

# Investing Responsibly

**"78% of investors are concerned about this"  
– what an opportunity!**

*NMG Research*

**"Ethical funds have performed more or less on a  
par with their non-ethical equivalents"**

*Investment Management Association*

***"There are lots of approaches that could  
suit my client"***

*An IFA*

## **A Practical Introduction for Financial Advisers**

## Aims

- To introduce Responsible Investment (incorporating ethical and socially responsible investment).
- To propose ways to integrate Responsible Investment into your advice process.
- To help you make the most of the business opportunities Responsible Investment offers.

(A more detailed Technical Guide and example fact finds are available at [www.uksif.org](http://www.uksif.org))

## Summary

### Reflecting Values

Responsible Investment allows clients to meet their financial goals whilst also reflecting their personal values: clients' values influence which organisation, provider and/or fund they choose to invest with.

### A Choice of Approaches

There are lots of approaches to Responsible Investment offered today allowing you to meet even more of your clients' needs, ranging from those which impact on stock selection to those that don't.

### Screened Fund Performance

Responsible Investment shows "no sign of a systematic performance disadvantage"

"More Gain than Pain"  
WestLB Panmure 2002

### The Business Opportunity

"65% of people said advisers should ask their clients whether or not they are interested in investing ethically"

Source MORI / Friends Provident  
10-15 June 2004

## (1) INTRODUCTION

Market research indicates that most of your clients are likely to have some interest in Responsible Investment. Getting started is as simple as asking the following question:

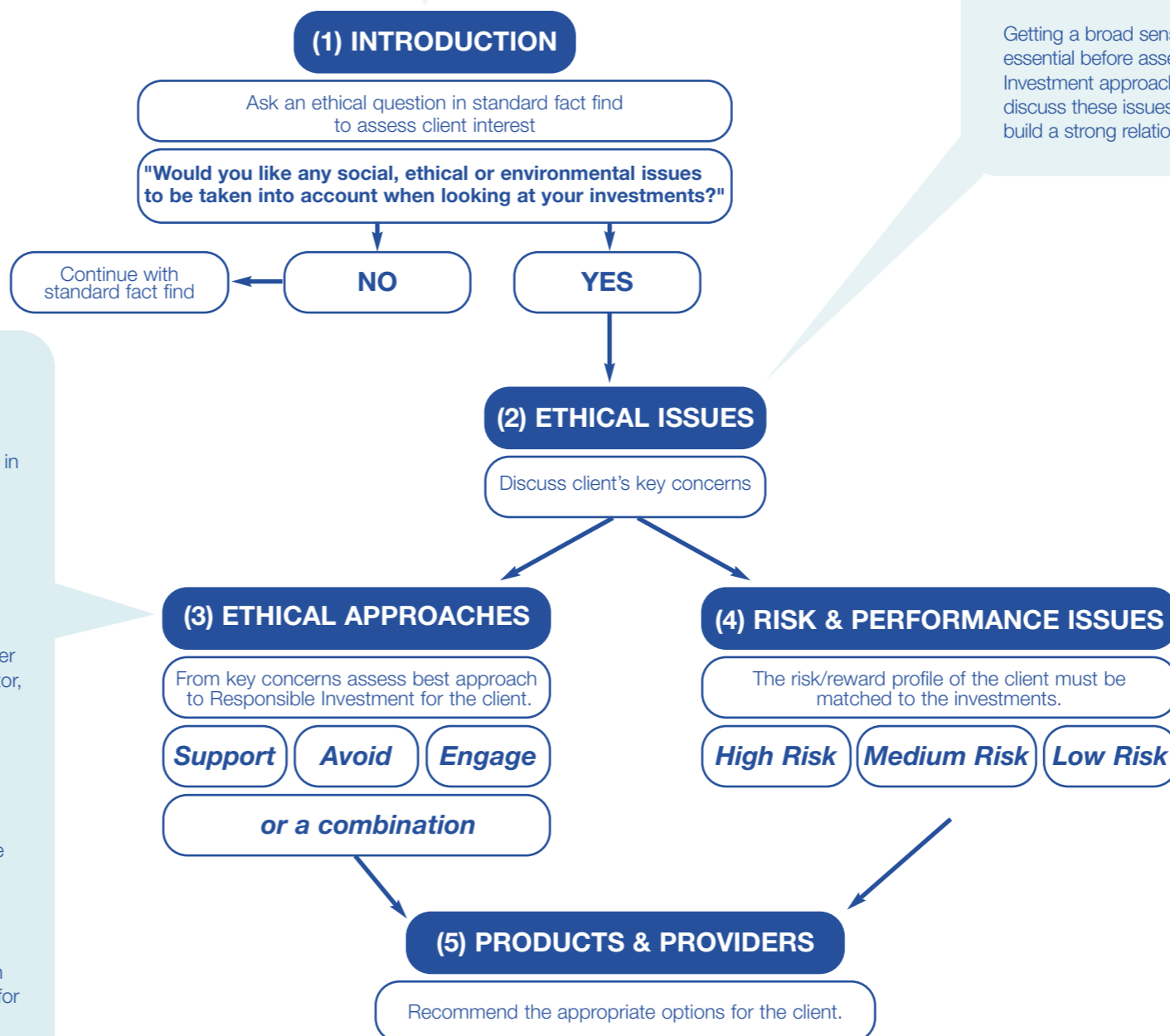
**"Would you like any social, ethical or environmental issues to be taken into account when looking at your investments?"**

This can form part of the standard fact find and is best asked early in the process. It quickly assesses whether or not Responsible Investment might be appropriate for your client.

## (2) ETHICAL ISSUES

After establishing whether your client is interested in Responsible Investment, it is important to discuss and identify the main issues they are interested in. Client opinions on social, environmental and ethical issues will vary and may be different from your own. For example, clients' concerns may include, pollution, child labour and armaments manufacture.

Getting a broad sense of your client's key concerns is essential before assessing which Responsible Investment approach is best for them. Taking time to discuss these issues with your client will also help you build a strong relationship with them.



## (3) ETHICAL APPROACHES

Broadly speaking there are three approaches to Responsible Investment which can be combined in different ways:

**Support**, also known as positive screening, seeks to invest in those companies with a commitment to responsible business practices, positive products and/or services. This approach can come in a number of forms. These include best of sector, thematic investment (such as investing in environmental technologies) or investing in companies providing basic human necessities.

**Avoidance**, also known as negative screening, is the most commonly recognised form of Responsible Investment. Avoidance means not investing in companies that do not meet the ethical standards by which the fund is run. Most ethical funds, for example, will not invest in tobacco companies.

**Engagement**, also known as shareholder activism, is applied by some fund managers to encourage more responsible business practices. It relies on the influence of investors and the rights of ownership. This might not alter stock selection and mainly takes the form of dialogue between major investors and companies on issues of concern, and may extend to voting practices. Fund managers may engage on areas such as inappropriate remuneration and climate change.

## (4) RISK & PERFORMANCE ISSUES

Today the Responsible Investment market is increasingly meeting the needs of varying investor risk profiles. Screened equity-based funds today are within the balanced managed, global growth, protected growth, UK equity and UK equity income sectors. These are available across a range of life, pension and investment products. Increasingly Responsible Investment opportunities also include:

- Interest bearing cash deposit accounts
- Corporate bond funds
- Funds from providers who engage
- Commercial property funds

Responsible Investment "has generally not led to a long-run risk-adjusted under performance" (ABNAMro). However, some clients will be cautious about screening out certain sectors. The engagement approach might be more appropriate for them, and for others interested in influencing company behaviour through dialogue.

Clearly your role is to ensure that your client's risk profile is matched to the options available. In exceptional circumstances clients may want their ethical concerns to override their risk-related concerns for part of their portfolio. You should discuss this carefully with your clients to reach an appropriate solution.

## (5) PRODUCTS AND PROVIDERS

The table on the back page lists UKSIF members that offer a range of Responsible Investment solutions.

For some clients the choice of provider will be very important and they will be concerned to hear how providers operate throughout their businesses. This will mean finding both a Responsible Investment solution and a provider that are suitable for your client. Areas clients might like you to assess are the company's corporate social responsibility activities/reports, voting behaviour/records and their engagement reporting. Further information on this can be found on provider websites.

Supplementary fact finds, a technical guide and a timetable of workshops to be held in conjunction with specialist and mainstream adviser bodies can be found at:

[www.uksif.org](http://www.uksif.org)



Many UKSIF members offer screened equity-based Responsible Investment funds, including:

- Aberdeen Asset Management
- Aegon Asset Management
- Allchurches / Ecclesiastical Insurance Group
- Co-operative Insurance Society \*
- Friends Provident / F&C Asset Management \* +
- Henderson Global Investors \* +
- HSBC (Amanah Fund)
- Impax Group
- Insight Investment \* +
- Jupiter Asset Management \*
- Legal & General Investment Management
- Norwich Union / Morley Fund Management \* +
- QUADRIS (sustainable forestry investments)
- Skandia
- Standard Life Assurance Company \*

Most of these funds are available as ISAs, and some of them are available through the provider's own, or a third party's, life and pensions platforms.

The providers marked \* are signatories to the Eurosif Transparency Guidelines for SRI Retail Funds, and those marked + are currently piloting Eurosif's Transparency Guidelines for Engagement & Voting (for further details about these EC-funded initiatives to encourage greater transparency see [www.eurosif.org](http://www.eurosif.org)).

In addition to some of the providers above, and the private banking subsidiaries of the main high street banks, UKSIF's private client banking and broking members can provide bespoke SRI portfolios for clients with sufficient funds<sup>1</sup>:

- Cazenove
- Gerrard
- Rathbones (including Rathbone Greenbank Investments)
- Schroders +

Note<sup>1</sup>: In 2004 Cazenove, Gerrard, Henderson, Jupiter and Rathbones provided detailed figures for UKSIF's first ever exercise to size the UK private client market for bespoke Responsible Investment portfolios: in total they managed £20bn of private client assets, of which £1.2bn (6%) was managed in bespoke Responsible Investment portfolios.

For further information about the above organisations please see our membership directory at

**[www.uksif.org](http://www.uksif.org)**

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