



Ethical Investing Guide

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1. Introduction

Do you want to get rich, but not at the expense of the poor? You're not alone. Ethical investors in the UK are growing in number each year along with public awareness of pollution, fair trade, child labour, arms sales and similar contentious issues.

Ethical investing has gone from being a 'fringe' activity - previously seen as the practice of tree-huggers and sandal-wearers - to a going concern that offers clear-conscience alternatives for the full range of financial products including mortgages, bank accounts, utilities, investments and pensions.

Now, more than ever, it's easy being green. But just because a product is deemed 'ethical' doesn't mean it is necessarily a wise financial choice. Given the relatively small number of companies engaged in ethical activities, there are a restricted number of stocks that funds can be invested in - a situation that often caused poor performance in the past.

These days, however, UK ethical funds perform on a par with regular funds, according to Standard and Poor's. This is a far cry from 1984 when Friends Provident's Stewardship Fund had to carry a 'wealth warning' so that investors knew the rewards of ethical investment might not have stretched far beyond a clear conscience.

It is important to get advice from an independent financial advisor to help you make the right choice of ethical investment for both your financial goals and your ethical ideals.

2. What is ethical investing?

Ethical investing is just like any other type of investing, be it in funds, shares, bank accounts or otherwise, except that the company that invests the money for the consumer undertakes not to use that money to fund certain activities or behaviour that are believed to be harmful to the environment, to people or to animals and wildlife. This may mean, for example, that a fund management company will not purchase shares in arms companies or firms that develop harmful pesticides, or that a bank will not lend money to or otherwise facilitate business for such companies.

Financial companies that practice ethical investment may not focus on such negative criteria, but positive criteria instead, meaning they will seek out businesses that benefit the environment or the community. The range in policies is sometimes labelled by colour: a 'light green' company will avoid businesses whose actions or products are harmful to the environment, while a 'dark green' company will actively seek out enviro-friendly or community-based businesses to invest in.

An increasingly common term for ethical investing is 'socially responsible investing', or SRI. SRI focuses on the positive rather than the negative, and instead of blacklisting entire industries, it prefers to pick the company within the industry that is doing the most to improve its business practices, and give that company encouragement in the form of investment. This positive reinforcement is seen as more likely to improve business practices overall.

It's important to remember that even though you may not directly invest your money - ie by buying shares - you may be indirectly investing it via a mortgage, pension or savings account, and by investing ethically you can have a say in what sort of activities your money supports.

It is also important to know that the term 'ethical' is largely self-awarded - there is no standard to which companies must conform before they can label themselves ethical. Organisations such as EIRIS, the Ethical Investment Research Service, provide information into companies' ethical behaviour for independent investors, fund managers and charities alike.

3. What are the issues?

Ethical investment is no longer limited to simple 'green' issues such as pollution, though they remain popular causes. Similar environmental concerns include issues such as battery farming, pesticide and chemical use, organic farming, genetically modified crops and deforestation.

A company with concerns about the moral health of society will avoid doing business with and investing in businesses involved with gambling, pornography, alcohol or tobacco; companies with strictly animal-rights focused policies will avoid most or all types of scientific animal testing, and may even eschew meat and meat processing businesses.

On a global level, investors may have concerns about child labour, arms sales, sustainable development and attention to human rights.

Some investors may wish to direct their funds towards companies that make good corporate neighbours, investing in local community initiatives such as literacy, public housing, or children's or seniors' programmes.

A company's employment policies are just as important to its ethical rating as outside issues. Does it practice equal opportunities, and offer its employees private healthcare and related benefits? Does it offer family-friendly leave and flexible work patterns?

4. Is ethical investing as lucrative as regular investing?

Most financial advisors agree that ethical investment has come a long way from its early days, when returns could be slim to none. However, with a smaller pool of companies to invest in, funds are necessarily going to have fewer options with which to maximise returns for their investors.

Certain ethical funds have had to re-think their strategy. In some cases, fund managers have opted to loosen the rules in order to expand their options for investing; this may result in, for example, investment in companies that practice limited medical testing on animals, or oil or car companies that hold a relatively good environmental record.

However, having a clear conscience can be lucrative as well. The top-performing ethical fund, the 200mGBP F & C Asset Management's Stewardship Income Fund, came in at 4th place in the three years to 2005, amongst its competitors which include non-ethical as well as ethical funds.

There is also an argument that, as the World Trade Organisation increasingly cracks down on companies considered to be polluting or exploitative, the negative publicity will work alongside new regulations to make these businesses less competitive, and their ethical counterparts a better choice.

5. What ethical products are available?

Accounts

Probably the best-known ethical bank is the Co-operative Bank, which claims to be the only high-street bank that gives its customers a say in how their money is used. The Co-op ensures compliance by making new business customers fill out an Ethical Policies questionnaire, which is assessed by the bank before agreeing to provide business services.

The Co-op's Ethical Policy covers human rights, the arms trade, genetic modification, animal welfare, ecological impact, global trade and corporate responsibility. In addition to ethical investment on a global scale, the bank is involved in local community projects and engaged with issues such as low-income households' costs of credit.

The Co-op offers the full range of banking services and products, including accounts, loans, charity credit cards, mortgages, investments, insurance and pensions.

Online provider Smile, part of the Co-op Bank, is included in the Co-op's ethical policy and offers a current account with higher account interest and lower overdraft interest than the high street banks.

Triodos Bank offers several savings accounts with a difference: customers can target their funds to help specific causes, such as human rights organisations, social housing or environmental causes, depending on which account they choose.

The Regular Saver and Young Saver accounts can be opened with just £25; like Triodos's other savings accounts, the minimum notice period for accessing account funds is 33 days. The Social Investor savings account covers a range of ethical targets, while their Partnership accounts can invest directly in issue-specific organisations, such as Amnesty International, or cover a broader range, such as the Charity Saver account which benefits UK charities.

The high street banks generally have a less rigorous approach to ethical banking and investment. However, many are looking to provide options for customers seeking an ethical option, often in the form of credit cards that benefit charities. Charity credit cards usually pay an initial donation to the charity when the card account is first opened, then donate a small amount for each denomination of money, usually 100GBP, spent on the card.

The Royal Bank of Scotland offers customers the option to support the Royal National Lifeboats Institute or the Woodland Trust. Customers of the Bank of Scotland can donate to Mencap, Cancer Research UK (Scotland) or the Scottish Society for the Prevention of Cruelty to Animals, and Nationwide's card benefits Comic Relief.

Investments and pensions

Since 3 July 2000, all UK company pension fund trustees have been required to disclose their ethical policy. This does not, of course, mean that schemes are required to have an ethical policy, but simply that it is now easier for employees to evaluate their pension funds and influence their funds' ethics.

Employees can band together to make themselves heard and influence how their money is invested.

If you are setting up your own stakeholder pension, you will have fewer ethical funds to choose from than regular funds, but the market is still large enough to provide consumers with choice through providers such as Axa, Friends Provident and Standard Life.

Those with more money to spend can invest in a standard personal pension, which offers greater choice of funds but usually costs more than a stakeholder plan.

As for investors, Friends Provident's Stewardship Fund is the original and perhaps the best-known ethical investment fund. The full range of Stewardship Life and Pension funds share Friends Provident's ethical policy, but different funds focus on different sectors: some UK and some global.

However, Friends Provident has by no means cornered the market - most investment companies offer at least an ethical fund option, from Aberdeen Asset Management to Insight Investment Management's Evergreen fund and Standard Life's UK Ethical fund.

If you own shares in a company, it pays to keep abreast of its activities: read annual reports, study the business pages and let your fund manager know if you are unhappy with its activities.

People seeking an appropriate fund to invest in must remember that the value of investments can go up or down and is not guaranteed; it is important to seek the advice of an independent financial advisor when choosing an investment vehicle.

Some financial advisors specialise in ethical investments. EIRIS offers a directory of ethical financial advisors, as well as a guide to choosing an IFA.

Ethical power providers

Online bank Smile not only provides ethical products for its customers: it uses them for itself, and claims to source 98% of its electricity from renewable sources.

It's possible for consumers to be equally ethical with their choice of power provider, and because the industry is regulated by OFGEM, all companies are required to maintain a reliable supply. Good Energy supplies only fully renewable energy sourced from wind farms, solar power and hydro plants. Ecotricity concentrates its efforts on building wind farms to supply clean energy, and plants a tree in the Ecotricity Forest in Gloucestershire for each person who switches to their company.

Green Energy UK seeks to ensure that 'green' energy costs the same as non-renewable energy and offers a 10% green option that costs the same as your regular supplier, and a 100% green option that costs slightly more.

Gas and electricity supplier Ebico is run on a not-for-profit basis and uses wealthier direct-debit customers to effectively subsidise poorer households on prepay and quarterly billing plans.

According to Friends of the Earth, 22% of greenhouse gases come from domestic energy uses, so it's worth making even small changes around the house such as using energy-saving light bulbs or buying a more energy-efficient fridge.

6. Moneynet.co.uk

AS the UK's premiere financial data comparison site, [Moneynet.co.uk](https://www.moneynet.co.uk) can point you in the right direction when it comes to finding the very best ethical financial products for your circumstances.

Having read our guide to ethical investing, you will now be in a far better position to determine whether or not your current savings, investments and other financial products meet your ethical requirements.

Don't forget, you don't have to be a shareholder to have an interest in ethical financial products, as your mortgage, pension and even savings accounts all may be used to fund companies whose products or services you disagree with.

It's also important to consult an independent financial advisor before investing, and finding an advisor who specialises in the ethical products market can help you sort through those companies with truly ethical credentials, and ones who don't deserve the label.

But for the very best investment deals around, [click here](#) for the [Moneynet.co.uk](https://www.moneynet.co.uk) pick of the ethical financial products selection.