

ETHICAL INVESTMENT

A GUIDE TO

INVESTING ETHICALLY



Interface 

Independent Financial Advisers - Financial Life Planners

FEATURE ISSUE | NOVEMBER '18

PROMOTE JUST, PEACEFUL AND INCLUSIVE SOCIETIES

Reducing violent crime, trafficking, forced labour and child abuse are clear global goals. The promotion of peaceful and inclusive societies, the provision of access to justice for all, and building effective, accountable institutions that will enforce laws and work toward a more peaceful and just society at all levels, are all essential prerequisites for sustainable development.



Independent Financial Advisers - Financial Life Planners



ETHICAL INVESTMENT

A GUIDE TO INVESTING ETHICALLY

CONTENTS

| | |
|-------------------------------------------|----|
| The History of Ethical Investment | 4 |
| What is Ethical Investing | 6 |
| Approaches to Ethical Investment | 6 |
| Investment Considerations | 8 |
| Personal Values and Ethical Investing | 9 |
| About Us | 10 |
| Ethical Investment Questionnaire | 12 |
| Reference Sources – Primary Organisations | 19 |
| Compliance Statement | 20 |
| Contact Us | 20 |

The History of Ethical Investment

Historically religion has strongly influenced ethical investing. In the 18th century Quakers would not invest in the slave trade. Methodists would not invest in industries that would 'harm one's neighbour' and they supported companies that provided fair employment conditions. Islamic banking shuns investments in alcohol, gambling, pork, and other forbidden items.

Over the last 50 years investors have shown an increasing interest in where they invest and today the investment choice for many investors is determined by their social values and beliefs. These beliefs may be environmental, religious, or political, or they may have a desire to do good and make a difference.

Friends Provident launched the first ethical fund in the UK, The Stewardship Fund, in 1983 and in the same year EIRIS (Ethical Investment Research and Information Service) was formed as an independent research service for ethical investors.

UKSIF was launched in the UK in 1991, an organisation committed to growing sustainable and responsible finance in the UK. It has a vision of a fair, inclusive and sustainable financial system that works for the benefit of society and the environment.

In 2000 it became a legal requirement that occupational pension schemes had to declare whether they took account of any social, environmental or ethical factors when choosing where to invest. Since then the number of funds investing in ethical stocks has increased considerably, driven by growing public awareness about climate change and an increasing focus on the socially responsible conduct of corporate bodies.

The world is changing: When Limits to Growth came out in 1972 there was shock, disbelief, and denial. Now almost 50 years later it is only the 'flat earthists' that are in denial. According to a YouGov poll published in the FT in May 2018 Millennials are twice as likely as older generations to want their pension to be invested responsibly.

In 2018 there is definite trend to avoid companies with poor social and environmental records, especially following some high-profile scandals in recent years. While the amount invested in ethical funds is still less than 2% of market share, it is steadily increasing, and it is no longer a fringe activity. It is now a significant market sector with the result that ethical companies should be part of all investment portfolios for both ethical and 'non-ethical' investors. Watching the development has been inspiring and it is possible that Ethical Investment may become 'mainstream' and one of the primary routes to investment within the next few years.

INVESTMENT IN ETHICAL
FUNDS IS LESS THAN 2%
OF MARKET SHARE,
[BUT] IT'S NO LONGER A
FRINGE ACTIVITY

What is Ethical Investing

Ethical investing depends on an investor's views and it refers to the practice of using an investor's ethical principles as the primary filter for the selection of funds, stocks, and bonds in constructing an investment portfolio. Choosing an investment is based on ethical preferences and is not indicative of the investment's performance.

Sustainable investment and finance incorporates environmental, social and governance factors in financial services decision-making alongside more traditional financial criteria. It may sometimes be described as 'green', 'ethical', 'responsible', 'sustainable and responsible' and/or 'ESG' (Environmental, Social and Governance).

Sin Stocks: It is useful to contrast ethical investments with sin stocks which refer to companies that are either involved in or associated with an activity that is considered to be unethical or immoral. They include activities which exploit human weaknesses and include alcohol, tobacco, gambling, sex-related industries, and weapons manufacturers. They do vary with culture or religion so that for example alcohol may sit on either side.

Broadly speaking sin stocks sit on the opposite side of the spectrum from ethical and socially responsible investing, where the goal is to seek out investments that yield an overall benefit for society. While there may be good returns available from sin stocks they are usually shunned by ethical investors who consider where they invest to be more important than the return that they receive.

Approaches to Ethical Investment.

There are three main approaches to Ethical Investment: Positive screening, Negative screening, and Engagement.

Positive screening' or 'support' involves investing in companies that have a responsible approach to business practices, products or services.

A positive investment strategy investigates products and services with environmental and social benefits; and the ways that companies interact with their employees, suppliers and the communities in which they operate.

Positive issues covered by Ethical Screening include:

- Environmental management and reporting
- Environmentally beneficial products and services
- Human rights policies
- Supply chain and labour standards

Positive issues are used in combination with negative concerns to achieve a balanced approach to screening, particularly in the area of environment and human rights.

'Negative screening' or 'avoidance' means not investing in companies that do not meet the ethical criteria that the fund sets. This is the oldest and best-known approach to responsible investment and it is continually evolving.

Negative issues usually include:

- Social issues - such as alcohol, tobacco, gambling, and high-interest consumer credit
- Human rights
- Environmental impacts
- Animal welfare
- Other ethical issues - such as armaments, nuclear power, and genetic modification

'Engagement' uses the active influence of shareholders to support and encourage more responsible behaviour by businesses.



Fund managers mainly use dialogue with the management of the companies in which they invest on issues of concern though they may also use their voting powers as well.

Engagement strategies are not passive, shareholders use their influence to actively engage with the companies they are invested in, on issues around transparency, sustainability and good governance.

Some ethical investors have viewed engagement as a naïve strategy because they could be overruled at an AGM by others who vote from narrow self-interest. However, there is some evidence that given the right circumstances an engagement strategy can produce positive results.

Investment Considerations

We invest to make a return on our money and the same principle applies to ethical investment, the difference is that ethical investors decide that they do not want a return regardless of where it is coming from. If necessary, they are prepared to accept a lower return and put the actual return second to investing in funds where they can make a difference.

It is worth noting that recent experience has shown that investors do not always have to sacrifice return and many ethical funds produce a return which at least matches and, in some cases, exceeds the return from 'non-ethical' funds. In any case for ethical investors return is more than about financial return and the 'feel good' factor is also of value. A good example of the additional value is shown by WHEB using their Impact Calculator which illustrates the effect of their investment on renewables, Carbon Dioxide emissions, water saving, recycling and so on.

Our investment process is underpinned by five key principles: -

1. Capitalism, and Capital Markets, Work – you will obtain a return from the market over the medium to long term
2. Risk and Return are related – in order to obtain a higher return, you have to be prepared to take a higher risk. If you are not prepared to take a higher risk, you have to accept a lower return
3. Diversification is your friend – by holding the entire market you minimise the risk of holding each individual stock towards zero
4. Costs Matter – transaction costs, expenses, and taxes all reduce returns, so we aim for the most cost-efficient route to obtain market returns
5. Structure Explains Returns – the portfolio structure is vitally important, and it is essential to have the right balance of growth, value, large, and small, holdings to obtain the market return

These principles are explained in detail in our Investment Policy Statement.

When you choose to invest in Ethical Stocks you deviate from these core investment principles in the following way:

1. When you choose to invest in ethical stocks, funds, or bonds you are restricting your access to the capital markets. Many of the funds that you exclude will produce good returns and you are choosing not to expose yourself to those markets.
2. The ethical stocks and bonds that you choose will generally be smaller in size and may be higher risk and more volatile. One of our core principles states that risk and return are related so that it is possible that you will obtain a higher return, but you must be satisfied with the higher volatility that such funds could experience.
3. In limiting your investment choice to ethical funds there will be less diversification in your portfolio.
4. Smaller stocks may be more expensive to trade which may increase costs.

Investing in single company shares or investing in funds

An investor could choose to invest in one of the many ethical single company shares that are available however, in accordance with our core investment principle regarding diversification we believe that investing in a single company is extremely high risk and not suitable for our clients.

In order to achieve sufficient diversification an investor should hold at least 30 stocks and preferably 100 and this would represent a huge amount of management and administration for a small investor. In addition, we believe that most investors do not want to spend time following the markets on a daily basis, reading the company management reports, and managing the administration of buying and selling. The investor would incur a cost in both time and money.

Therefore, we believe that most investors prefer to invest in funds instead of single company shares and pay a small charge to a fund manager.

Some ethical investors may choose to invest in esoteric company shares merely because of their ethical criteria. These investors may not be

concerned about financial return and they may even be prepared to accept a loss. While such ethical principles are to be respected we believe that such shares should not form part of a balanced investment portfolio which has been set up to secure the investor's financial security.

In line with the vast majority of independent financial advisers we are not authorised to provide advice on single company shares so if an investor wants to invest in single companies, they would have to engage the services of a stock broker or do it themselves.

Personal Values and Ethical Investing

While there is no evidence that ethical investors are on the whole 'nicer people' there may be a reason for considering the possibility.

Our values exercise has shown that our clients are more likely to share the values of compassion, respect, contribution, honesty, and fairness. It is those values which predispose them to care for the environment and respect for the world in which they live. If the investor's values include personal power, wealth, victory, self-worth, and revolve around 'the self', they are less likely to be so.

Ethical Investing and Ethical Lives: When browsing the internet, we found a criticism of an investor investing ethically because they were doing something that the commenter did not approve of in another area of their life. We are all human and none of us are perfect and we suggest that if you live ethically for 90% of the time that is a pretty good achievement. Indeed, we believe that the fact that ethical investors have recognised that they have a choice and they choose to take action makes them inclined to take similar responsibility for other areas of their life and they aim to live more ethically.

Ethical investment is about making a choice and in making that choice a compromise has to be made. There is no such thing as an absolutely 100% ethical investment because it is bound to be restricted by the physical and human conditions. This does not mean that there is no point in making the decision to invest ethically and being 10% ethical is better than none at all. We all make compromises -- we may be

very careful about recycling, but we may not be as careful about what we eat, about how we travel, or in all other aspects of our lives. We are all on a journey and we have to start somewhere.

Mitch Anthony believes that the role of a financial planner is to help clients to use their money to make a life rather than using their lives to make money. Mitch says that people are happier when they achieve the right balance between consumption and contribution. People want to enjoy life, but they need to contribute and feel a sense of purpose, and they are concerned about their legacy. It is these people who are more likely to be concerned about the environment, about climate change, about education, about fairness, and about their legacy. The people who achieve balance and have a sense of purpose are happier and more giving, so that we believe that they are on the whole 'nicer people'.

Ethical Investment Questionnaire

Our investment questionnaire is on our website and printed at the end of this guide. All clients are asked to complete it. The initial introduction is cautious because our understanding is that The FCA require us to emphasise the potential financial downside of ethical investing.

You may find it useful to spend some time with it and work out where you are on the Ethical investment scale.

Please feel free to fill in the paper copy and send it back to us using the Freepost address provided.

History, structure, and expertise

Interface Financial Planning started providing independent financial advice in 1992. From the beginning it had the aim of providing professional advice and quality service to people with modest income and wealth.

Its key value was putting people before profit, and contribution before reward. This mission statement has been our torch to light the path ahead and has been the reason that we have endured for over 24 years.

Alan has lead the company with his personal values of: Integrity, Compassion, Respect, & Loyalty, and he is proud that over the years he has worked with clients who share similar values. Like him they want to help others and make the world a little better.

Client care and service is important and he is proud that his first two clients from January 1990 remain his clients today.

We believe that every client should have access to highly qualified advice and expertise.

Technology is used to the full to maximise efficiency and engage expertise from throughout the UK. The business has been paperless for 10 years and for over 5 years has been 'cloud' based. This structure reduces costs and allows support staff to operate anywhere - from Colchester to Honiton to Leicester and elsewhere.

Clients are encouraged to access their online account where they can exchange messages and documents securely. They can view their investments and reports, and they have immediate access to their paper file. Clients love the transparency and openness of being able to view and print paperwork going back for years and many clients use it as a source of reference.



ALAN MORAN
Owner, Director
Interface Financial Planning

Alan Moran is one of the most highly qualified advisers in the UK. He became a Certified Financial Planner in 1995 and he was one of the first Chartered Financial Planners in 2005.

He is a Chartered FCSI, a holder of the IMC certificate and member of CFA UK. His expertise has been called upon by The CII, The IFP, The Kinder Institute, and others, where he has trained and examined other financial advisers.

Alan Moran B.Sc. M.Soc.Sc. Cert.Ed. FPFS FSWW IMC CFP^{CM} RLP[®]

Chartered Financial Planner - CERTIFIED FINANCIAL PLANNER^{CM} professional - Chartered FCSI

Registered Life Planner[®] - Affiliate of STEP

**Certified to ISO 22222 by Standards International
Independent Financial Adviser**

A member of The Ethical Investment Association and The Sustainable Investment and Finance Association UKSIF

Interface Financial Planning Limited

Chartered Financial Planners - Accredited Financial Planning FirmTM - Certified to BS 8577 by Standards International

Financial Life Planning - Life Planning, Financial Planning, & Independent Financial Advice

Company Registration Number 2644317

Authorised and regulated by the Financial Conduct Authority

PEOPLE ARE
HAPPIER WHEN THEY
ACHIEVE THE RIGHT
BALANCE BETWEEN
CONSUMPTION AND
CONTRIBUTION



ETHICAL INVESTMENT: PERSONAL PROFILE

Caution Regarding Ethical Investing

Your ethical views may be very important to you and you may wish that these views override other financial considerations but you should be aware of the following:

- 1) When you invest in ethical funds you are choosing to invest in specific areas of the market where the companies chosen are usually smaller and investment in bonds is restricted.
- 2) As a result, your portfolio will have less diversification, it may have higher costs than our standard portfolios, and your portfolio may also have increased volatility.
- 3) If you choose to invest in ethical funds you are making a choice to potentially reduce your investment return and increase investment risk and you should ensure that you are happy with this choice before deciding to adopt an ethical approach to investing.
- 4) Many investors are prepared to accept these limitations but others are not. If ethical investing is right for you, we will be pleased to help.
- 5) Please confirm the right approach for you before proceeding:

Do you want to invest in Ethical Funds?

- ☐ **Yes** (continue below)
- ☐ **No** (proceed to **pg 5** to sign and date)

Specify the Relative Importance of Ethical Funds in your Investment Portfolio

In order to establish the relative importance of your ethical and financial objectives please indicate how much of your portfolio that you would like invested in Ethical Funds:

☐ 0% ☐ 10% ☐ 25% ☐ 50% ☐ 75% ☐ 90% ☐ 100%

Alan Moran

Member of The UK Sustainable Investment and Finance Association www.uksif.org

Member of The Ethical Investment Association www.ethicalinvestment.org.uk

Subscriber to The Ethical Investment Research Services www.eiris.org.uk

If you have social and environmental concerns we will be pleased to help.

When constructing your investment portfolio, we may need to balance these concerns with your financial needs.

The Ethical approach to Investing

Each ethical fund and provider has its own criteria and its own way of interpreting the criteria, so we need to understand what issues are of concern to you, and then use our knowledge of the funds and providers available to provide the best possible match.

The Engagement or 'Positive' Approach

The engagement process does not necessarily exclude, include, or prefer companies: Instead the investor or the fund manager actively encourages companies to adopt social and environmental best practices.

This can involve meetings with senior management and voting at relevant annual general meetings. Many of the larger ethical pension funds tend to concentrate solely on 'engagement' so they have an important effect on a company's ethical activity.

The Traditional or 'Negative' Approach

Historically, ethical investors applied 'Negative Criteria' in order to avoid or screen companies when investing. An investor identified the 'no-go' areas that they must avoid when making an investment.

Although most of these areas have not changed many fund managers now adopt the engagement approach because it provides an opportunity to bring about real change through dialogue.

Notes on Negative Criteria

Alcohol & Tobacco Retailing – if you choose to avoid companies involved in these activities, then you may be avoiding investment in supermarkets, hotels, leisure, etc.

Animal Issues – this area is probably the one that shows the greatest difference between the funds as well as the personal beliefs of clients. For this reason, we have broken down the issues into a number of areas.

- Animal Testing (Medical) – covers the development of drugs and medical services involving animal testing
- Animal Testing (Cosmetics) – covers the development of cosmetics where animal testing is involved
- Animal Testing (Household Products) – covers the development of household products involving animal testing
- Animals (Meat/Dairy Processing) – this covers companies involved in the processing and preparation of foods
- Animals (Meat/Dairy Retailing) – this will predominantly cover supermarkets, and other companies whose primary activity is selling meat and dairy based products.

Environmental Damage (Comprehensive Policy) – funds in this category have detailed statements about a number of different environmental problems, such as pesticides, CFCs, timber, pollution etc. The screening work undertaken to identify worst practice is detailed and comprehensive.

Environmental Damage (General Statement Only) – funds in this category have a very general statement about 'avoiding environmental damage', but little detail of how this will be applied is made available.

Oppressive Regimes (Pro-active, Balanced Policy) – funds in this category balance their concern for the human rights of those living in an oppressive regime, with the actual activities of companies trading there. For example, if a company was providing housing, medical or similar services in an oppressive regime, it is likely that funds in this category would pass such a company as an acceptable investment. On the other hand, a company using sweatshop labour would be avoided.

Oppressive Regimes (Strict Avoidance) – funds in this category operate a fixed cut-off by avoiding every company that trades in a specific number of oppressive regimes. No account is taken of whether the company is using child labour or supplying medicines.

N.B. The Armaments and Nuclear issues are almost always avoided by the majority of 'engagement' funds, as there is little scope for engaging an arms company 'not to be an arms company'!

Recommendation

Our current investment policy is to recommend that clients use the modern 'positive' engagement approach as described above and that you do not use the traditional 'negative' approach.



Ethical Investment preferences: Positive approach

Please indicate your preferences below and then proceed to pg 5 to sign and date or turn to pg 4 for 'negative approach' preferences:

1. General 'Positive' statement

Some ethical funds have a general statement describing how they may apply positive screening, or how they will invest in companies involved in positive, social, and environmental activities.

☐ I would like to choose Funds that have a general 'Positive Statement' to ethical investment without identifying specific areas.

2. Specific 'Positive' criteria

Please indicate how strongly you would like to support each, or any, of the criteria below:

| | Strongly | If possible | Not at all |
|----------------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|
| Basic Necessities (water, food and shelter) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Community Involvement (active and positive community practices) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Education & Training | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Environmental Protection and Conservation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Ethical Employment Practices, Positive Labour Relations, and Equal Opportunities | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Healthcare, Healthy Lifestyle, Benefit to Society and Public Safety | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Pollution Control | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Waste Management and Recycling | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Other issues: Please specify _____ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | | |
| _____ | | | |

Ethical Investment preferences: Negative approach

Please indicate your preferences below and then proceed to **pg 5** to sign and date:

3. Specific 'Negative' criteria

Please indicate how strongly you would like to **avoid** investment in each, or any, of the criteria below:

| | Strongly | If possible | Not at all |
|------------------------------------------------|--------------------------|--------------------------|--------------------------|
| Alcohol – Production & Retailing | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Animal Testing | | | |
| Cosmetics | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Household Goods, Chemicals, etc. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Medical Products, Drugs, etc. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Animals | | | |
| Dairy Processing & Retailing | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Intensive Factory Farming | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Meat Processing & Retailing | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Armaments & Military | | | |
| Conventional | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Nuclear | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Environmental Damage & Abuse | | | |
| Comprehensive Policy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| General Statement Only | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Gambling – Retail Issues & Services | | | |
| Genetic Modification | | | |
| Farming | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Food & Agriculture | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Medicines | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Nuclear Energy – Processing & Services | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Oppressive Regimes | | | |
| Pro-active, Balanced Policy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Strict Avoidance Policy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Pornography – Production & Sales | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Tobacco – Production & Sales | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Other issues: Please specify _____ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | | |
| _____ | | | |

Confirmation

Ethical investment profile:

By signing below, you are confirming registration of the preferences above .

(Client) Full Name _____ Signature _____ Date ____ / ____ / 20 ____

If applicable

(Partner) Full Name _____ Signature _____ Date ____/____/20____

NOTES: (continuation space if required)

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



THANK YOU FOR COMPLETING YOUR ETHICAL INVESTMENT: PERSONAL PROFILE

**Please detach your completed questionnaire and
return to us at the following Freepost address**

Freepost RRRC-EUZE-TJYB
Interface Financial Planning Limited
122 Hamstead Hall Road
BIRMINGHAM
B20 1JB

Reference Sources – Primary Organisations

UK Sustainable Investment and Finance Association

Ethical Investment Association

Ethical Investment Association Training Course

Ethical Screening

Ethical Screening Ethical Funds Database

EIRIS Foundation

Investopedia – Ethical Investing Link

UKSIF Member Directory with link to Interface Financial Planning (UKSIF have 52 member firms listed)



Independent Financial Advisers - Financial Life Planners

Compliance

Readers should not rely on, or take any action or steps, based on anything written in this guide without first taking appropriate advice. Interface Financial Planning Ltd cannot be held responsible for any decisions based on the wording in this guide where such advice has not been sought or taken.

The information contained in this guide is based on legislation as of the date of preparation and this may be subject to change.

Interface Financial Planning Limited is authorised and regulated by the Financial Conduct Authority.

(<https://register.fca.org.uk>) Financial Services Register No: 424729
Registered Address: 122 Hamstead Hall Road, Handsworth Wood, Birmingham, B20 1JB Registered in UK, No. 2644317

©2018 Interface Financial Planning Ltd.

Content supplied by: Independent Check Ltd
www.independentcheck.co.uk 2018

Design by: Rae Shirley Photography & Design
Ref: EIG V1 NOV 2018

CONTACT US

Alan Moran

0121 554 4444

enquiries@interface-ifa.co.uk

To book an appointment, schedule a call by telephone/Skype or arrange an online meeting, visit:

www.interfacefinancialplanning.co.uk