CL4WOMEN
Financial Planning designed *by* women *for* women

Chartered Financial Planners

A Guide to
Responsible Investing

www.cl4women.co.uk

Introduction

The world has changed in recent times – particularly in response to the Covid-19 pandemic – and so has the investment landscape

As we all wake up to the pressures which humanity is placing on our planet – including the environment and its resources – responsible investing has finally come of age.

In this short **Guide to Responsible Investing**, we aim to examine the different styles of investment, provide information to help you form a suitable strategy and answer any questions which you may have on this growing trend in financial planning.

What is all the fuss about?

The value of an investment is increasingly not just about returns of capital

A growing number of investors, ranging from pension funds to charities to individuals, are calling for their money to make and contribute to a positive impact on the planet and our society.

Indeed, a 2018 survey by the US Forum for Sustainable & Responsible Investment found that both socially responsible investing and impact investing accounted for $1 out of every $4 under professional management in the US.

This trend and investor demand for access to responsible investments is likely to accelerate in the years ahead, as we aim to meet the 17 Sustainability Goals set out by the United Nations in 2015.

The different types of responsible investing

'Responsible investing' can mean different things to different people, depending on their own views or concerns

Here we will aim to outline the different types of responsible investing and their characteristics.

ESG

This refers to the Environmental, Social and Governance practices of an investment that may have a material impact on its performance and future returns.

The table below lists common factors which are considered by those investing within an ESG mandate.

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Energy Consumption	Human Rights	Quality of Management
Pollution	Child and Forced Labour	Board Independence
Climate Change	Community Engagement	Conflicts of Interest
Waste Production	Health & Safety	Executive Compensation
Natural Resource Preservation	Stakeholder Relations	Transparency & Disclosure
Animal Welfare	Employee Relations	Shareholder Rights

SRI

This stands for Socially Responsible Investment and goes one step further than ESG by actively eliminating or selecting exposure to investments based on personal values, religion and/or political beliefs.

Unlike ESG, SRI investing uses negative or positive screens on the investment into companies which an investor may want to avoid.

Examples of companies and industries which may be deemed to be causing harm and may be negatively screened under SRI are:

- Alcohol, Tobacco and other addictive substances
- Gambling
- Product of armaments
- Human rights and labour violations
- Environmental damage, such as fossil fuels
- Terrorism affiliations

For investors concerned about the socially responsible elements of an investment, a negative screen can be placed on their selection of stocks, thereby helping them avoid those companies which fall into the above categories.

The different types of responsible investing

Impact Investing

Impact investing broadly has two main objectives:

1. To help tackle environmental and social challenges by investing into companies which create a positive impact through their products, practices and/or services.
2. To provide investors with a financial return.

Impact investing differs from SRI in that it is not driven by personal values which might negatively screen out certain sectors, as mentioned earlier.

Impact investing aims to invest for a net-positive impact on people and the planet, by focussing on firms that provide solutions to some of the world's greatest unmet challenges. A by-product of this approach is that exposure to controversial sectors will be minimal, and if existent, is usually focussed on companies that are quickly transitioning to become more impactful.

For example, a positive impact company is one that provides products and services that directly improve water loss efficiencies, or water treatment technologies that clean wastewater before releasing it back into natural ecosystems.

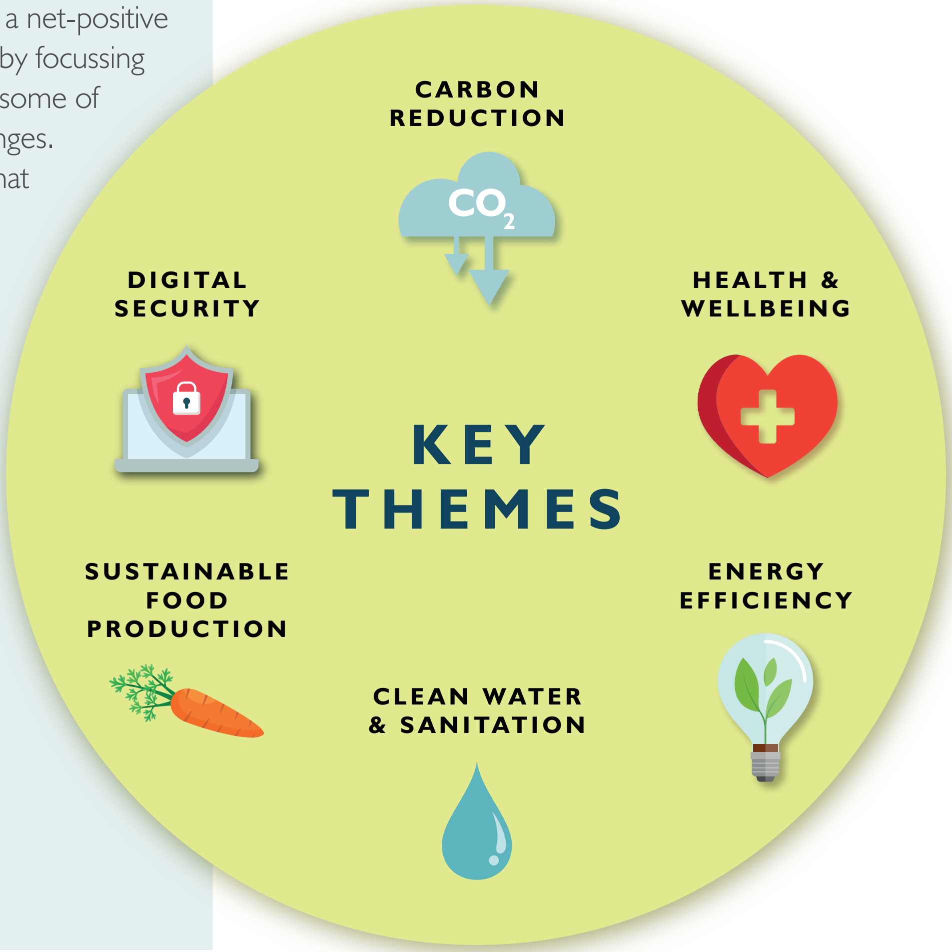
Impact investing typically involves a greater alignment to the United Nations' 17 Sustainability Goals.

Thematic Investing

Thematic investing aims to provide access to investments in companies whose returns are influenced by structural forces of change in society and the surrounding environment.

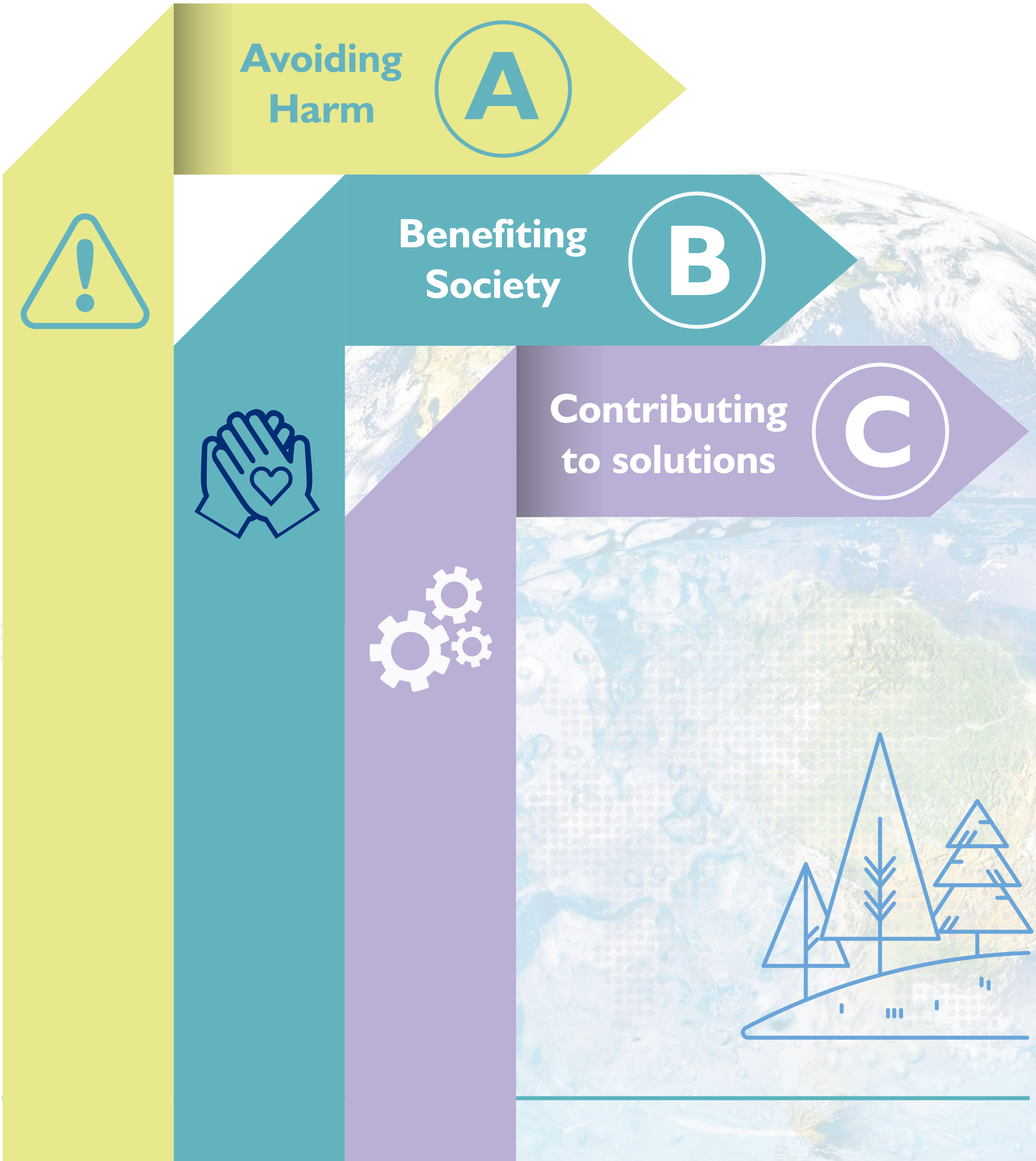
Examples of thematic strategies could be:

- Biotech
- Water
- Cyber Security
- Clean Energy
- Healthcare
- Robotics
- Sustainable Food Production



The 'ABC' of responsible investing

The general premise of responsible investing can perhaps best be summarised as follows:

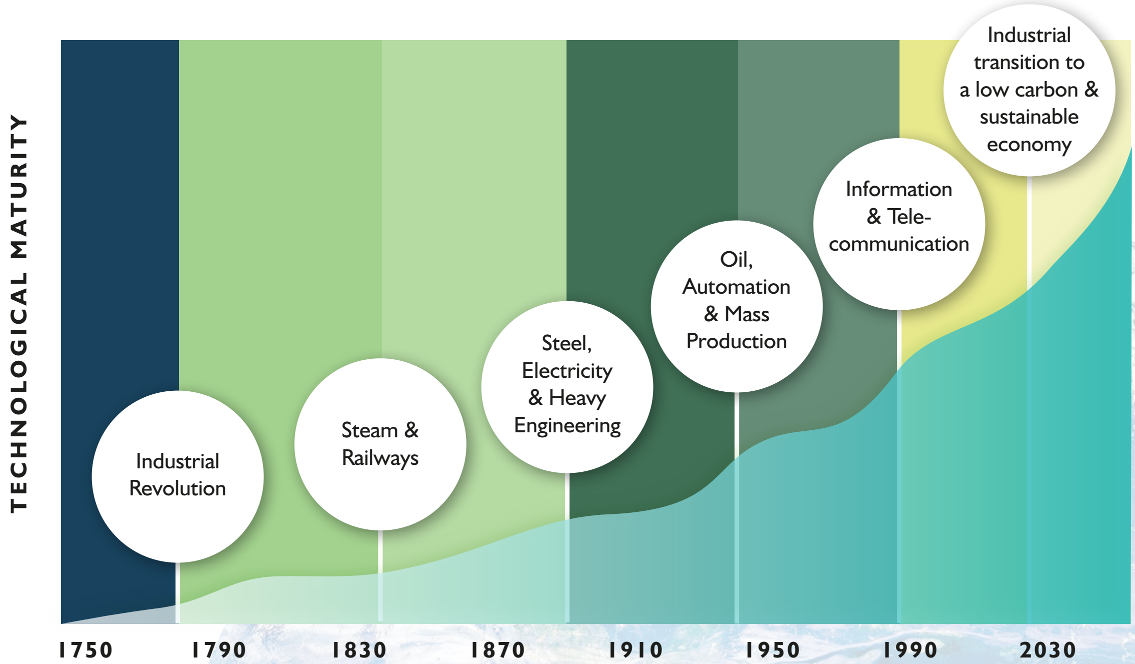


Performance Vs Sustainability

The 6th Industrial Revolution?

There have several industrial revolutions throughout history, each of which has had benefits to the global economy and provided investment opportunities in their own rights.

It might be said that shifting to a low-carbon, more sustainable economy will be the next revolution of this kind…



Source: Technological revolutions and Financial Capital Carlota Perez, 2002, Wheb.

It is a common misconception that investors will need to sacrifice performance over their principles. However, there is evidence from recent years which shows that investing responsibly does not necessarily mean that investment returns need to be compromised.

Indeed, in the 7-years up to the end of 2019 – a period considered to be a 'bull' market as global stock markets were consistently rising – a series of responsible/ESG-based global investment indices, as measured by the MSCI, actually outperformed the more general MSCI World Index which includes non-responsible/ESG companies.

Furthermore, in the first three-months of 2020 – a period considered to be a 'bear' market as global stock markets fell heavily in response to the Covid-19 pandemic – the MSCI's responsible/ESG indices experienced lower falls in value compared to the MSCI World Index.

While past performance is not a reliable indicator of future returns, this does provide evidence that responsible investing and positive returns can go hand-in-hand.

Conclusions

Responsible investing is becoming an increasingly mainstream approach, and we are committed to providing all of our clients with access to the very best managers in all areas covered in this guide.

We hope that after reading this guide you will have a much better understanding of the different types of responsible investing. Depending on your personal values and beliefs, these are factors which we, as your Financial Planners, might consider when designing your investment strategy.

Jargon-Buster

This section of our guide aims to provide clear definitions for some of the terms which are synonymous with responsible investing

- **Avoidance Investor** – An investor who does not invest into companies that are perceived to cause harm to the environment and/or society, and actively excludes them from their portfolio.
- **Bear Market** – A period of falling stock markets and a negative economic outlook, for example the Great Financial Crisis of 2007-08.
- **Bull Market** – A period of rising stock markets and a confident future outlook.
- **Corporate Engagement** – The process where investors seek to maintain or improve a company's environmental, social and governance practices.
- **ESG** – Environmental, Social and Governance.
- **Green Investments** – A general term used to describe environmentally-friendly investments.
- **Greenwashing** – A term used to describe a company which is promoting itself or its products as being eco-friendly without following recognised standards or processes.
- **Impact Investor** – An investor who is seeking to make a positive environmental and social difference through their investments, and holds exposure to companies who are actively making a positive impact through their products and practices.
- **MSCI** – Morgan Stanley Capital Index. This is an investment index which mirrors the returns of mid- and large-sized companies that have a global presence.
- **Negative Screening** – The process of eliminating exposure to so-called 'sin stocks' from a portfolio.
- **Sustainable Investor** – An investor who wants to reduce their exposure to longer-term risks associated with ESG factors.
- **Thematic Investor** – An investor who is seeking to benefit from specific ESG themes within their portfolio.
- **UKSIF** – UK Sustainable Investment & Finance Association. A membership organisation for those in the finance industry who are committed to growing sustainable and responsible finance in the UK.
- **UNPRI** – The United Nations Principles for Responsible Investment. A set of six voluntary principles which investors and companies can adopt to help develop a more sustainable global financial system.
- **UNSDGs** – United Nations Sustainable Development Goals. A set of 17 goals agreed upon by the United Nations in 2015 designed to 'be a blueprint to achieve a better and more sustainable future for all' by the year 2030.
- **Values Investor** – An investor with particular ethical or religious beliefs and who wishes to avoid certain sectors or companies, in line with their beliefs.

Proud members of

UKSIF

UK Sustainable Investment and Finance Association

CL4WOMEN

Financial Planning designed *by* women *for* women

Lets talk

Take the first step on your new financial journey, call us today for an obligation free meeting about your future with our financial and retirement investment specialists.

T: 0115 981 9529
M: 07879 880 980
enquiries@cl4women.co.uk
www.cl4women.co.uk

Aspire House
1st Floor, 19 Musters Road
West Bridgford
Nottingham NG2 7PP

Professional Adviser RP
WOMEN IN FINANCIAL ADVICE AWARDS 2020
HIGHLY COMMENDED
Woman of the Year - Retirement Planning

Professional Adviser RP
WOMEN IN FINANCIAL ADVICE AWARDS 2020
FINALIST
Woman of the Year - Investment Advice

FINALIST
Women in Financial Advice Awards 2018
Professional Adviser RP COVER

COCKBURN LUCAS
INDEPENDENT FINANCIAL CONSULTING

The investment and retirement specialists for women