LUCAS FETTES

Ethical and sustainable investing:
A guide to your options

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Introduction

Ethical and sustainable investing is rapidly growing in popularity.

We define ethical and sustainable investing as investing with a view to helping society, the climate, planet, and avoiding areas that can be considered unethical.

This guide will cover the different types of ethical investment, why it is growing in popularity and the different ways you could access ethical

Ethical investments can be based on personal preferences and objectives, so it is important to make sure your investment choices are right for you.

Lucas Fettes are committed to being a socially responsible company. We aim to train employees on good environmental practice and encourage staff involvement in environmental actions.

We continue to look for ways to improve our environmental credentials as a business and will add new corporate initiatives going forwards.

We hope the information in this guide is helpful and broadens your knowledge of ethical and sustainable investing.

£20bn

Ethical/Sustainable funds have grown from c.£7bn in 2012 to £20bn in 2019 (Schroders 2019).

The UK is the second largest country in Europe for ethical/ sustainable investing.

Source: Schroders 2019

Early 1980s

The first ethical funds for UK investors were launched in the early 1980s, and since then client demand for responsible investment has increased tremendously.

Source: FTAdviser 2019

More than 50%

of UK investors have increased their holding in sustainable investments over the last five years.

Source: Schroders 2018

What is ethical and sustainable investing?

'Ethical' means different things to different people. It is about how you feel about an industry or practice.

There is a growing need to make a difference to our world. More of us are recycling, reducing plastic use, watching our fuel consumption and perhaps trying to reduce meat consumption.

This can be extended to investment decisions too. For many investors, how and where their money is being invested is becoming more of an important issue.

Ethical investing aims to exclude benefiting from organisations or industries that are considered harmful to society and the environment. Instead, it is about investing in organisations and companies that are committed to operating in a sustainable and positive way for the future.

This is usually done by filtering the harmful practices out (negative screening) and actively seeking to invest in companies that are committed to making positive decisions through their environmental, social and governance (ESG) practices (positive screening).

Sustainable investing can also be referred to as socially responsible investment or green investing.

"We define ethical investing as investing with a view of helping society, the planet and avoiding areas that can be considered unethical."

Why is ethical investing growing in popularity?

An increase in environmental awareness and topics such as climate change has played a major role in the increasing appeal of ethical investments.

Investors are being influenced by growing concern for the planet, and the impact that certain companies are having on the environment.

Investors want their money to have a positive impact on the world and want clarity of what they are investing in and how their money is being used.

"Sustainable investors aim for strong performance, but also believe that their investments should be used to make the world a better place."

Will ethical investing mean I receive inferior performance?

"Responsible investing is not about choosing between your own values over investment returns, but how both can work together."

A common misconception about ethical and sustainable investments is that you could be compromising your investment performance because of the companies that have been excluded from your investment.

However, we believe that companies with strong environmental, social and governance (ESG) practices are more likely to succeed over time whilst having reduced risk and fewer instances of bribery, corruption and fraud.

Positive ESG factors can be used to identify well managed companies or to identify companies that are likely to come under pressure by changing regulatory, environmental and consumer attitudes.

Investment values can go down as well as up and it may not be possible to receive back the full amount invested.

What is ESG?

This is a process which can be used to examine a company's approach to environmental, social and governance (ESG) factors. ESG factors help investors find companies with values that match their own.

Investment managers look for potential risks and opportunities that could help determine the long-term financial performance of companies.

ESG factors are important in uncovering risks and they are important to all investors - not just ethical investors.

ESG factors can include:

E - Environmental

- Climate change
- Natural resources
- Pollution & Waste
- Environmental opportunities
- Energy use

S - Social

- Employee health, safety and wellbeing
- Human rights
- Fair labour practices
- Stakeholder opposition
- Social opportunities

G - Governance

- Corporate governance
- Corporate behaviour
- Strong business ethics
- Fair and reasonable compensation and benefits

Positive and negative screening

Ethical investments generally use positive and negative screening. They can use features of both or focus on just one.

This section will give you a brief overview of the difference between the two approaches.

Positive screening

"Positive screening aims to invest your money in a positive way"

Positive screening is focused on investing in companies that have a positive impact on society.

The fund manager will look for companies acting responsibly and try to grow your money by investing in companies that have a positive effect on the world.

Positive screening encourages responsible business practices and investors can push companies to set a positive example.

Questions that an investment manager may ask before including a company within their portfolio using the positive screening approach could be:

- Does this company add something positive to the community?
- How do their ESG factors compare against other companies?
- Is the company acting responsibly?

Negative screening

"Negative screening avoids investment in areas that don't meet moral criteria"

This was one of the earliest methods used by socially responsible investors. Negative screening is designed to limit the exposure your investments have to areas that may be regarded as unethical.

Negative investment would be most suitable for those who have moral objections to certain industries.
You may not want to invest in companies that pollute or damage the environment, deal in the arms trade or the gambling industry.

Please refer to the table below for catagories that negative screening limits exposure to.


Alcohol


Cosmetic animal testing


Armaments


Environmental damage


Gambling


Pornography


Tobacco

Ways to invest ethically

The amount of money invested in responsible funds has grown rapidly and the popularity of responsible investing looks set to continue.

There are lots of different ways to access ethical investments, a number of these are included below.

Bespoke Discretionary Fund Manager	A discretionary fund manager (DFM) can create a portfolio tailored to your specific investment objectives whilst incorporating ethical/sustainable funds. The portfolio can be adapted as your circumstances change.
Managed Portfolio Service (MPS)	These are portfolios of funds run by discretionary investment managers and offer a range of solutions for investors with ESG, Sustainable or Ethical preferences. These are generally less expensive than having a bespoke DFM.
Multi-asset Ethical funds	These invest in a varied range of asset classes which provides a greater degree of diversification than is possible when investing in a single asset class. They invest in a broad range of socially responsible companies which are typically medium and smaller sized companies, as some of the largest companies on the FTSE 100 Index would be excluded due to not meeting certain ESG factors.
Single-asset Ethical funds	Single asset class funds are suited to investors who like to make their own investment decisions or want to invest in a particular market only (e.g. only UK Equities). Single-asset funds could be invested alone or can be used alongside other funds to make a portfolio. For example, if the fund only invested in UK Equities then the fund would only invest in funds that meet their ethical criteria.
Direct Ethical Shares	Investing directly in ethical shares gives you maximum control over your investment as you will know exactly where your money is being invested, however this is a relatively high-risk strategy due to the lack of diversification.
Ethical ETFs	An exchange-traded fund (ETF) tracks an index. ETFs enable you to invest cost-effectively in entire markets with one security. Ethical ETFs could track an ethical index such as the FTSE4Good.

Active and passive investing

However you decide to invest, your fund managers will take one of two basic approaches to managing your money: active or passive investing.

Active investing

Active investment involves actively buying and selling assets in the hope of making profits and outperforming a benchmark or index.

Active managers analyse the market to identify and purchase investments that are undervalued and to sell investments that become overvalued. These are more expensive than passive funds.

Passive investing

Passive investment involves trying to track a particular market or index. Ethical passive funds could track an index like the FTSE4Good, which doesn't include companies involved in certain industries such as tobacco or weapons manufacture.

Other funds could track a more general index like the FTSE All-Share and only invest in companies in the index that meet their ethical criteria.

Sustainable banks

Sustainable banks generally offer the same services and obligations as other banks e.g. to look after customers' money, but they approach banking differently.

They should only lend to organisations that have a positive impact on people and the planet. In addition, some sustainable banks publish details of organisations they lend to so they can show you the positive impact that your money is having.

Some of the services that sustainable banks offer are:

- Cash ISAs/ Junior Cash ISAs
- Current accounts
- Savings accounts/ Savings accounts for children
- Business accounts
- Fixed rate bonds
- Business lending

You would be able to find more information about sustainable banks online.

How can we help?

Lucas Fettes Financial Planning can help you identify any ethical and sustainable preferences you have and how these factors can be implemented into your investment portfolio.

We regularly review ethical and sustainable investments and perform due diligence checks on any that we add to our investment panel. These are reviewed on a consistent basis to ensure satisfactory performance.

Should you wish to discuss your ethical and sustainable investment options and how we can assist you, please get in touch.

Contact us

If you would like further information on any of the above services or how we can help you, please do not hesitate to contact your Lucas Fettes Financial Planning adviser, call us on **01603 706 820** or email **info@lffp.co.uk**.

www.lffinancialplanning.co.uk