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Where to lay your treasure

There are now more opportunities for ethical investment than ever before.

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COULD ethical investment be the new fair trade? Congregations all over the UK are drinking Fairtrade coffee, and selling fairly traded goods.

The organisers of National Ethical Investment Week (NEIW) are hoping that ethical investment will become popular among churches and individual Christians in the same way.

The practice is certainly on the rise. By 2010, money invested in green and ethical retail-funds in the UK reached £9.5 billion, the investment-research organisation EIRIS says. This represents about 750,000 ethical investors. Ten years ago, there were only about 200,000.

The overall ethical-investment marketplace is expanding, too, as the Government prepares to launch the Green Investment Bank. About 100 green and ethical-investment funds are now available, compared with 20 or so a decade earlier — although this is still only a fraction of the nearly 3000 mainstream funds on the market.

To mark the third NEIW, which takes place this week, the organisers have published an Action Guide for Churches, which is available on the NEIW website. It seeks to encourage Christians to express their faith through their savings, and explains ethical investment. It also offers resources to communicate the concept in a church context.

“We want to raise awareness of the green and ethical options for investment,” the guide’s author, Adam Ognall, says. He is deputy chief executive at UKSIF (UK Sustainable Investment and Finance), which co-ordinates NEIW. “This year, we are particularly looking to reach church and faith communities.”

Not mere management

Arguably, any decision about where to put your money, or your church’s money, is as much about morality as it is about pragmatism.

Investment hinges on accepting the responsibility of Christian stewardship, the Church of England’s National Stewardship Officer, John Preston, says. “The challenge is to be an active steward, to want to engage. It means recognising that the purpose of financial investment is not just about maximising returns, regardless of the impact on anyone or anything else.”

Where to start

There are practical steps you can take. “Start with your bank account, and any cash ISAs you may have, and check out how ethical your current bank actually is,” says Helen Wildsmith, the head of ethical and responsible investment at CCLA, investment-managers for churches and charities, with 15,000 Church of England clients.

You can do this by a straightforward search on www.youethicalmoney.org, a non-profit initiative launched by EIRIS last year. This “one-stop shop for green and ethical finance” offers independent information in areas from banking and investments to pensions, insurance, and student finances.

Take advice

You may want to use the services of a financial adviser to help you determine exactly what

“ethical” means to you or your PCC. The website also includes a directory of financial advisers who meet its ethical criteria.

“Most financial advisers will ask clients where they stand regarding ethical investment,” Ketan Patel, a senior investment analyst with Ecclesiastical Investment and Management, says. “Many clients know what they do not wish to invest in — perhaps alcohol, tobacco, or nuclear power. Some may have more general positive intentions in areas they wish to support — such as care of the environment. But a financial adviser is there to educate clients, too, and can help clarify their ethical thinking.”

A specialist may not be necessary: a mainstream adviser may suffice. “Independent financial advisers should research areas for you that they are less familiar with. You need to challenge them to do the work,” Mr Patel says.

An ethical investor will also want to ensure that any fund-managers involved in the process are signed up to the UK Stewardship Code, a government initiative to ensure that fund-managers take responsibility in monitoring the funds they are managing.

Risky business?

It is important to decide on your attitude to risk before you invest. “All academic analyses indicate that risk-adjusted returns are the same for green and ethical funds as for mainstream,” Ms Wildsmith says. “You can have good and bad funds in all categories.”

But the reality remains that ethical-investment opportunities are regarded by many as a riskier option. As a result, the director of the Ethical Investment Partnership, Jeremy Newbegin, says that “Ethical investment needs to demonstrate financial performance more convincingly, if it is to make a significant breakthrough into the mainstream.”

Greg McCrave, the director of Profit With Principle, and winner of this year’s Financial Times Money Management Ethical Investment Planner of the Year, says that while performance is affected when ethical issues are taken into account, such investment does not entail automatic financial loss: “There are variables that affect a fund’s performance in different ways, from the length of investment to company size; ethical funds tend to favour smaller companies. But the most crucial factor in the mix is the fund-manager’s expertise.”

Mr Ognall agrees: “It is a myth that green and ethical funds always underperform. An effectively managed and well-diversified portfolio can make a profit as well as a difference.”

Edward Mason, secretary to the Ethical Investment Advisory Group, which advises the Church of England on investment policy, issues a cautionary word: “If you invest in areas where there is a social impact — for example, micro-finance — it may mean that you are looking at lower financial returns.”

Who’s investing?

Such considerations highlight the differences between investing your own money, or that of your PCC. Charitable trustees have a responsibility to make the most funds on their supporters’ behalf: an individual is freer to follow a personal passion. Fiduciary responsibility, however, can be offset against an ethical investment that demonstrably furthers the charity’s purposes.

Negative or positive screening?

“Ethical investment was more straightforward in the 1970s,” Mr Patel says. Back then, you simply excluded companies with links to armaments, tobacco, alcohol, or pornography. This was known as “negative screening”.

In recent years, positive screening has come into the frame — seeking to invest in companies with interests or values that investors actively wish to support. Ecclesiastical Investment and Management has nine positive criteria for ethical investment:

- health care
- business practice
- community relations
- education
- corporate governance
- environmental management
- human rights
- labour relations
- urban regeneration

Make a fuss

A third approach, related to positive screening, is active engagement — lobbying a company about areas of practice that the ethical investor wants to see changed, such as its carbon footprint or its working conditions.

In some cases, the two approaches are combined, Ms Wildsmith says: “Investors might follow through an intention to disinvest if the company has not made any promised changes.”

Earlier this year, the Church of England did just that, and withdrew its investments from the Indian mining company Vedanta, dissatisfied at the company’s continuing neglect of human rights.

For or against

It is important to take time to determine your or your PCC’s ethical-investment profile and priorities. For example, is it more important to say “No” to armaments, or to examine a company’s environmental credentials? Are you against animal testing per se, or just in cosmetics? If you are looking at green energy, are you interested in wind-, wave-, or solar-power?

Don’t be a purist

We should not be too picky, Mr Preston says. He believes that an ethical investment still has value, even if a fund is not as comprehensively ethical as you would like. “It may be helpful to look at the headlines of funds rather than the detail, and make investments that at least head in an ethical direction,” he says. “Some progress is better than not starting out at all.”

Mr Ognall agrees. “A lot of people are dipping their toe in the water. Of six or seven funds in a portfolio, it might be that one fund is a green or ethical one.” A bit like including one jar of fairly traded coffee in your supermarket shop, it can still make a difference: “It’s fine to be half-ethical, especially if you need to bear other savings considerations in mind.”

First principles

The Church of England is currently reviewing all its ethical-investment policies. “We are going back to first principles, looking at the biblical and theological basis for our investments, alongside today’s practice and Christian tradition,” Mr Mason says.

He feels that moving beyond blanket negative exclusions has enabled the Church to develop more sophisticated ethical investment policies. “With alcohol, we currently invest in companies up to a thresh-old of 25 per cent turnover,” he says. “This brings in the supermarkets, now significant retailers of alcohol. The Church can express its stance on alcohol misuse by engaging with super-markets to encourage responsible practice.

“Having a more nuanced approach avoids restricting invest-ment possibilities. So we remain consistent with Christian prin-ciples, but ensure our returns will still enable us to pay clergy pensions.”

Make it personal

A more straightforward approach, if you are prepared to limit options, is to invest only in companies that actively promote the values that you wish to affirm.

Triodos — a northern-Europe-based bank that has been in the UK for 15 years — offers savings and investment opportunities. It deals solely with positive social and environmental enterprises across 40 countries. “We want to show that this is a sustainable business approach,” its head of investment banking, James Vaccaro, says.

By supporting smaller, entrepreneurial ventures in areas such as micro-finance, renewable-energy projects, organic farming, and ethical property development, he says, the bank can maintain a direct relationship with its partners and customers. “We seek focus, simplicity, and a transparency about everything we do, to help our investors to make decisions.”

The availability of a wealth of information brings with it the opportunity for more intelligent and effective ethical investment. But, Mr Ognall says, “You can’t tell someone what ethical investment is. It’s about what’s important to you. National Ethical Investment Week is about opening up the conversation.”

“Responsible investments are those that take environment and social issues into account,” Mr Mason says. “But the main thing is to think about your values and what you want to achieve, and then make an informed choice.”

The Ecumenical Council for Corporate Responsibility is holding a free open debate, “Positive Impact Investment: Too Good to be True?”, on Thursday 18 November, from 4.30 to 6.15 p.m. at Methodist Church House, 25 Marylebone Road, London NW1 5JR. Visit www.eccr.org.uk, or phone 01865 245349.

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