



History of Socially Responsible Investment (SRI)

Ethical investment has its roots way back in social history and dates back to the Nineteenth Century. This was largely amongst religious movements such as the Quakers and Methodists. Milestones along the way include the 1971 US PAX World Fund which was set up with a specific avoidance of any investments related to the Vietnam War.

However, ethical investment in the UK really got under way in 1984 when Friends Provident launched the first retail ethically screened fund, the Stewardship Fund.

Since then, ethical investment has continued to grow, and at the end of 2005 reached the £6 billion mark for the first time in its history. The rate of growth of funds under management has been notable.

In the mid 80's, the funds that an investor could invest in tended to apply heavy negative screening. Typically these would encompass issues such as oppressive regimes, armaments, tobacco and alcohol. The amount of negative screening applied to these funds meant that sectors of the stock market such as oil companies and pharmaceuticals were excluded outright. What followed in the early 90's, was a launch of a number of funds which applied a best of sector approach. These funds would not necessarily exclude pharmaceuticals and oil companies, but would look at companies best in those particular sectors and invest with them. These lighter green funds tended to be less volatile because of the lack of sector exclusions.

Now screened funds have taken another step, and involved themselves in what is termed engagement. Engagement means that SRI (Socially Responsible Investment) funds engage with a company in order to improve best practices. Clearly engagement has a wider audience, and means that SRI has had a bigger impact by employing this approach.

How can I begin to save ethically?

Some investors may prefer to start by just dipping their toe in the water, and investing a portion of their investments in an ethical fund. Others will prefer a more complete approach. It is possible to invest your ISA allowance investments and your pension money in a variety of good SRI funds.

I have a substantial amount to invest, how do I ensure that my ethical views are taken into account with my investments?

Pretty nearly every discretionary fund manager will say that they can invest money ethically and according to the client's specific principles. However, very few of them have the expertise to really back this up. If you have a significant portfolio, then you can have your portfolio tailored to your own particular requirements rather than buying off the peg investment funds with their particular mission statements. Baigrie Davies is able to assist with the choice of investment manager and can guide you through the options.

That said, please remember that the stricter the criteria, the more volatile the portfolio is likely to be.

What is a fund's mission statement?

Each retail investment fund will have a specific mission statement stating what it will and won't invest in. Some of these tend to have very strict criteria, others take a more pragmatic approach, and other funds will focus on engagement. The important thing to decide is exactly what your priorities are. We need then to match this against the funds' financial capabilities, as it is important to make money as well as to invest soundly.

Won't investing ethically affect my returns?

The simple answer is no. There is enough research to show that you don't have to sacrifice performance if you invest ethically. Indeed, companies that fulfil ethical criteria are usually those that are forward thinking in their approach, run sound businesses and seek to develop their staff. Ethical screening can also mean that further research is done on companies which can uncover information that makes them financially undesirable.

Would I pay extra for the ethical screening?

No. The answer with some funds used to be yes to pay for the additional screening that was undertaken. But market pressures have forced charges down and the charges that you pay are market charges.

Specific issues for pension trustees

In terms of ethical investments, there was a breakthrough in 2000 as UK law required that occupational pensions schemes state whether they took into account social, environmental and ethical factors when choosing investments. This put ethical investment firmly on trustees' agenda.

The 2006 Ashridge survey of pension trustees showed that there have been increases in ethical criteria applied to choice of investments. In 2003, 2% of trustees said that their fund used negative screening and this rose in 2005 to 11%. In terms of engagement, in 2003 26% said they engaged with the investee, compared with a 40% in 2005.

More interesting perhaps is the prediction that pension trustees make for the next three years. They see themselves involved increasingly in engagement rather than screening.

Indeed, pension trustees may see a marked swing to the direction of SRI. A 2005 Freshfields report concluded that trustees may be in breach of their duty if they do not take into account social, environmental and governance issues.

What is the total amount invested in ethical investments?

The total at the end of 2006 was £6b.

Is it possible to get involved with investments that invest specifically in alternative energy?

Yes it is possible to invest in specific investments that will be geared not only towards alternative energy, but also which can include waste control, technology based systems, energy efficiency and pollution control. These types of investments tend to be higher risk, but are in areas that are seen as growth areas. So for a percentage of a client's portfolio, this type of investment will sit well, providing they are prepared to ride through the investment performance bumps.

Terms Ethical, Environmental and Socially Responsible Investment seem to get mixed up, but what exactly is the difference between them?

The terms do get mixed up, and we have used them interchangeably in this fact sheet. Ethical investment strictly speaking is involved in negative screening, such as excluding investments in companies that are involved in tobacco, armaments or oppressive regimes.

Environmental funds are invested in areas of positive environmental impact such as pollution control, waste management, and companies that have positive impact upon the environment.

Socially Responsible Investment, or SRI, is the newer term that embraces the previous terms, and is also used for funds that are involved in engagement.

Isn't best of sector and engagement a watering down of ethical principles?

For investors that are die hard in terms of what they will or won't invest in, they're probably likely to find ethical investments more appealing. That said, best of sector or funds involved with engagement should not be viewed as a fudge.

With engagement a wider market can be reached, and therefore SRI can have a bigger impact by not excluding companies but by encouraging them to do the best they can. An example of this would be an oil company, where an oil tanker spillage can have a devastating effect on the environment. However, those oil companies that take effective action and are also positively involved in investing in environmental issues, are companies that should be encouraged. If this is not done, the danger is that companies simply won't bother to try better.

So how do I get started?

The best start is to talk to your adviser about how you can approach SRI given your particular circumstances, and they will be able to guide you.

Contact details

Baigrie Davies and Co. Ltd
3rd Floor
Epworth House
25 City Road
London EC1Y 1AA

Phone: 020 7786 2000
Fax: 020 7786 2020
Email: info@baigriedavies.co.uk
Web: www.baigriedavies.co.uk