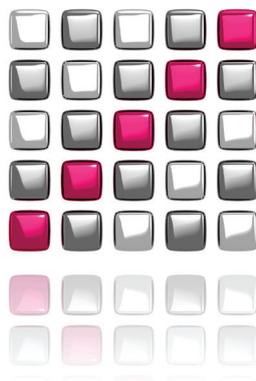




Ethical investing

A fresh approach to financial independence for women



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Disclaimer

Unless specifically stated otherwise, any information contained in this ebook is for information purposes only and is not intended to be financial advice as it has been prepared without taking into account your financial objectives, financial situation or needs.

Before acting on any information in this ebook, Ethical Financial Services Pty Ltd recommends that you consider whether it is appropriate for your circumstances.

An Introduction to Ethical investing



This mini e book is intended as an introduction to ethical and socially responsible investing. It comes at a time of unprecedented cynicism about corporate ethics. The banking scandals around the world and the debt crisis in Europe has highlighted the need for greater corporate governance and more accountability. There are now a growing number of women wishing to invest their money where their morals are.

Interest in ethical and socially responsible investments globally, has grown considerably over the last 20 years. What began as a niche has evolved to become a thriving sector within the investment world. Pink Investment's largest user group is baby boomer women. Most of our members have a keen interest in environmental, climate change and ethical issues and they are eager to understand the ethical/SRI selection processes and to find those investments that offer them financial, environmental and ethical rewards.

The aim of this report is to give a brief overview of the history and an introduction to the information you need to know in order to start investing in ethical/SRI funds.

The job of researching and identifying appropriate ethical and SRI investments is not easy for the novice. In fact it is a laborious exercise. The advent of the internet has greatly helped investors seeking out appropriate investments.

I have avoided defining exactly how investors should make use of ethical/SRI products as everybody's idea of ethical/ socially responsible investing is different.

If you decide that ethical investing is for you, I would suggest that you go on to take our online learning course on the website and read the full comprehensive e book.

Yvonne Jenkins: Director of Ethical Financial Services Pty Ltd.

A short history of Ethical investing



In Europe, as in North America, the ethical investment movement has roots in the Judeo - Christian tradition. There is substantial instruction on economic matters in the book of Deuteronomy, dating back more than 3000 years.

Famous examples of Christian groups who followed this instruction and invested ethically include the Methodists and The Quakers. The role of the various churches has been a primary driving force behind the development of ethical/SRI funds in both Europe and North America.

A simple 'ethical' fund was set up as early as 1928 in the U.S.A. The Pioneer fund was established to meet the needs of a group of church investors, who did not want to invest in the "sin" stocks- alcohol, tobacco and gambling.

The Quakers were founded in 1652 and they have been instrumental in the evolution of ethical investing in North America and the U.K. In the UK for example Friends Provident, who runs the largest and oldest Ethical fund, was established by Quakers in 1832.

Methodists too, have taken a strong stance avoiding products related to addictions such as alcohol and tobacco. This decision goes back to 'the use of money' sermon given by John Wesley, which was first published in book form in 1760. Based on this sermon and on Biblical teaching, the Methodist Church in the UK set up a fund in 1960 which avoided investments in sectors such as: armaments, alcohol, gambling and tobacco. This fund was not available to the general public. Similarly, the Church Commissioners of the Church of England have employed some ethical criteria when deciding on their investments since 1948, but again this was mainly available for Church funds only.

A short history of Ethical investing



The first ethical fund in Europe available to all investors was Ansvar Aktiefond Sverige in Sweden. This fund, which still exists today, was established in 1965. This Swedish fund is thus five years older than the US Pax World Fund, which was launched in 1971 by Methodists and was thought to be the first Ethical fund in the World.

In conclusion it is clear that values relating to the Judeo-Christian tradition and the environment movement have had a crucial role in the establishment of ethical investment funds in Europe in general and in the UK in particular.

What is an Ethical or SRI Fund?



For the purposes of this report an ethical fund is: A fund which does not rely solely on financial criteria for its stock selection, but uses ethical non-financial criteria when choosing investments.

There are many different types of ethical funds with different criteria and various investment approaches. The term 'ethical fund' is similar to 'socially responsible fund' and, for the purposes of the report they can be seen to be synonymous. The term sustainable fund is also being used more frequently and you will see clean tech being used more and more. Funds which call themselves sustainable, generally consider a range of environmental and social criteria and can be considered ethical funds for the purposes of this report. All these terms imply that some sectors and companies are excluded because of ethical reasons. In addition, many ethical funds apply positive criteria and some funds actively engage with companies on ethical issues.

Environmental technology funds invest in companies involved in renewable energy, water purification, waste management, recycling and so on. For the purposes of this report, these funds will also be seen as yet another type of ethical fund.

The majority of the funds available are unit trusts or mutual funds in North America. Most ethical funds invest in shares listed on various stock exchanges throughout the World. Typically each fund would hold between 40 to 100 company's shares within the fund. This gives good diversification for the individual investor, hence spreading their risk.

Most ethical funds are actively managed, which means that the fund managers have a relatively free hand in the purchase of shares for the portfolio. However; there are a few passive or index tracker ethical funds too. These typically track the performance of a well known index such as The Domini social index in the U.S.A.

What is an Ethical or SRI Fund?



Another important thing to look for is the geographical scope of the fund. Many ethical funds only invest in companies listed in their home country. This used to be the case when there was a lack of information on the environmental and social performance of companies in other countries. The Internet has helped to alleviate this problem, so, increasingly, ethical funds are starting to invest more globally.

Risk Profiles of Ethical or SRI Funds



Most ethical funds are equity based, but there are also some that are mixed and some ethical bond and cash funds.

All the normal risk profiles apply to ethical funds, so you should select the funds with your own risk profile in mind. You can spread your risk by investing in different asset classes and in different geographic areas. For example you could invest a portion of your money in bond funds, which invest in interest bearing securities, hence have a lower risk profile than an equity/share fund. Some of your money could also be put into Community Bank Cash deposits or Term deposits , which are low risk.

Remember, the value of units in any equity or bond fund can fall as well as rise.

High quality research is the key



High quality research is essential for successful Ethical/Socially Responsible Investing. This is pivotal in making informed decisions regarding the funds/stocks that will be selected for your portfolio. It is therefore worth spending time to become fully conversant with the methodology that fund managers use to carry out their Ethical/SRI selection criteria. You can use these same procedures to help you construct your own portfolio of ethical investments that match your own principles.

Alternatively it may be money well spent to get advice from a specialist ethical financial advisory company, that does all the hard work for you.

If you have particularly strict personal Ethical criteria, you should spend some time constructing your own ethical profile, that sets out exactly what you want to achieve from your ethical portfolio.

Ethical Screening and Engagement



The vast majority of Ethical/Socially Responsible funds follow one or both of the following strategies:

Ethical screening – the application of negative and positive ethical criteria.

Engagement with companies – dialogue with companies in order to turn the bad firms into good.

These strategies should be pursued simultaneously, in order to achieve true ethical values into the investment process. However, some fund management groups still only employ negative screening.

Traditionally the Ethical/SRI funds attempted to align the ethical values of the investors with the investments by avoiding certain harmful sectors and prioritising certain beneficial sectors, industries or products.

Negative Screening

The early Ethical funds tended to employ simply a negative screen, in order to avoid sectors that they were morally opposed to. Negative, or exclusionary criteria break down into 3 main areas:

Impact on the environment

- Banned pesticides
- Intensive use of energy
- Nuclear power
- Ozone depletion
- Road construction
- Tropical hardwood logging
- Genetic modification of food
- Repeated pollution convictions

Ethical Screening and Engagement



Impact on animals

- Animal testing for Pharmaceuticals
- Animal testing for Cosmetics
- Animal testing for Household goods
- Over intensive farming
- Fur manufacture and sale
- Dairy & meat production and sale

Impact on people

- Alcohol
- Armaments
- Gambling
- Human rights abuse
- Pornography
- Third World concerns
- Tobacco

The avoidance approach inevitably means that certain major sectors of the market are excluded, and it has severe limitations. Criteria vary from fund to fund, as does the precise application of these criteria. It is important to compare the funds in an impartial manner in order to identify the ones that match your own ethical priorities.

Ethical Screening and Engagement



Positive Screening

As Ethical/SRI investing has evolved over the years, it is now general practice to employ a positive screen as well as the negative screen, in a combination process.

Instead of only avoiding particular areas, why not focus on seeking out companies that make a positive contribution to sectors such as public transport, renewable energy, recycling, education and water conservation?

Typical positive screens will include:

- Companies that have generous long term charitable giving programs, promoting economic and social justice.
- Companies with diverse groups in management positions, including women and minority groups.
- Companies with good employee relations and benefits packages.
- Companies that show respect for the environment. This can be a product it produces or by operating in – house recycling or pollution prevention initiatives.

Ethical Screening and Engagement



In conclusion, almost all Ethical/SRI funds seem to have some negative screens. Most avoid tobacco and weapons producers.

Positive criteria relating to beneficial products, community involvement and environmental initiatives are becoming more common. Most funds now have an active dialogue with company management on ethical issues.

For most Ethical/ SRI research teams, socially responsible investment covers two linked but separate agendas: **sustainable development** and **corporate responsibility**.

Sustainable Development

The sustainable development agenda embraces the structural changes required in economic, social and political life to deliver the global goal of improved quality of life for all, now and into the future. Sustainable development captures trends that are already underway, as well as shifts that are still needed to eliminate global poverty and regenerate the natural resource base for future generations. Sustainable development is thus a future-oriented agenda with a long-term perspective of economic transformation.

Corporate Responsibility

The corporate responsibility agenda covers the array of stakeholder expectations that now confront companies. The agenda stretches from the fundamental responsibilities that companies have to others in the marketplace (such as shareholders, suppliers and competitors) through the well-established duties to employees (such as health and safety) to the newer responsibilities linked to communities affected by a company's activities and to the natural environment.