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SIMPSON FINANCIAL SERVICES

FACTSHEET **INVESTMENT**

INVESTING WITH A CONSCIENCE

Seeking the best financial returns but with socially responsible principles

For investors concerned about global warming and other environmental issues, there are a plethora of ethical investments that cover a multitude of different strategies.

The terms 'ethical investment' and 'socially responsible investment' (SRI) are often used interchangeably to mean an approach to selecting investments whereby the usual investment criteria are overlaid with an additional set of ethical or socially responsible criteria.

ETHICAL CRITERIA

The Ethical Investment Research Service (EIRIS) defines an ethical fund as 'any fund which decides that shares are acceptable, or not, according to positive or negative ethical criteria (including environmental criteria)'.

Funds that use negative screening, known as 'dark green funds', exclude companies that are involved in activities that the fund manager regards as unethical. Each fund group has a slightly different definition of what is unethical, but this typically includes gambling, tobacco, alcohol and arms manufacturing. It could also cover pollution of the environment, bank lending to corrupt regimes and testing of products on animals.

POSITIVE SCREENING FUNDS

Positive screening funds use positive criteria to select suitable companies. Funds that take this approach look for companies that are doing positive good, such as those engaged in recycling, alternative energy sources or water purification. So an ethical fund of this type might buy shares in a maker of wind turbines or solar panels.

ENGAGEMENT FUNDS

Engagement funds take a stake in companies and then use that stake as a lever to press for changes in the way that the company operates. This could mean persuading oil and mining companies to take greater care over the environmental impact of their operations or pressing companies to offer better treatment of their workers.

In addition, this process may involve making judgements regarding the extent to which such investments are perceived to be acceptable, and about the potential for improving through engagement the ethical performance of the party offering the investment.

BEST FINANCIAL RETURNS

Ethical investors will believe that they should not (or need not) sacrifice their life principles in exchange for chasing the best financial returns, with some arguing that in the long term, ethical and SRI funds have good prospects for out-performing the general investment sectors.

Since ethical investment, by definition, reduces the number of shares, securities or funds in which you can invest, it tends to increase the volatility of the portfolio and therefore the risk profile. This can be mitigated by diversifying between funds, and between different styles of funds and fund managers. Like their non-ethical equivalents, some ethical funds are much higher risk than others.

PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

Investing ethically considers your investment's impact on society and the environment as well as its profitability. But profit doesn't need to be at the expense of the world's most pressing environmental problems. To find out more or to discuss your ethical options, please contact us.