

How green do your investments grow?

You don't have to be a lentil-eating hippie to be interested in more than making a quick buck. We tell you how to invest with a conscience



If you feel strongly about arms dealing, genetically modified food, animal testing or the environment and want to put your money where your mouth is, you may be interested in the idea of ethical investing. One in five of the *Which?* members who responded to our survey has some kind of ethical investment, and one in three said they are likely to consider putting money (or more money) into an ethical investment.

The idea isn't new. One of the first UK ethical funds, the Friends Provident Stewardship Fund, was launched in 1984. Nicknamed the Brazil fund ('because you'd have to be nuts to invest in it'), it didn't invest in many of the larger, well-known companies, unlike most mainstream funds. However, the fund, managed by F&C, has had the last

laugh: £1,000 invested 22 years ago would now be worth more than £11,000, which puts it 18th out of 47 funds in the same sector available since 1984.

But it's not just the Stewardship Fund that has come a long way. There are now more than 80 UK ethical funds (with over £6 billion invested in them), covering a variety of investments such as cash, shares, bonds and property.

Profit v conscience

The big question when it comes to ethical investing is: does having a conscience mean sacrificing profit? In our survey, one in six people was worried that they would get lower returns from investing ethically.

We've compared the performance of ethical and non-ethical funds in the UK All

'IT SHOULDN'T JUST BE ABOUT PROFIT'

Terry and Lauren 52 and 50

Like many of us, Terry and Lauren Evans try to live an ethical lifestyle. They recycle where possible, watch their energy consumption and use locally reclaimed material in their house and garden. They now also invest ethically. 'We've always wanted to invest following our social consciences, but didn't know how,' Terry told us. 'That was, until we chose a local independent financial

adviser, Robin Keyte.' Robin specialises in helping people invest their money in ways that match their own ethical principles or beliefs.

Lauren told us: 'We can't afford to be reckless with our investments but we felt we could sacrifice a little bit of growth if necessary in order to invest in line with our principles. We think more people should think about how their money is being used. It shouldn't just be about profit.'

Their first investment – a stocks-and-shares Isa invested in the F&C Stewardship Fund – grew 45 per cent in its first two years, easily keeping pace with other funds in the same category that aren't ethically invested. Their second Isa, invested in the Standard Life UK Ethical Fund, grew 34 per cent over a year, well ahead of its sector average.

Terry is now moving his various pensions into ethically invested pension funds.

Companies sector, which invest at least 80 per cent of their assets in UK stocks and shares geared towards providing growth (as opposed to providing an income).

First, we compared the average growth of all funds in the sector over one, three, five and ten years (see chart, right). Over the past five years, performance of ethical funds in this sector was lower than non-ethical funds by 3 per cent. Over three years performance for ethical and non-ethical funds was the same, and over the past year ethical funds have edged ahead by 3 per cent.

Second, we looked at the performance of individual funds. The graph, below right, shows that over five years the best-performing ethical fund grew significantly less than the best-performing non-ethical fund, but was still well above the sector average. But the worst-performing non-ethical fund did much worse than the worst-performing ethical fund.

Finally, we looked at charges and found no difference in the average cost of ethical and non-ethical funds.

So, if you are looking for that elusive out-right winner, maybe ethical funds aren't for you – but you could also do a lot worse.

Choosing an ethical investment

One in seven of the people who responded to our survey said they wouldn't know how to go about choosing an ethical investment.

As with any investment, you can buy shares directly in companies or you can pool your money with other investors in funds such as unit trusts, open-ended investment companies (Oeics), investment trusts or pensions. Many pooled funds can be put into Isas, giving you a tax-free return.

The fund manager decides which companies' shares to buy, based on their trading performance and future potential. Ethical funds also invest using these criteria but choose from a smaller selection of companies whose activities are ethically acceptable. This is called 'screening'.

■ Negative screening is where funds exclude companies that deal, for example, in arms, pornography, animal testing, GM food, intensive farming or oppressive regimes.

Our research

In July this year we asked 2,003 Which? members about their views on ethical investments; 61 per cent (1,220) responded. Thanks to all who replied.

TIPPING THE SCALES IN FAVOUR OF ETHICAL INVESTMENTS

The chart shows the average percentage growth of ethical funds compared with non-ethical funds over one, three, five and ten years. All figures include initial charges.

KEY

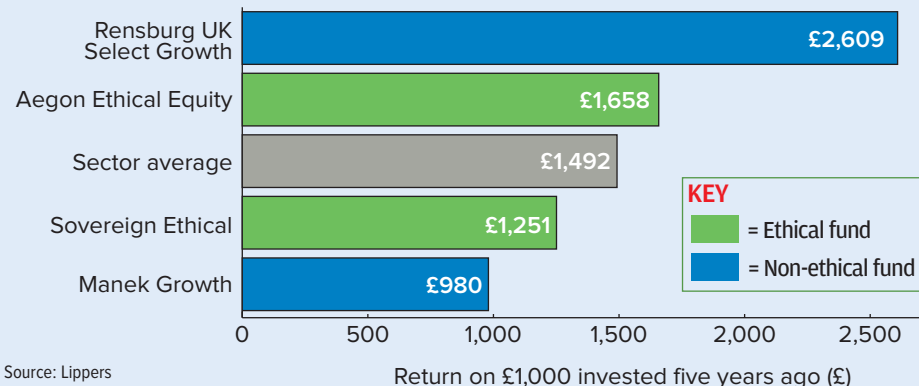
£ = Ethical fund average £ = Non-ethical fund average



Source: Lippers
Sector: UK All Companies

INDIVIDUAL ETHICAL FUNDS CLOSER TO AVERAGE GROWTH

The graph shows the return on £1,000 invested in the best- and worst-performing ethical and non-ethical funds compared with the sector average over five years to 31 October 2006. All figures include initial charges.



Source: Lippers
Sector: UK All Companies

■ Positive screening is where funds invest in companies that make a positive contribution to communities or provide solutions to environmental or social problems.

The terms 'light green' and 'dark green' are also sometimes given to ethical funds.

■ Light green funds tend to exclude companies involved in activities, such as animal testing and the arms trade, but may invest in mainstream companies that improve their environmental or social policies.

■ Dark green funds, on the other hand, use the strictest ethical criteria. These funds usually exclude investing in the largest companies in the UK.

You can check where funds are investing their money on websites such as Trustnet and Morningstar. The UK Social Investment Forum's website also gives informa-

tion about ethical investments and provides links to various ethical funds. But the best way is to get the annual report and accounts of the company or investment fund in which you are interested in investing, and ask for its statement of ethical principles to see whether they match yours.

Robin Keyte, who manages Terry's and Lauren's investments, says: 'I always encourage clients to be pragmatic when it comes to ethical investing. Depending on how strict their ethical criteria are, how much risk they can take, how long they can invest and whether they need income or growth, they are unlikely to find a perfect match to their requirements and often need to compromise a little. However, that doesn't mean there is no choice or that the choice is poor. There are good, bad and

average performers in the ethical market, just as in any market.'

Other ways to be ethical

Even if you don't have money to invest, you can still make ethical choices with your other finances.

The main banking options are the Co-operative Bank and its online subsidiary Smile, or Triodos Bank. The Co-operative Bank won't deal with companies that support the arms trade or oppressive regimes, or that don't uphold basic human rights. Smile is currently a *Which?* Best Buy current account and the Co-operative Bank has a Best Buy student account. Triodos Bank has an even stricter ethical code, as it lends money only to organisations pursuing positive social, environmental and cultural goals.

For other saving or borrowing ethical choices go for a building society or a credit union, if you are eligible. These mutual organisations are owned by the people who save with them and tend to lend to individuals rather than companies – but check their policies before opening an account.

GETTING ENGAGED

Ethical investment doesn't have to be just about choosing where to put your money. Increasingly, people are buying shares so they can use their rights as shareholders to influence the company's behaviour. This is known as 'engagement'. Even if you can't buy company shares directly, you can still have your say. Many large institutional investors, such as unit trusts, insurance companies and pension funds, monitor and influence how companies behave on environmental or social issues.

For example, in 2005 Co-operative Insurance (CIS) became the first insurance company in the world to introduce a policy of ethical engagement driven by its customers. So far, it has opposed more than 1,000 resolutions at company AGMs on issues such as board independence, executive

pay, and annual reporting of social, ethical and environmental risks.

Also in 2005, CIS asked 16 clothes retailers it holds shares in about their policy on selling fur items. It found that Nicole Farhi (part of the French Connection Group) and Burberry sold some fur products and, as a result, voted against accepting the companies' annual report and accounts at the 2006 AGM. Ian



Jones (left), Head of Responsible Investment at CIS, says: 'Our customers have told us they want us to engage with companies, so by using our voting power and standing up at AGMs, we are giving our customers a powerful voice.'

So before you decide where to put your pension or Isa money, ask the fund manager or your financial adviser about the fund's policy on engagement.

Contacts

For information on financial advisers and Best Buy savings accounts, current accounts and credit cards, see www.which.co.uk/money

Useful websites

Ethical Investment Research Services www.eiris.co.uk

UK Social Investment Forum www.uksif.org

Good places to start if you are thinking of investing ethically

Ethical Investment Association

www.ethicalinvestment.org.uk

Gives information on ethical investing and provides a list of its members who are financial advisers specialising in ethical investments

Investment Management Association

www.investmentuk.org

Provides a factsheet on ethical investing and guides on investing in general. Also gives performance statistics on both ethical and non-ethical funds

Trustnet www.trustnet.com

Morningstar www.morningstar.co.uk

Websites that give information on where funds are investing their money

Ethical banks and credit unions

Association of British Credit Unions www.abcul.org

Co-operative Bank www.cooperativebank.co.uk

Triodos Bank www.triodos.co.uk

Checklist

Here's a summary of our advice if you're interested in investing ethically

■ **Be realistic** Ethical funds are still only a small slice of a much bigger market, so you will have less choice than if you were investing non-ethically.

■ **Think about risk** Just as you would if you were investing non-ethically, consider how much risk you want to take. There are ethical funds to suit you whatever your risk profile or financial circumstances.

■ **Take advice** Choose an independent financial adviser who is a member of the Ethical Investment Association, because its members receive ongoing training on ethical investment. But, as with any adviser, check that they have more than just the minimum industry qualifications. See www.which.co.uk/money for our report on financial advisers.