FINANCE UPDATES
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HampshireHill
Advice to complement your Lifestyle

ETHICAL INVESTMENTS

Earning returns with a clear conscience.

From vegan food and recycled fashion to green energy suppliers and plastic-free packaging, products with an environmental or social focus are becoming ever more popular.

Ethical spending has seen a huge surge in the last decade, more than doubling from £36 billion in 2007 to £83bn in 2017, according to research from Ethical Consumer.

As public awareness of climate change and social issues grows, people are increasingly looking to put their money towards something that has a positive impact on their community and the world at large.

That same shift can be seen in the way people are saving and investing their money.

While this might not be the most visible change, it makes up a significant proportion of ethical spending across the country.

Ethical investment, which began as a niche, fringe activity, has become much more mainstream in recent years, rising from a value of £8.9bn in 2007 to around £16bn in 2017.

Separate data from the Investment Association shows that at the end of June 2019, ethical funds under management in the UK stood at £19bn.

If you are planning to invest but want to make sure your money goes into work you agree with, investing ethically might be for you – but always seek professional advice before doing so.

WHAT ARE ETHICAL INVESTMENTS?

Answering this question isn't as simple as it sounds. Although the first ethical funds emerged in the early 1980s, it's still a relatively new sector without agreed terminology or definitions.

The phrase 'ethical investment' is often used as a general description for investments that aim to make a positive social or environmental impact, but you may also hear terms like 'responsible', 'sustainable' and 'green'.

Besides, the word 'ethical' itself can mean different things to different people, depending on their personal values.

For instance, while one person's priority might be minimising their carbon footprint, another might be more concerned about stopping unfair labour practices or animal cruelty.

For this reason, ethical investment is highly dependent on individual choices. You'll need to consider how you want to go about it, and what will best align with your goals and morals.

HOW DO THEY WORK?

There are three main approaches to ethical investment.

It can be done through a screening process, where the fund manager researches each company's practices and assesses them based on different criteria.

This could mean **excluding companies carrying out work you consider to be harmful or against your moral compass**, by avoiding investing in companies in those sectors.

It could also mean **including companies that actively do good**.

For some funds, a 'green' rating may be used to show how well a fund performs against ethical criteria. This works on a scale from 'light green' to 'dark green'.

For example, a light-green strategy might mean investing in companies across any sector, as long as they are working to raise their ethical performance.

A dark-green strategy, in comparison, would aim to completely rule out any company that works in a sector that's considered unethical, such as arms, tobacco or fossil fuels.

A third method is to **invest in companies with poor practices, with the aim of improving them**.

This might be done by meeting with senior management to encourage them to adopt better practices, or voting at annual general meetings.

HOW TO INVEST ETHICALLY

The initial steps to ethical investment are the same as with any other investment. You should start by considering how long you want to invest for, what your goals are, and your attitude to risk.

You'll also need to think about your priorities: what do you want to actively invest in, and which areas do you want to exclude?

For example, you might want to invest in companies that carry out certain activities, such as environmental protection work, actively working to limit pollution, or putting fair employment policies in place.

On the other hand, you may choose to rule out those associated with alcohol or tobacco, gambling, the arms industry, deforestation, animal exploitation or poor labour practices.

From there, you can start to research the different options available to you, and talk to us for advice on your next steps.

Some descriptions of funds can be vague, so make sure you check each one's policy in detail to ensure it matches your personal requirements.

You may also want to research the company that manages the fund before you commit to it.

They might also manage conventional funds that conflict with your ethical standards, so it's a good idea to look into their wider practices.

Scam awareness

Exercise caution about the legitimacy of ethical investments.

Scammers often take advantage of their victims' ethical concerns to convince them to transfer their pension savings into high-risk, unregulated investments.

In 2016, Action Fraud reported that 26% of investment scams were related to fraudulent forestry schemes.

Make sure you're alert to the signs of a scam, and always seek professional advice before you invest.

CAN I ACHIEVE HIGH RETURNS?

Returns from investments are never guaranteed, and the amount you put in might rise or fall in value.

Opinions are mixed on how returns from ethical investments compare to those from more conventional funds.

Some argue they are less likely to perform well because the list of companies your fund manager will consider is narrower.

Because large companies are more likely to be excluded through negative screening, there may be higher risk where funds are limited to smaller businesses.

Others would say the increased scrutiny involved in this type of investment is a benefit, as by screening the companies, the fund manager can look at each business's operations in depth – giving some indication of how it might perform in the future.

Another factor is the increasing level of consumer demand for ethical options, which looks set to continue rising.

If that's the case, businesses that meet this demand could have a greater potential for future growth. By investing in them, you'd also be playing a part in encouraging that growth.

In comparison, those that don't meet the same standards might look promising in the short term but could decline over time.

Research is key, and investing ethically may require more time