



Green and Ethical Investment

A Course for Financial Advisers

**Based on
'Investing Responsibly: A Toolkit for Financial Advisers'**

**Step 5: Select the appropriate providers
and products**



From UK Social Investment Forum (UKSIF)

Step 5: Select the appropriate providers and products

The final step in advising on green and ethical investment is to recommend the specific providers and funds for the client in the light of their financial and green and ethical investment needs and wishes, as discussed in the fact finding process.

The suitability letter should reflect the client's wishes and needs with respect to both the financial criteria and the green and ethical investment criteria. The client should understand the potential risks and returns.

5.1 Transparency guidelines for green and ethical investment funds

In most cases, transparency of information about what the fund does is a key issue. This ensures that a client can understand what they are buying. It helps advisers and clients to compare products more easily and to understand what is available, so that a solution can be found that matches a client's needs as closely as possible.

The Eurosif *Transparency Guidelines for the Retail SRI Fund Sector* have been created to improve standards in the area of greater transparency, ie encouraging product providers to be more open about what they do and how they do it.

The guidelines were produced by the European Social Investment Forum (Eurosif) with support from some of the leading European green and ethical investment fund providers and the European Commission.

As of January 2007, over 40 fund managers were signatories to the guidelines. Signatories are encouraged to disclose information on their green and ethical investment research processes, their green and ethical investment criteria and the fund's approach to voting and engagement.

The guidelines, a list of signatories and the information they have disclosed are all available on the Eurosif website.¹

5.2 Understanding the providers – transparency and responsibility

For some clients, considering how responsibly a product provider itself behaves will be just as important as looking at which companies are held in a particular fund – if not more important.

(a) The main issues

The importance of transparency has already been described. Clients who are concerned about the product providers themselves may also want reassurance about such issues as:

- **The institution's general approach to being a responsible shareholder**

Clients may want to know whether a fund manager or product provider engages with companies (and if so, what resources are devoted to this).

¹ See http://www.eurosif.org/publications/retail_transparency_guidelines.





They may also like to know whether a fund provider votes their shares at AGMs (Annual General Meetings) and EGMs (Extraordinary General Meetings), or whether they publish how they voted on issues such as board structure, directors' pay or concerns that are making that month's headlines.

- **How the institution runs its own business**

Clients may well be interested in the product provider's own approach to corporate governance, corporate responsibility, voting practices and the FSA's initiative 'Treating Customers Fairly'.

- **The institution's contribution to developing a responsible finance sector**

Clients could be concerned about such issues as the institution's membership of organisations such as UKSIF, Eurosif, the Institutional Investors Group on Climate Change (IIGCC), or specific leadership initiatives on SEE issues in financial services or cross-industry.

(b) Available information

The amount of information a company publishes on these subjects (and others) varies greatly, but there is a trend towards greater transparency and increasing activity in such areas. The level of activity, as well as company's openness about what it does (or does not do), can be a useful indicator of its level of commitment to wider issues related to responsible investment.

Information of this kind may be available from a company's website, and should be easily accessible to advisers if available.

Opinions expressed by external commentators may be equally important indicators, such as membership of FTSE4Good Index (quoted companies only) and assessments made by Standard and Poors (eg regarding corporate governance), Business in the Community and others.

5.3 Understanding the products

In addition to the transparency disclosures described above, product providers publish marketing and other material to set out which areas are covered by the approach or approaches they offer and the degree to which they screen, either positively or negatively, for an issue. Some also publish detailed policy statements that set out their approach to various issues and their rationale for doing what they do.

It is important to remember that no one set of issues or approach is correct, as none has a monopoly on ethical standards. Different approaches suit different clients. Terminology and methods of publicity vary.

In addition, be aware that issues change within the companies in which funds invest, in particular when mergers or acquisitions take place. This leads some providers to err on the side of caution in marketing literature and the use of words like 'seek to' or 'aim to'. However, this may not be an indication of the seriousness with which a provider views an issue.

5.4 What to find out about specific screened funds

As an important part of selecting the correct funds that answer a client's needs, an adviser should understand the following issues about specific screened funds, asking the product providers to supply further information if necessary. For example:



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(a) In what sectors is this fund substantially underweight relative to its peers?

Typically, this might include defence, oil and gas, pharmaceuticals and perhaps financial services, because of concerns about armaments manufacture, pollution and climate change, animal testing and support for activities that the fund aims to avoid.

However, some green and ethical funds have exposure across almost all sectors, as stocks are picked on a 'best of class' basis.

(b) How does the fund manager mitigate the impact of being underweight in a particular sector?

The product provider's response might be that the fund manager aims to replace key sectors or stocks with:

- Less commonly held smaller or medium-sized companies that are often under-researched and may show similar performance characteristics to those being replaced.
- Stocks that are believed to be likely to give similar longer term performance because of positive attributes that may be unrecognised by others, such as emerging technologies.

Some product providers may say that although a fund may be unable to fully mitigate some risks because of its allowable universe of stocks, it has benefited from avoiding some major collapses thanks to the additional ethical investment research.

(c) If this fund is underweight relative to its mainstream peers in large cap stocks, how does the fund manager handle any disadvantage this might present?

A response might state that the medium to longer term impact has been neutral (and may be in the future), as the performance of larger caps versus smaller caps tends to be cyclical.

(d) Other useful information

In addition, the adviser may wish to review:

- A list of the fund's top ten holdings to gain an understanding of how the green and ethical investment criteria are applied to the fund in practice. This may be available from the fund or product provider's website.
- The relative size of the sectors in which the fund is substantially underweight or overweight. This will help you to gauge how important this position might be. Information regarding the relative size of each sector is published in the *Financial Times*.

Further information on these issues is available in published fund fact sheets and investment bulletins, and through independent research providers.

5.5 Green and ethical investment products and providers

A wide range of green and ethical investment funds is available today in many of the main fund sector categories.

As with other funds, green and ethical funds are available as ISAs and through life and pensions platforms.





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According to the Investment Management Association, investment sectors with ethical fund options include:

<ul style="list-style-type: none">• Active Managed	<ul style="list-style-type: none">• Specialist
<ul style="list-style-type: none">• Balanced Income	<ul style="list-style-type: none">• UK All Companies
<ul style="list-style-type: none">• Balanced Managed	<ul style="list-style-type: none">• UK Corporate Bond
<ul style="list-style-type: none">• Europe excl. UK	<ul style="list-style-type: none">• UK Equity Income
<ul style="list-style-type: none">• Europe inc. UK	<ul style="list-style-type: none">• UK Other Bond
<ul style="list-style-type: none">• Global Growth	

Bespoke green and ethical investment portfolios for clients with sufficient funds are available from a range of providers.

When you register to complete the course test, you will be offered the opportunity to receive further information about the green and ethical funds and providers in the market, and about the tools available to help you to select from among them.

Further information on green and ethical investment products and providers

The Eurosif *Transparency Guidelines for the Retail SRI Fund Sector* are available on the website of the European Social Investment Forum (Eurosif).

Information about members of the UK Social Investment Forum is available on the website of the UK Social Investment Forum. This includes product providers for collective investments, managers of bespoke green and ethical investment portfolios, and research/support organisations.

An online database of green and ethical funds will be available from April 2007 from Ethical Screening.

Synaptic Systems offers an ethical investment module within the Synaptic Fund Manager suite.

The Ethical Investment Research Service (EIRIS) provides a range of information for financial advisers, and will launch a new guide to UK ethical retail funds in April 2007.

Self test question

In what sectors is a screened fund likely to be substantially underweight relative to its peers?



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Step 5 – Key learning points

Selecting products and providers

- Standardised disclosure of information using, for example, the Eurosif *Transparency Guidelines for the Retail SRI Fund Sector* aids comparison between funds or companies, thereby helping to identify the best solution to meet a client's needs.
- Many clients are interested in the corporate responsibility behaviour of the product provider itself, and this may be as important as the fund's green and ethical investment approach.
- A substantial number of products with different approaches are available, offering a range of options for investors.
- In selecting funds, advisers should understand the fund characteristics and how these are managed – in particular, the implications of sectors underweight and overweight, and market capitalisation/size of companies held in the fund. This should help you to understand when a fund's short term performance may vary from that of an equivalent unscreened fund.
- A range of tools is available to assist you to advise on green and ethical investment.

