that meet high ethical standards.

We have a stringent fund selection process where we individually review all of the available funds to screen out those that are not fully divested from Fossil Fuel Extraction and Exportation Companies The remaining funds then go through additional selection process before they are recommended for one of the risk based portfolios.

On a regular basis we review our own processes and the ethical stance of each of our funds to ensure that the portfolios continually improve and evolve more purposefully.

Our main ethos is

Help people in the UK to invest their money to further transition to a sustainable economy

Purposeful.Money are Chartered Financial Advisers and our primary objectives are to offer the highest standard of Financial Advice to those who are concerned about where their money is currently invested, and the damage to the planet and society that this may be endorsing.

Pressure Investment houses to invest more sustainably

This is an important role for us. We , like other stakeholder groups are able to put more pressure on Investment Houses to encourage them to invest more sustainably. One important step that we have taken is not to invest in any fund that supports Fossil Fuel Exploration and Extraction Companies. If we find that one of our fund houses does invest in this area we will remove them from our portfolios until their position is changed. We will also undertake discussion with the fund house to encourage them to alter their stance. In time, with more influence exerted from many different parties, the investment houses will further improve their approach to sustainability.

Help to educate about many of the problems our society faces

Not only are we chartered financial advisers and ethical wealth managers but we also believe we have a responsibility to offer informative information on our website and Social Media platforms about many of the problems that our global society faces together with some of the potential solutions. Purposeful.Money is more that just a business to us, it is also an opportunity to educate and bring about change.

Ensure that our funds are fully divested from Fossil Fuel Extraction and Exploration Companies.

We review all of our funds on a quarterly basis to ensure that they are all fully divested from Fossil Fuel Extraction and Exploration companies. We believe this is an important and unique step that we have taken to ensure that our clients are invested in funds that do not conflict with their values on the major issue of climate change.

Utilise Impact Funds where possible.

Where most ethical funds adopt a negative screening stance, impact funds take the important additional step to actively invest in companies that seek positive change. Impact funds are also required to measure and report the social and environmental performance of the underlying investments. We therefore believe that impact funds , where possible, should be considered where appropriate for inclusion in our portfolios. We continually research all impact funds that are available for consideration.

Overall we believe that taking these important ethical issues into account makes sound financial sense as well as being the right thing to do.

In addition to the performance ESG and ethical investment is an important part of the movement to help change corporate attitudes. It is important to consider the impact of investment decisions and to make a profit…but not at any cost.

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