Whitechurch
Securities Ltd
WEALTH MANAGERS

A Guide to Socially Responsible Investing

SRI

Making an Impact with your Investments

As concerns about climate change and the environment become more prevalent many people are starting to consider their own personal impact. Whilst many make changes to their everyday lives to lessen their environmental footprint have you thought about the impact of your savings and investments?

If you would like to align your investment choices with your social and environmental values then Socially Responsible Investment (SRI) may be for you.

Socially Responsible Investment is a term used to describe investments which take into consideration social and environmental factors as part of the investment decision making process.

In this guide we will explore how this area of investment is evolving, why it is becoming more important and explain some of the key terminology.

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Investment Screening

Historically, ethical investing has been about excluding stocks or sectors of the market perceived to be unethical such as alcohol, tobacco, gambling, defence or armaments. This exclusionary method has in the past led to underperformance versus the wider market when excluded areas outperformed.

In more recent times the market has evolved to focus more on positive screening. As focus on climate change and environmental and social issues have come to the fore and Governments have signed up to initiatives such as the Paris Climate Agreement and the United Nations Sustainable Development Goals many companies are becoming more focused on aligning themselves with these goals.

Positive screens seek to invest in companies which provide positive contributions to society & the environment. For example companies which provide clean energy or social housing.

Negative screens exclude companies / sectors based on certain measures.

For example tobacco stocks, companies involved in animal testing, companies with a negative environmental impact.

Socially Responsible Investing can be traced back to religious orders such as the Quakers and Methodists who originally wanted to exclude 'Sin stocks' such as alcohol, tobacco and gambling.

1971 - *The PAX Fund* was launched in the US inspired by anti-war activists during the Vietnam War.

1984 - Saw the launch of the first ethical fund in the UK - ***The Friends Provident Stewardship Fund***

End of the 90's - approximately £3.3 billion invested in 50 ethical funds.

The Evolution of Socially Responsible Investment

Over time this developed to include a wider range of sectors such as arms and this exclusionary method 'Negative screening' became popular with Charities as well as individual investors.

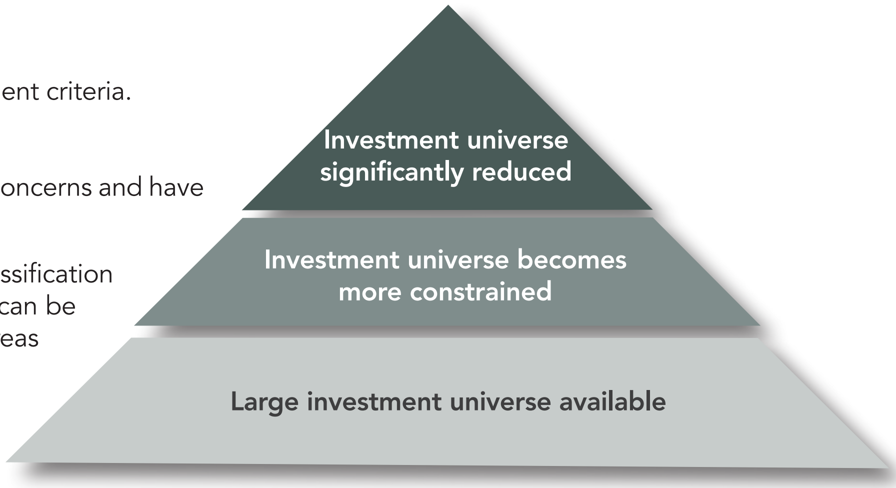
1983 - *EIRIS (Ethical Investment Research Services)* was established as the UK's first independent research for ethical investors.

Increasing availability of news started to highlight to people the environmental impact of things such as deforestation and Human Rights abuse by companies within the supply chain.

Increased newsflow, aided by increasing use of social media brought issues to people's attention and ethical consumerism grew.

Shades of Green – How Ethical is My Investment?

Funds can be classified using shades of green to help investors identify how strict the criteria are likely to be.



Light green funds

These will normally have a more relaxed investment criteria.

Dark green funds

These take into account a wide range of ethical concerns and have strict standard, for implementation.

Whilst this seems a relatively simple method for classification finding funds to meet all of an investors criteria can be tricky. It should also be considered the more areas an investor wants to screen out the smaller the investment universe becomes.

The Paris Climate Agreement (COP 21) really brought climate change and carbon emissions to the forefront and environmental issues are becoming a central issue for many companies and investors.

By the end of 2015 *EIRIS* stats showed the UK ethical fund market size was £13bn and growing.

On 1 January 2016 the ***Sustainable Development Goals (SDGs)*** officially came into force

2017 report of the Task Force on Climate-related Financial Disclosures (TCDF)

In **October 2017,** David Attenborough bought attention to the plastic problem in the ocean in Blue Planet II

The import of over 24 types of waste was banned in China in **January 2018.**

European Parliament banned single-use plastic including straws in **March 2019**

Investing in a Changing World

The World is changing rapidly; an increasing global population is placing new demands on healthcare, infrastructure and agricultural systems and climate change has become a key concern.

In 2015 the UN held a global summit it Paris where all but two countries signed up to reduce their carbon emissions to help tackle climate change. The impact of this is now feeding through to businesses as Governments look to align their economies to reduce CO2 output and meet these targets in the face of growing public pressure.

These are creating structural changes within society and the economy and new products and services are being developed to address the issues the world is now facing, in turn this is changing the investment landscape and providing new opportunities.

For instance:

Renewable Energy – Companies producing efficient and environmentally friendly energy alternatives.

Electric vehicles – the market is developing and the petrol and diesel cars we have been so used to are gradually falling from favour as people move to EV's to reduce their carbon impact.

Cyber-crime – as the world has moved online this has opened up new challenges and cyber security is increasingly important.

Healthy Living – people are becoming more aware of the benefits of living healthily, this is extending beyond dropping habits such as smoking and companies are now looking to develop cost effective natural foods to combat health issues such as obesity and diabetes.

The United Nations Sustainable Development Goals

The United Nations Sustainable development goals were launched in 2015 and comprise 17 global 'goals' which target key objectives for economic, social and environmental development.

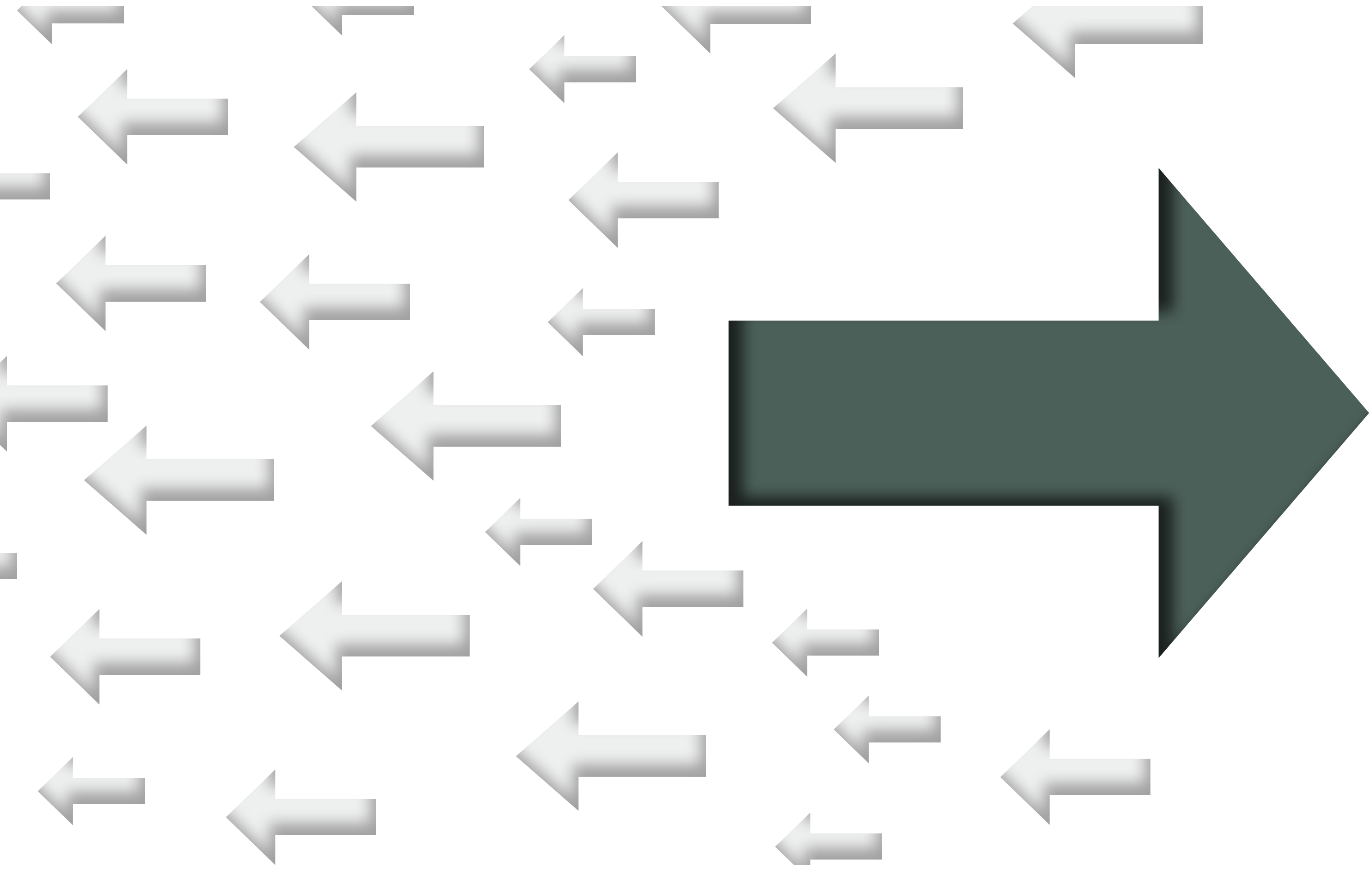
The SDG's aim to create a model for long term economic growth achieved without compromising the environment or placing unfair burdens on societies.

Many Socially Responsible investments look to align themselves with these goals and look to explain how the companies they invest in contribute to these goals, through regular reporting.

JARGON BUSTER

If you would like to gain a better understanding of some of the terms and vocabulary used within this guide, check out the jargon buster on page 12.

The changing face of business



The way many businesses now operate is also changing, increased global news coverage and use of social media highlights business practices that many find unacceptable and companies are making changes to address this.

These practices cover a wide range of areas including how the business interacts with all stakeholders, employees, customers and the communities in which they operate as well as the environment.

High profile examples in recent year of environmental disasters at oil companies and mining companies or governance issues at major banks have impacted on the company not just through significant fines and court costs but deterioration in trust in well-known brands which has impacted on the company earnings and share price.

Global awareness of issues such as gender inequality in the work place is making companies reassess how employees are treated and remunerated.

Many large shareholders are now committed to 'engaging' for positive change. They can use their influence to push the company to make changes to working practices and use their voting rights at company AGMS in order to influence policies moving forward. This is also known as 'investor stewardship' or 'shareholder activism.' In extreme cases if the company refuses to make changes and the shareholder feels no more can be done they may divest their holding.

Environmental, Social and Governance issues - ESG

ESG is an increasing popular phrase within investment and can mean different things to people. At its most basic level it is a company's policy in the areas of

Environment – the natural environment in which it operates and the impact its operations have on this environment including the company's carbon footprint.

Social – this criteria examines how it manages its relationships with employees, suppliers, customer and the communities within which is operates

Governance – how the company's leadership operates and behaves and 'governs' the company, it looks at executive pay, audits, internal controls and shareholders rights.

Companies which have strong policies in these areas and look after the environment and stakeholders are favoured by Responsible investors. Whilst a company can score very highly on ESG issues it does not mean it will suit all investors as it may still provide a product or service they do not wish to invest in e.g a tobacco company can have excellent governance and social policies but for many the end product is still undesirable.

Positive Impact

As the area of SRI investing has developed the focus has moved from just screening out areas where people don't want to invest to focussing on investments which aim is to provide capital to address the world's biggest challenges (as per the UN SDG's) which in the past have been the domain of philanthropists.

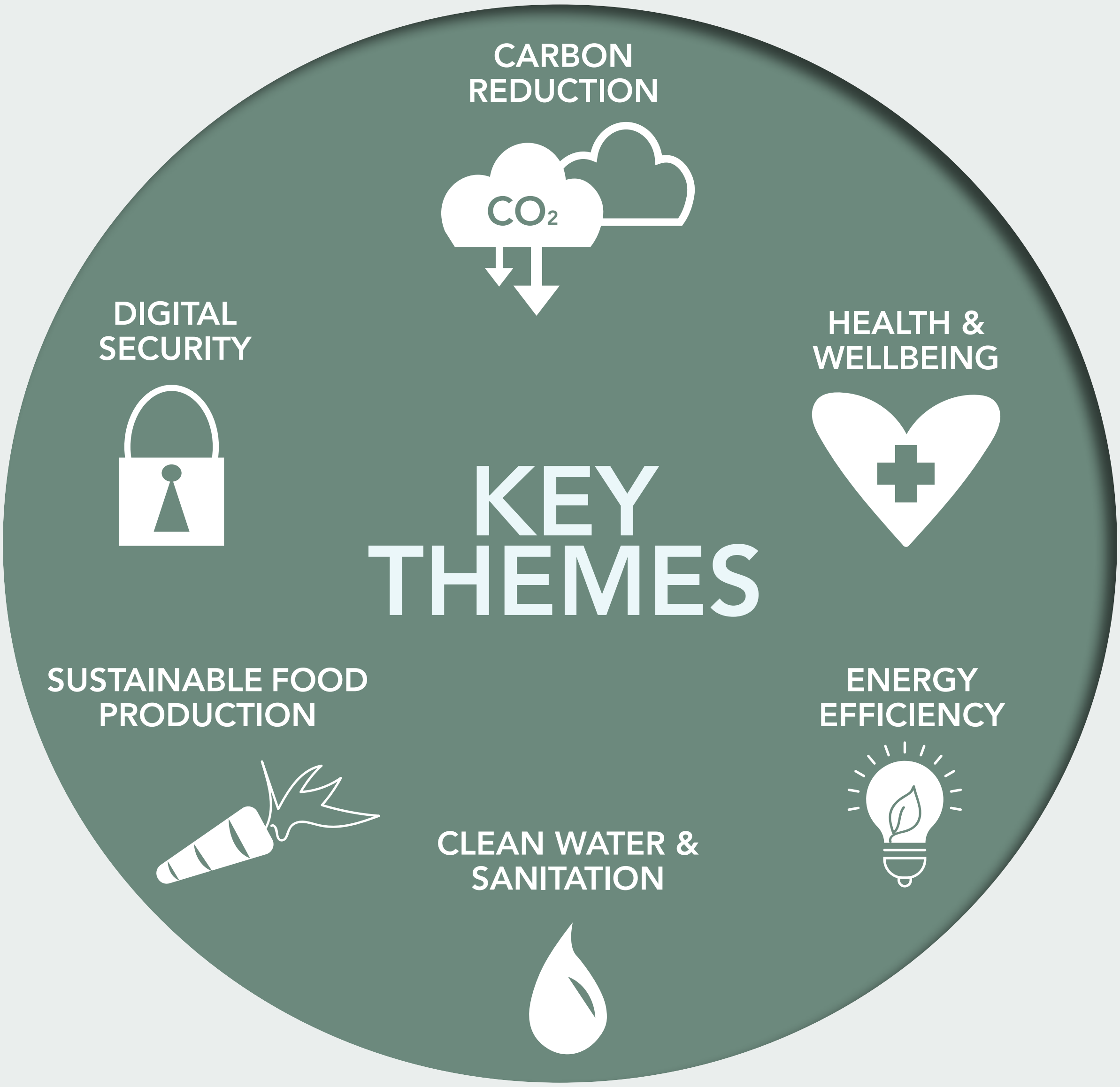
In its purest form impact investing should be with the intention to generate positive measurable social and or environmental impact as well as a positive financial return.

Whilst it is easy to quantify financial return measuring social and environmental impact can be very difficult as there are many variables. A popular example of measuring environmental impact is to look at the CO2 footprint of a company or fund.

Many funds now produce annual impact reports which gives examples of the positive ways in which money is being invested.

Although this 'positive impact' is not necessarily quantifiable. Whilst this is very helpful for investors to understand where they are invested it is not always quantifiable.

Thematic Investing



Many managers take a thematic approach when it comes to positive screening and investing, identifying key trends e.g clean water and sanitation, sustainable food production and carbon reduction as areas of growth as companies seek to find solutions to these issues.

This thematic approach is then used either as a basis for the fund or a selection of themes are implemented throughout the fund.

An example of a thematic fund would be one focused on reducing environmental impact. The managers would look for companies which provide products or services which focus on reducing other companies environmental impact, for example they could provide recycling services, filters to reduce air pollution or solutions to reduce consumption of a resource in the manufacturing process such as water.

Or a fund may have a social or positive impact theme by investing in socially beneficial activities and areas such as affordable housing, education and community services.

A manager may run a more general fund such as one invested in global equities and use a positive overlay to invest across a broad range of themes.

So what is the benefit of this?

The use of thematic investing is twofold:

- It allows fund managers to invest for positive change by investing in companies which are providing solutions to global issues
- In cases such as social themes, where the positive impact is easily measurable, it allows fund managers to identify areas of future growth as the companies providing the solutions are operating in the areas where there is visible growing demand

Is Socially Responsible Investment for Me?

Ethical investing is not for everyone; peoples values vary widely and what one person views as a cause for concern may be disputed by others or they will just not consider such issues when it comes to investing.

After reading this guide you may have a clearer idea about this area of investment and you can consider if:

There are specific areas you do not want to be invested in

Being mindful that the more areas you want to exclude will reduce the investment universe and increase risk and volatility due to lack of diversity.

Or

There aren't any specific areas you wish to be excluded from...
However, you would like to invest in companies that consider their environmental and social impact and in many cases look to provide solutions to problems such as healthcare, clean water and carbon emissions. You would also like the companies ESG policies to be considered. Many companies do take this into consideration whether or not they are in an SRI fund. However, an SRI fund should ensure that ONLY companies which act in this manner are invested in.

Would you like any social, ethical or environmental issues to be taken into account for your investments?

YES

Do you have specific concerns

YES

Discuss these specific areas with your financial adviser to ensure a suitable investment solution is found where possible.*

NO

Discuss with your adviser that you would like to broadly consider these issues when investing to find a suitable investment.

NO

Let your adviser know you are not concerned about these areas.

* It should be noted if you have a large number of restrictions or very esoteric restrictions it may not be possible to find suitable solutions.

Jargon Buster

Climate Action 100: A global collaborative investor engagement initiative, launched in Dec. 17. It co-ordinates engagement with 100 'systematically important' companies accounting for two thirds of annual industrial greenhouse gas emissions as well as 60 others with the opportunity to drive the low-carbon transition. It asks companies to engage of Governance, Emissions management and disclosure.

Corporate Governance: A set of processes rules or practices by which a company is directly controlled by balancing all the stakeholders' interests. It provides the framework for attaining a company's objectives. Stakeholders encompass everyone involved from the CEO, board and management through to staff, customers, suppliers and shareholders. It essentially governs how a company behaves.

Corporate Responsibility/Corporate Social Responsibility (CSR): This describes a company's initiatives to assess and take responsibility for its effects on environmental and social wellbeing. Or how their operations may impact customers, employees, communities and the environment. The term generally applies to positive efforts which go beyond that required by the regulators.

Divestment: Green and ethical funds may divest or sell stocks when they feel that a company no longer meets their investment criteria. The funds may reinvest in that same company, if and when they feel that it is again suitable. *Engagement* is often a precursor to divestment in an attempt to encourage companies to improve their ESG performance. The term is regularly being seen at the moment in relation to Fossil Fuel related stocks, as pressure over reducing carbon emissions is leading people to move away from investment in this area.

Engagement: Engagement is the process by which investors or fund managers seek to maintain or improve the corporate social, environmental, ethical (SEE) or governance policy, the management or performance of companies through dialogue and voting practices.

Investors can engage with companies to:

- Encourage more responsible business practices
- Encourage greater transparency and disclosure
- Improve investment returns by encouraging companies to manage SEE risks or to address new social or environmental business opportunities.

Ethical Investments: Normally refers to investments which have been screened to fit certain criteria and often includes a negative screen to remove 'sin stocks' such as tobacco and arms as well as positive screen criteria.

Environmental and Social Governance (ESG): Environmental, and Social Governance criteria are used as a measure, by investors, of a company's approach to dealing with these issues. Environmental criteria look at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with employees, customers, suppliers and communities where it operates. Governance addresses the company's management and internal controls; the overall management and behaviour of the company. The theory is that companies with good ESG policies should perform better, however, it should be noted that most companies including Oil and Mining companies will have an ESG policy now and investing into funds defined as ESG may result in investment in areas you do not wish to be exposed to.

Green Investments: A term used to describe investments which focus on environmental issues.

Greenwashing: This is when a company or group promotes itself or its products or services as environmentally or eco-friendly without following through with action. Or they promote a general service, as eco-friendly when it is actually an industry standard.

Impact Investing: Investments that measure both financial returns and their benefit to society, aiming to achieve a balance between the two. Often the investment is made directly into a specific project where returns can be seen and measured. Such investments can be of a higher risk and potentially only appropriate for wealthier and more experienced investors.

Social, Environmental and Ethical Factors (SEE): Commonly referred to as SEE, this covers the entire range of issues in SRI and is often used in discussions on risk. Social factors refer to how a company performs within communities and whether it provides needed services or charitable donations as well as whether it minimises its impact on the areas in which it operates. Environmental factors refer to company policy on the environment or an environment management system to set targets for the continued improvement of its performance in areas like energy efficiency and waste management. Ethical factors covers a broad range of other areas including involvement in animal testing, alcohol, tobacco, gambling, genetic engineering, arms or the military and human rights.

Socially Responsible Investing (SRI): Also known as sustainable investment, responsible investment, socially responsible investment (SRI) and ethical investment. It refers to any area of the financial sector where the environmental, social governance and ethical principles of the investor (whether an individual or institution) influence which organisation or venture they choose to place their money with. It also encompasses how an investor might use their power as a shareholder to encourage better environmental and social behaviour from the companies they invest in.

Sustainability: Sustainable development can be described as development which meets the needs of the present without compromising the ability of future generations to meet their own needs. It is about balancing three goals or 'pillars' - environment, society and economy - to enable communities throughout the world to satisfy basic needs and enjoy a better quality of life, without compromising the quality of life for future generations.

Task force on Climate-related Financial Disclosures (TCFD): TCFD was set up by the Financial Stability Board with the aim of establishing consistent, high quality climate risk reporting across sectors and regions.

Thematic Investing: Investments which follow a particular theme which may be socially driven, environmentally orientated or a combination of both, for example a clean energy fund.

UKSIF: UK Sustainable Investment Forum.

UNPRI: United Nations Principles for Responsible Investment

UN SDG's: United Nations Sustainable Development Goals, see page x for more details on these.

Frequently Asked Questions

How does the performance compare?

Historically 'Ethical Investments' were known to underperform as they were based on mainly exclusionary criteria. However, this has now evolved and whilst it should be considered that there will be times when performance will be 'out of sync 'with the market if an area where there is no exposure such as mining or oils does well, over the long term performance is proving to be comparable, and at times better.

Can investors be 'a bit ethical'?

Some investors, for a variety reasons, do not want to invest all their money into SRI funds. They should speak to an adviser to discuss a solution that meets their needs.

If a fund has 'sustainable' in the title will it meet my requirement?

Not necessarily. You always need to look carefully at the underlying criteria and discuss with your financial adviser to ensure it meets your requirements.

If you would like further information about ethical investments, please contact us on 0117 452 1207 or email ethical@whitechurch.co.uk.

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