Atkins Bland

Investments • Pensions • Financial Planning

Guide to:

Socially Responsible Investment

Introduction

What can we offer?

If Socially Responsible Investing (SRI) is something that might interest you, we set out below the options available through Atkins Bland and further reading on the background to SRI investing.

We offer three solutions for those specifically wanting to apply SRI, either fully or partly, to their portfolio strategies:

Solutions with our ongoing asset allocation advice

1. **Exclusively SRI**

   This strategy will only use funds applying SRI processes.

   The use of this approach means it is not possible to include specific allocation to some sectors or countries, due to lack of fund availability. However, these are usually covered, at least to some extent, through funds with a wider remit, such as an Asia Pacific fund, or European fund, which will include allocation to countries in the region even though no country specific SRI fund is available.

   Due to the restrictions, our own involvement in sector and country allocation will be reduced compared with our un-screened or party SRI solutions.

2. **SRI where available, but non-SRI otherwise**

   This strategy uses SRI funds in any sectors or geographic region where a suitable fund is available, but non-screened funds otherwise, thereby avoiding the reduced diversification and lack of access to some sector or country specific funds associated with the option above.

3. **Partly SRI**

   This is likely to suit someone keen to include SRI funds but preferring to minimise the restrictions in fund choice with the two options above.

   With this strategy, we will typically have one SRI fund in any sector where a well ranked choice is available but will widen the diversification by also using non-SRI funds in these sectors, rather than just in the sectors where no SRI fund is available, as in the "where available" option.

A bit of background

The investment industry has a long history of adding to an already confusing world through a relentless expansion of the use of jargon. It was, therefore, more or less inevitable that it would manage to achieve this yet again when grappling with the concept of investing with mindfulness towards what is good rather than bad.

Part of this achievement is manifested in a veritable lexicon of terms used to refer to socially responsible investing, such as Ethical, Green, Environmentally Friendly, Sustainable, ESG, Impact, SRI and several more.

In a world where the three-letter acronym (TLA) seems to be taking over as the next big thing (NBT) it is no surprise that ESG and SRI are showing signs of domination in the battle for nomenclature supremacy.

ESG stands for Environmental, Social and Governance. These are important considerations in terms of corporate best practice but are not, of themselves, a definitive indication that something is positive for the planet or its inhabitants.

In the investment world, ESG refers more to assessing how the application of these factors might impact the performance of the company or an investment in it, rather than how the activities of the company impact the environment.

SRI stands for Socially Responsible Investing or, according to some, Socially Responsible and Impact investing.

SRI naturally considers ESG issues in its remit, but it goes beyond that and assesses if something is specifically designed to do a good thing or at least not designed to do a bad thing.

A bit of background

The difference could be defined as:

ESG: Doing the thing right

SRI: Doing the right thing

In this guide we are focussed principally on SRI, but mindful that ESG factors are an integral part of this.

Naturally, there are different opinions about what is doing the right thing and what isn't, as this is often a value judgement. Some investments are clearly in one camp or the other. More or less anyone would know where to place a company using solar energy to convert recycled plastics into irrigation systems for Africa, or where to place a tobacco company.

However, it is far less clear cut in many situations.

On the face of it, an electric vehicle manufacturer could be right at the top of the buy list of a fund focussed on environmental issues. But what if the cobalt used in the batteries is from mines in the Congo using child labour? And what of the fact that, at the moment, less than 20% of the electricity used is from renewable sources, with the rest from burning fossil fuels or from nuclear energy?

Inevitably, these conundrums create a huge variance in the stances taken by different participants in the SRI universe, but the purpose of this guide is to look at the subject generically, rather than at the fine detail of specific approaches of different funds.

A bit of history

The idea of allocating your capital, with consideration of whether what you're investing in is a good thing or a bad thing, has been around for a very long time.

The origins of SRI investing date back to the 18th century, when religious groups were excluding 'sin stocks' such as liquor, tobacco, gambling or the slave trade from their portfolio.

The first collective fund in this category was launched in the USA in 1971. This was called the Pax fund, launched by Methodists who wanted to avoid supporting the Vietnam War with their investment strategy.

Since then, others have followed, most with a rather wider objective.

The first UK ethical fund range was launched by the former Quaker Life Insurance company, Friends Provident, and was called "Stewardship".

The first UK environmentally friendly unit trust was Jupiter Ecology, launched in April 1988, shortly after the 1987 crash gave us all a good reminder of the consequence of allowing pure greed to drive investment decisions.

However, while others have followed, it has been a trickle rather than a flood, although that is, at last, starting to change.

Why has SRI investing been so slow to get traction?

The slow pace of growth in fund choices applying specific screening based on SRI issues is partly due to the complications of clearly defining what is good and bad, and the obvious risks associated with getting it wrong.

No fund manager wants to discover one Sunday morning that his face is on the front page, in an article about how he has invested his ethical fund in a company making widgets used in cruise missiles carrying cluster bombs, when he thought the widgets were for wind turbines.

It is also due to a lack of general interest from the investing community which, perhaps surprisingly, has persisted for decades despite the mountain of evidence that doing the right thing for the planet is a good idea for all of us.

The remit of this guide

It is not the place, or objective, of Atkins Bland to get involved in any debates about exactly what is good and what is bad, or to be evangelical about whether or not an investor should limit their strategy to reflect SRI issues. It really is entirely up to the individual, and there is no right or wrong approach. Indeed, actually assessing what is good and what is bad is a minefield, full of both value judgements and highly complex considerations. Many things which may appear bad at first sight actually produce a lot of good, and vice versa.

However, we do feel it is important that we make our clients aware of the options and ensure the services we offer include SRI or ESG aware solutions. This objective also means we should try to explain the possible pros and cons of incorporating SRI principles, either wholly or partly, to a portfolio.

This, then, is the objective of this guide.

Our mission is to help explain the often confusing world of SRI and cut through the jargon to identify the possible benefits and disadvantages of investing this way.

Defining the objectives of SRI

How does SRI incorporate ESG?

As mentioned earlier, SRI is a natural bedfellow of ESG, since it needs to apply ESG before it can achieve what it wants.

ESG breaks down like this:

Environment

Caring about the planet and all the creatures living on it. We all know about the big issues here, such as pollution, the threat to the ozone layer, climate change and deforestation.

An investment strategy applying the E from ESG should be mindful of a company's practices in terms of minimising any negative impact on the environment. This could include avoiding companies using, or producing, fossil fuels but will commonly be less draconian and be tolerant of fossil fuel use or production, but select only companies leading the field in keeping their operations as 'green' as they can, and actively engaged with cleaning up their act.

E ~ carbon emissions, water stress, waste, renewable energy

Social

Mindfulness of human, and animal, rights. Common themes are diversity in the workplace, gender and racial equality, and the general treatment of employees, which can be particularly important with companies operating factories in some so called 'third world' countries. Animal cruelty is also, of course, on the agenda as something to avoid.

S ~ privacy and data, health & safety, controversial sourcing

Governance

Ethics in the way business is carried out, and remuneration is structured among employees, especially those at the top of the food chain. Having a business in the right place for environmental screening, such as manufacturing wind turbines, may not amount to much in the grand scheme of doing good if the business is involved in bribery and corruption, and evading taxes by operating from a dodgy location.

G ~ business ethics, board diversity, executive pay, tax transparency

Socially Responsible Investment Strategies

What methods do SRI funds use to ensure they are responsible?

Nothing is ever straightforward, and SRI is no exception.

Green may always be green, but there are a lot of different shades. The world of SRI reflects this by having different ways of assessing what is and isn't an acceptable investment.

It is beyond the remit of this guide to look at all these in detail, but we set out below the main categories of 'screening', by which we mean the criteria applied when a fund manager assesses if shares in a particular company are a suitable candidate for inclusion in their SRI portfolio.

These methods are not mutually exclusive and a fund might engage in more than one of these screening methods, in their attempt to satisfy the fund's priorities.

Negative screening

This is all about excluding companies based on certain specific bad things, at the core of which is 'the sextet of sin' - pornography, gambling, nuclear power, alcohol, tobacco and weapons.

We are not making a judgement on this, so don't shoot the messenger. Some would say nuclear energy is a good thing compared with the use of fossil fuels, and some might say weapons are quite important if you want to defend yourself against hostility. Others would disagree.

While these are often the biggest 'baddies', there can be others applied in a negative screening approach, such as avoiding companies producing fossil fuels or those with a poor human rights record.

Positive screening

Instead of just looking out for companies doing bad things, this approach actively seeks those doing good stuff. There are, of course, a lot of companies which fall in-between these two descriptions. They are not engaged in a toxic area, but neither are they actually trying to do any good in any specific way, other than in terms of making a profit.

Fund managers using positive screening may not be interested in any of these 'in-betweeners', while those using negative screening may well be.

The positive screeners will only want to invest if they are happy a company is deliberately and specifically trying to be a force for good, as defined by ESG factors.

Impact investing

This screens for companies which, by accident or design, are doing something which should have a positive impact in a desirable area in SRI terms. This could be the widget manufacturer mentioned earlier. They may just be making widgets, and not have too much concern about what they are used for, as long as someone buys them. As it happens, they've been chosen to supply a company producing electric vehicles for a highly polluted city.

'Widgets R Us' find themselves getting support from funds using impact investing strategies, without ever meaning to do anything particularly noble. However, most companies selected by a fund using an impact approach, will probably be specifically structured to do the thing which the managers deem a good impact, rather than find themselves so categorised by the vagaries of chance.

SRI investment categories

An explanation of issues and areas SRI funds may want to invest in

As would be expected given the different screening options, there are different categories of SRI funds, depending on which of these, or which combination, they are using.

There is no real consistency in this respect, so categorisation is fraught with difficulty. However, to attempt some basic level explanation of this:

Financial only: only green by accident, but probably not at all

These are the imposters in a guide like this, since they are not SRI at all. However, they are mentioned since they do, of course, make up the vast majority of the investment funds available.

With these, the investment strategy is either not concerned with social or environmental impact, or only to a very limited extent. The main focus of these funds is to deliver investment returns to the fund's shareholders, aligned to the fund's specific objectives in terms of sector or geographic allocation, risk exposure and the mixture between income and growth. Investors using these funds have to accept that they may well have exposure to the sin sectors mentioned earlier, either directly or indirectly.

Responsible funds: light green

These normally target companies with little or no obvious exposure to the general view of what is bad stuff mentioned throughout this guide. In other words, they tend to use negative screening, avoiding the bad guys but not necessarily avoiding companies which actually have little or no commitment to SRI criteria. This widens their remit considerably compared with darker green funds, so may improve investment opportunities, but can introduce shades of grey which may not suit the purist.

Sustainable funds: mid-green

These too use negative screening to reflect core SRI objectives, but will also engage in positive screening to find companies actively engaged in making the world a better place for its inhabitants, as defined by ESG criteria.

Whilst ESG factors contribute greatly to fund strategy, it is important to note that 'sustainable' does not mean the fund engages in philanthropy. Sustainable funds try to invest in companies which will produce ongoing social and environmental benefits and are actively engaged with improving governance.

Again, some of their investments may be frowned upon by those with a leaning towards the darkest green options.

SRI investment categories

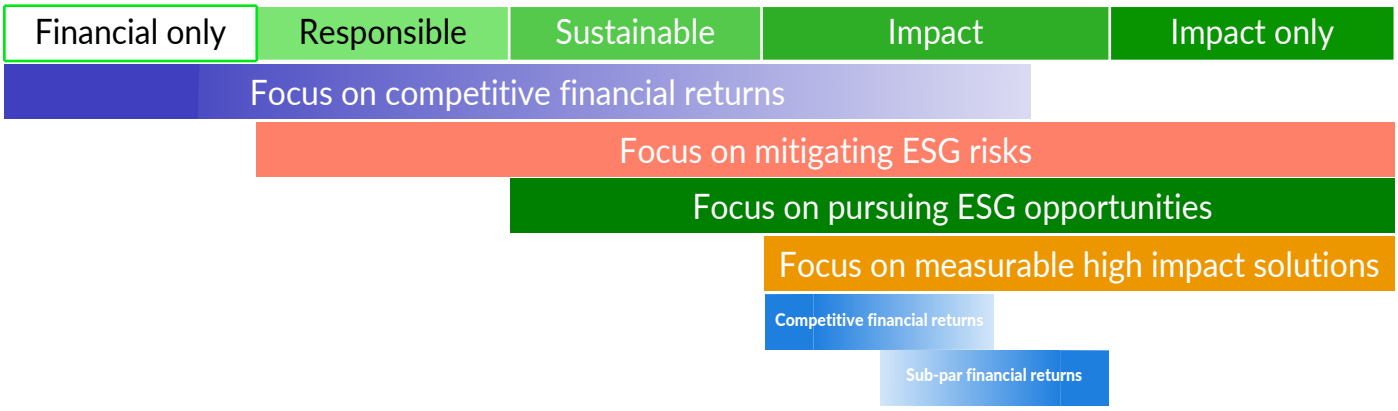
An explanation of issues and areas SRI funds may want to invest in

Social impact funds: dark green, but by differing degrees

These target specific issues or outcomes, with a lot less concern over potential investment return than might be applied to the categories above. They are generally suited to investors who are more concerned with addressing ESG issues, and the moral choice behind this, than with generating returns.

This does not mean an impact fund necessarily offers poor returns, since you can seldom know this in advance, if ever. What it means is that investment returns are not near the top of the priorities when identifying how to allocate capital, since 'doing the right thing' occupies all the top slots in the fund's hierarchy of needs.

Obviously, each fund is different from the next one, and some do pay more attention to potential investment returns than others, but all have the desired impact as their holy grail.



The marketplace

How do SRI funds fit into the wider investment market?

Until recently, SRI has remained quite a fringe area, but it is now gathering real momentum, and this looks set to continue, as more and more companies recognise the importance of applying ESG factors to their strategies, and more and more investors include them as part of their investment objectives. In addition, legislation in many places is starting to force companies further along the ESG road.

There is little doubt that many investors do have concerns over the issues SRI tries to address but may have been put off incorporating this concern into their own strategy for one reason or another. One can be a lack of awareness of the options available, and another is a view, which has tended to be true to date, that the choices are very restricted, and the approach knocks out such a high proportion of the investment universe. This is not to say that the majority of investment options are either environmentally toxic or unethical, or both, but that the majority are not specifically screened for this.

The consequence of a fund not specifically screening for SRI objectives means some of the holdings probably would not pass muster, particularly where the strictest criteria are applied.

However, while lack of choice is still a factor to be mindful of, the choice is slowly expanding and rising popularity, plus, in many cases, a genuine wish to be doing the right thing, is encouraging more and more fund managers to consider incorporating SRI funds in their range, and ESG considerations into their investment philosophy, even for their general fund range.

This momentum seems likely to continue, so the problem of limited choice should diminish over time.

In the meantime, anyone who would like to incorporate SRI factors in their investment strategy, but does not want to limit their investment choice to the extent needed for a pure SRI approach, can always go for a compromise. This is to include some SRI funds, in sectors where these are readily available, but use ordinary funds where SRI choices are non-existent or too limited.

Why invest in SRIs?

What opportunities and advantages might SRIs offer you?

The obvious reason is, of course, to support companies doing good stuff, or at least try to avoid supporting companies doing bad stuff. However, while this is normally the over-riding motivator of an SRI investor there is, these days, a groundswell of opinion that SRI investing may go beyond being good for your conscience and be good for your wallet too.

While there is always the argument that "well they would say that wouldn't they", SRI fund managers often count one or more of the following as reasons why doing what they do is good for the investor, as well as the planet:

- **Performance:** ESG analysis can help to identify sustainable and profitable investment themes. If a company has a better ESG profile than its peer, it might be a positive indicator for its long-term potential for success.
- **Risk forecasting:** The analysis of ESG factors is an opportunity for active risk management. It can help to understand external forces and to predict whether a company is prepared for future risks and challenges.
- **Risk diversification:** Investing in areas which are not mainstream might create a low correlation with more traditional investment sectors, and hence help to diversify a portfolio.
- **Reputation:** Companies doing potentially good stuff run less risk of getting into trouble with the law, regulators or the media, than those doing bad stuff. Doing the wrong thing can be bad for a company's reputation, share price and market position, so the risk of it arising adds risk to the shares. By extension, a fund trying to avoid the bad boys, should have less risk exposure to these ingredients.
- **Getting ahead of the game:** We live in a regulated world. Regulations are added all the time, and many of these are intended to stop companies doing bad things or encourage them to do good things. Companies already doing things well, with a high ESG profile, have less exposure to the profit risks of government-imposed change to the way they go about doing what they do. In the past, those doing it well may have suffered higher overheads and struggled to compete for the lion's share of a market, but if the bad guys get forced to change, that could reverse, handing the advantage to those with the moral high ground.
- **Investing in the future:** Many SRI areas are all about the future, such as sustainable energy, electric vehicles and improving healthcare. There is a decent argument that these are the places a medium to long term investor should be allocating capital to anyway, regardless of their SRI attributes.

Why invest in SRIs?

What opportunities and advantages might SRIs offer you?

These opinions do have some evidence in their support. In recent years, there have been catastrophes which have not only had a negative impact on the world as a whole, be it through pollution or an avoidable loss of life, but companies linked to these disasters have found their share prices affected too.

Negative press, fines, court costs and damage to reputation may all lead to a decline in the company's valuation. People's perceptions of what is acceptable practice for a company are changing and, with it, so are investment opportunities.

Given recent and current themes and developments, a company involved with the oil or gas industries, and which fails to diversify away from these, may not be as secure in the future as a company which produces renewable energy, thus reversing the perception, and probably the reality, from the past.

Key geo-political developments are encouraging the world view as a whole to shift towards green energy. Companies which share this ethos and engage with it not only stand to gain from economic and social momentum, but potentially help 'future proof' their business.

All in all, the argument in favour of SRI strategies has never been stronger, and the past concerns over lack of investment opportunity or profitability has never been weaker.

Whether going for full immersion, or just dipping a toe in, SRI funds look like a potentially rewarding area for the long-term investor, not only in terms of the 'feel good factor' but also, we think, in terms of potential financial benefits.

Rounding it all up

What conclusions can you take from this guide?

SRI funds are an ideal inclusion in a portfolio owned by investors with concerns about the environment and/or ethical and social issues, such as human rights and fair management of businesses.

Almost all of the funds available in the SRI market are suitable for addressing these concerns, but they differ in their criteria and remit, and hence the extent of their investment universe.

For those who don't prioritise these concerns, SRI funds can still be a useful inclusion in a portfolio, both in terms of diversification and in terms of accessing some investment themes which may be more engaged with the future than those often prevalent in more traditional investment strategies.

While this is a complex subject, with a myriad of definitions and philosophical positions, we like to keep things as simple as possible.

We do not get involved in assessing the specifics of an SRI fund's remit in terms of whether it is light green or dark green or anything in between, unless specifically asked to. Instead, we consider any fund applying SRI principles is sustainable for inclusion in a portfolio using SRI screening.

Which of the options set out at the start of this guide is best for you?

This really is down to personal priorities and preferences.

All options have their pros and cons. It's impossible to judge which will produce the best eventual outcome, since that information is unavailable without the benefit of hindsight.

The purpose of this guide is to look at the subject of SRI investing and summarise what we offer, rather than to lead the reader in any particular direction.

If SRI investing is something you want to factor in, partly or wholly, just let us know and we can discuss the options in more detail.

Important notes

Any opinions expressed on the merits or disadvantages of any options are intended as a general comment only and not as specific advice to the reader.

This document is intended as a supplement to full independent advice and not as a replacement for it and should be read in conjunction with any personalised recommendations provided by Atkins Bland Ltd and with any product brochures supplied.

The value of investments will fall as well as rise, as can any income produced.

Inflation can reduce the real value of capital and the income it generates.

Past investment performance is not a reliable guide to the future.

Any reference to taxation, regulation or legislation is based on our current understanding and details should be checked before any reliance is placed upon its accuracy.

The impact of taxation and tax planning depends on individual circumstances and may be subject to change, which can be retrospective.

Errors and omission excepted.

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The value of most investments will fall as well as rise, as can any income generated. An investor may, therefore, get back less than invested.

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