

Ethical investment made easy

MONEY TALK

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Promotion

We certainly all have some idea what it means to be ethical in our daily lives; in our approach to others, to animals and to the environment.

But is it possible to invest with a clear conscience and still make money?

One of the main reasons that people choose to invest ethically is to be sure that their money is not funding something they would consider wrong such as gambling, pornography or arms.

But many funds invest in unethical firms without investors being aware.

Ethical investment is rising in popularity and people are placing even more importance on knowing exactly how their money is being invested.

However ethical investment, or socially responsible investment (SRI), can be very confusing as there are so many different funds available that claim to be 'green' but in reality some of these funds are more environmentally friendly than others.

How do you know if a company is ethical?

Companies have different approaches to defining ethical.

For example, investing in British American Tobacco would not be classed as an ethical choice by organisations such as Cancer Research.

It is possible to find out which UK or global companies have ethical policies by searching their websites or company literature.

Most companies provide information about their business practices and their activities so you can see how ethical they are compared to your own views.

As a conscientious investor, you are encouraging companies to take a more

responsible attitude to human, animal and environmental rights by investing in funds that search for financially strong ethical companies.

Your investment money is indirectly used by the company so it can grow.

Many people like to invest money in ethical funds for their children, as they want a better world for their children and grandchildren to grow up in.

How do funds define ethical?

Fund managers have different ideas about which companies would be the most socially responsible and ethical, while providing good returns.

Managers can select their stocks in a variety of ways, so it is worth bearing this in mind when deciding which fund would best suit you.

- **Negative Criteria** - Some funds actively screen out companies listed on the UK or other global stockmarkets that are involved in businesses such as tobacco production, deforestation, the arms trade and animal testing.
- **Positive Criteria** - Other funds prefer to use positive criteria such as looking for companies that produce things to help the environment, such as sustainable energy or recycling companies.
- **Engagement** - Other funds "engage" with companies by using the manager's power as a shareholder to push for changes to the way it deals with human rights, the environment and corporate governance issues. This means managers will not screen against a good-performing company to the disadvantage of investors, but will try to influence the company for good.

Performance myth

One myth perpetuated about ethical investing is that the investment will not do as well as mainstream funds because these funds cannot invest in certain companies included in for example the tobacco, gambling and arms sectors.

However if you look at the statistics ethical funds have performed well over the years even with the strict screening policies that cost money to administer.

As the World Trade Organisation begins to crack down on companies exploiting people, animals or the environment, companies tainted by fines and negative press may start to under perform. Ethical investment may be a more attractive choice for many.

Well-run companies with strong ethical principles will not be tarnished by future problems.

In fact they are more likely to be tomorrow's top performers, along with the many companies producing sustainable energy products that will shape the way we live

in the future.

Organisations such as the World Trade Organisation and Eiris (the Ethical Investment Research Service) and UK Socially Responsible Investment Forum (UKSIF) can provide more information about ethical investment.

Once you have decided to make an ethical investment you may want to discuss your options with an independent financial adviser (IFA).

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