MARCH 2013

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THE GUIDE

to Sustainable Investment

“THE GREATEST DANGER TO OUR FUTURE IS APATHY” - BRITISH ENVIRONMENTALIST JANE GOODALL

blue&green tomorrow

About
BLUE & GREEN TOMORROW

Essential intelligence on sustainable investing and living
Blue & Green Tomorrow wants to support innovative businesses that balance the needs of the planet, its people and our prosperity.

We aim to provide our readers with the knowledge they need to make informed choices without prejudice, scaremongering or greenwash.

We want the world to be as blue and green tomorrow as it was yesterday.

We believe that everyone can play a part and anyone can make a difference. Not by going back through misplaced nostalgia to some bygone age, but by striding out to a bright new future in which we take advantage of the new approaches that can improve our quality of life, the food we eat, the air we breathe, the water we drink and the land we live on.

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LIFE IS FOR LIVING WITHOUT COSTING THE EARTH. THERE IS NO PLAN (ET) B.

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FOREWORD

Welcome to Blue & Green Tomorrow's Guide to Sustainable Investment 2013 – our flagship report and the first of two editions to come this year.

Inside, you'll find exclusive interviews with some of the sustainable investment industry's key players – not just from the UK, but across Europe – as well as insight into some of the most popular investment strategies and funds and testimonies from a number of ethical investors.

After speaking to the likes of Penny Shepherd at UKSIF and James Gifford at the UN-backed Principles for Responsible Investment (PRI), the thing that becomes abundantly clear is the fact sustainable investment really is becoming a mainstream consideration for investors.

While there was a time when ethical, sustainable and responsible investment were very much niche areas, in the 21st century, investors want much more than just a decent financial return from the money they've invested. Environmental, social and governance (ESG) issues are now seen as paramount to a large number of investors.

And the encouraging thing is that our readers seem to back up this philosophy.

In a poll that ran on our homepage throughout February, 71% said they will consider ethical, sustainable and responsible options when investing [see chart].

Along with the shift towards sustainable investment, there is also a shift happening within the industry – from exclusion to positive investment. The sextet of sin see page 11] – the six stocks once considered the most unethical (alcohol, tobacco, pornography, gambling, armaments and nuclear) – is perhaps not as relevant today as it once was.

Instead, investors are seeking out positive opportunities that maximise the social and environmental impact that money can have. From investing in renewable energy stocks to companies that look to tackle resource scarcity; there is a clear trend moving towards this kind of strategy.

Furthermore, following the introduction of the retail distribution review (RDR) in January – the shift from opaque commission-based advice paid by providers to transparent fee-based advice paid by clients – the financial advice industry has never been so transparent, but there's still further it can go. This is becoming a key consideration for investors.

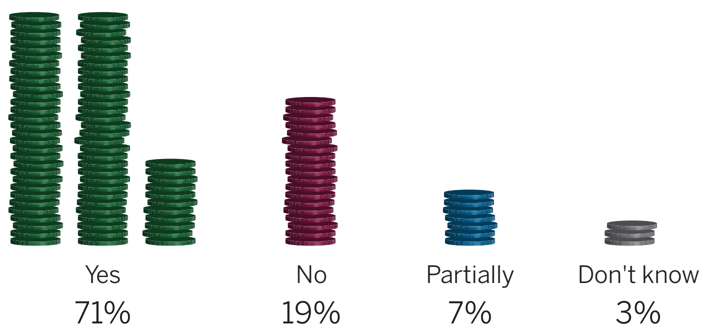
Many sustainable funds make their full stock list publically available – rather than simply disclosing their top 10 holdings, which often aren't overtly ethical anyway.

This shift is being led by the likes of UKSIF and the PRI, and is placing sustainable investment at the forefront of a really significant change in the investment industry.

Alex Blackburne

EDITOR, BLUE & GREEN TOMORROW

When investing, will you be considering ethical, responsible or sustainable options?



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THE GUIDE

to Fair Trade

?

2013 REPORTS:

MARCH: Guide to Ownership
MARCH: Guide to Ethical Advisers
MARCH: Guide to Ethical Funds
APRIL - Guide to Fair Trade
MAY - Guide to Clean Energy
JUNE - Guide to Climate Change
JULY - Guide to Charity and Philanthropy
SEPTEMBER - Guide to Banking
OCTOBER - Guide to Investment
NOVEMBER - Guide to Shopping
DECEMBER - Guide to Sustainability
DECEMBER - Guide to 2014

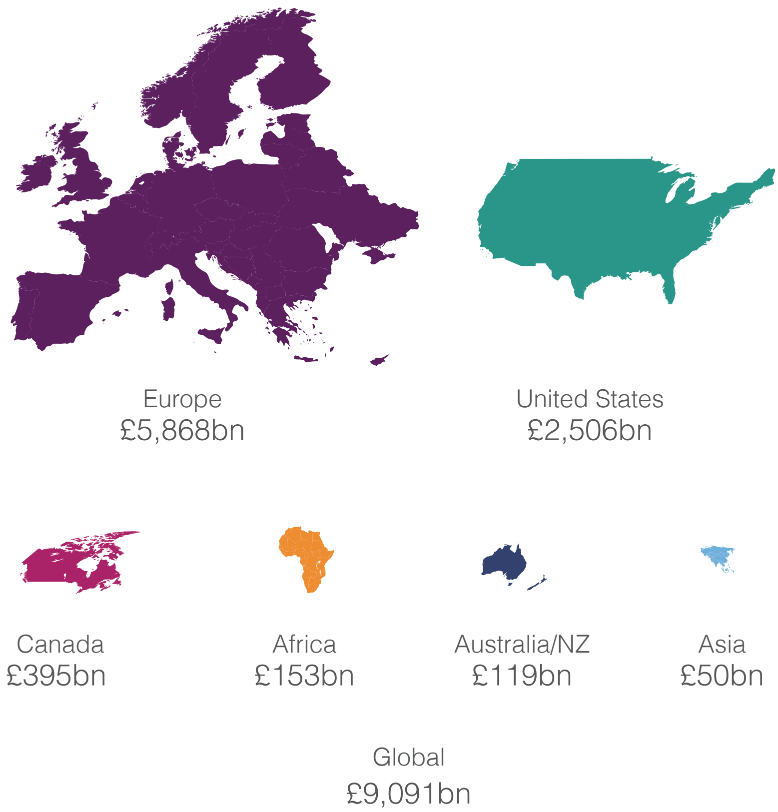
APRIL 2013:

Our April report will look at the issue of fair trade, and how your purchases can be responsible, ethical and sustainable.

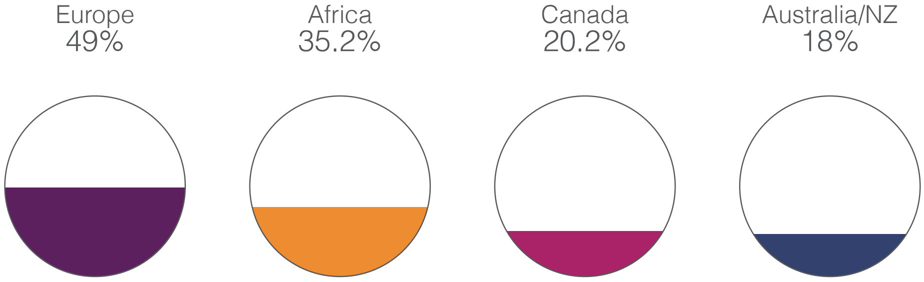
GLOBAL SOCIALLY RESPONSIBLE INVESTMENT (SRI) ASSETS BY REGION

AT THE END OF 2012, THE GLOBAL SUSTAINABLE INVESTMENT ALLIANCE SURVEYED THE INDUSTRY AND CHARTED THE MOST PROLIFIC REGIONS IN THE WORLD. IT HAD THE ESTIMATED SIZE OF THE GLOBAL SECTOR AT $13.6 TRILLION - 21.8% OF THE TOTAL ASSETS UNDER MANAGEMENT IN THE AREAS COVERED BY ITS REPORT.

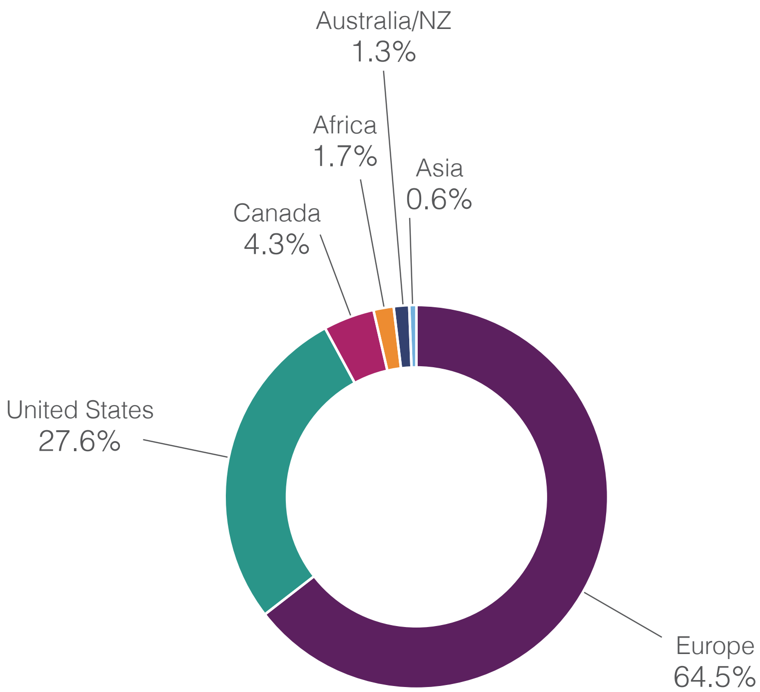
Global SRI assets by region

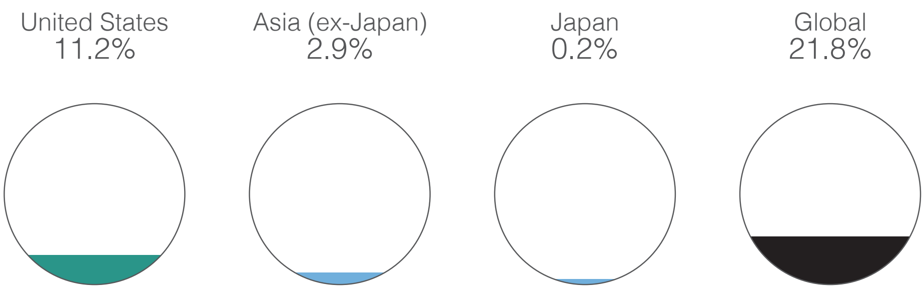


Relative proportion of SRI assets in total assets under management by region



Global sustainable investment by region





SUSTAINABLE INVESTMENT IN THE NEWS

CHINESE GOVERNMENT URGES BUSINESS TO INVEST RESPONSIBLY

March 1, 2013

China has called for businesses to take environmental and social issues into account when investing at both domestic and international levels.

The country's commerce and environmental protection ministries have issued guidelines that they say will help firms take such things as pollution into account – as well as the impact that each investment has on the local community.

They add that religion, workers' rights and international environmental standards should also be considered.

Full story: http://bit.ly/W20ZPg

'GOOD INVESTOR' GUIDE LAUNCHED FOR SOCIALLY-MOTIVATED INVESTORS

February 12, 2013

Social finance firm Investing for Good has launched a guide that aims to provide impact investors with best-practice information into the sector.

The Good Investor, which was commissioned by Big Society Capital and Deutsche Bank, looks to lay out how to highlight and invest in companies that fit various social and environmental criteria.

Social investors Big Issue Invest, Bridges Ventures, Nesta and Triodos Bank were among the firms to lend their expertise to the writing of the guide.

Full story: http://bit.ly/XnwTGM

HARVARD FINANCE ARM CREATES SUSTAINABLE INVESTMENT ROLE

February 15, 2013

Harvard Management Company (HMC), the finance arm of the prestigious American university of the same name, has created a sustainable investment position to help secure the long-term future of its $30.7 billion (£19.8 billion) assets.

The vice president of sustainable investing will research sustainability and work with other universities in order to integrate environmental, social and governance (ESG) issues into Harvard's finances.

"Given the growing conversation around sustainability and related issues on campus and across the financial sector, we wanted to develop a more integrated approach to these issues at HMC", president and CEO Jane L Mendillo told The Harvard Crimson.

Full story: http://bit.ly/Zd6ubi

$13.6TN INVESTED SUSTAINABLY WORLDWIDE, SAYS STUDY

January 28, 2013

The global sustainable investment industry is worth $13.6 trillion (£8.6 trillion) and represents 21.8% of assets under management, according to a report by the newly-launched Global Sustainable Investment Alliance (GSIA). The GSIA, which is a collaboration between seven of the world's largest investment forums, said some 65% of this total is invested in Europe, while a further 31% can be found in the US and Canada. The most popular method of investment that encompasses environmental, social and governance (ESG) concerns is negative screening – which involves excluding certain sectors and organisations and accounts for $8.3 trillion (£5.3 trillion) of the total.

Full story: http://bit.ly/XJYxwb

IMPACT INVESTMENT TO GROW BY $1BN IN 2013

January 9, 2013

A recent survey has predicted that impact investment – which focuses on the difference that can be made by investing – will grow by 12.5% in 2013 to a total of $9 billion (£5.6 billion). The findings from JP Morgan and the Global Impact Investing Network (GIIN), which have produced a joint report called Perspectives on Progress, come after $8 billion (£4.9 billion) was invested in this way in 2012.

The pair surveyed 99 impact investors who manage at least $10m in assets. The "vast majority" of respondents reported that their impact investment portfolio was meeting or surpassing social, environmental and financial targets.

Full story: http://bit.ly/XnwWlY

SUSTAINABLE INVESTMENT FLOURISHES AMONGST EUROPEAN HIGH NET-WORTH INDIVIDUALS

November 9, 2012

A report by the European Sustainable Investment Forum (Eurosif) has found that high net-worth individuals (HNWIs) in Europe have strengthened their commitment to sustainable investment, causing the sector to grow steadily.

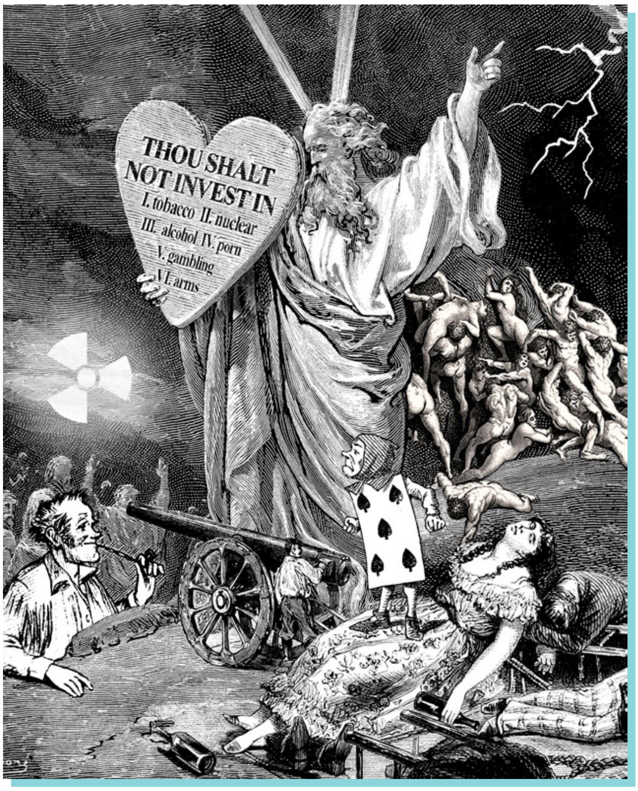
The organisation's third High Net-Worth Individuals and Sustainable Investment study found that over the past two years, sustainable investments made by HNWIs in Europe have increased by almost 60% – compared to just an 18% rise in the total wealth in this demographic.

The encouraging increase means that there is now some €1.15 trillion invested sustainably across Europe – 57% higher than 2009 figures. Eurosif says this reflects "persistent demand even in volatile markets".

Full story: http://bit.ly/WsveRC

ENLIGHTENED INVESTMENT: EXCLUDE OR INVEST?

ENLIGHTENED INVESTMENT CAN TAKE MANY FORMS. FROM INVESTING IN COMPANIES THAT TACKLE CLIMATE CHANGE TO EXCLUDING INDUSTRIES THAT HARM THE PLANET; THERE ARE A NUMBER OF STRATEGIES AVAILABLE.



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polyp.org.uk

THIS SECTION COMPRISES OF THREE SECTIONS:

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MARCH
2013

THE SEXTET OF SIN: INVESTING IN WAR AND DEATH

BY SIMON LEADBETTER

SOME COMMENTATORS AND INVESTORS SEE ETHICAL INVESTMENT AS THE PRESERVE OF A STRANGE, WELL-MEANING, SIMPLE FOLK. THESE 'NAÏVE' INVESTORS REJECT ALL HEDONISTIC FORMS OF ENJOYMENT SUCH AS ALCOHOL, SMOKING, GAMBLING AND PORNOGRAPHY, BUT ALSO THE WORLD OF ARMS PRODUCTION AND TRADE AND NUCLEAR POWER. THE 'SEXTET OF SIN' HAS ALL SORTS OF PIOUS OVERTONES THAT CLOUD THE DEBATE ABOUT WHY PEOPLE CHOOSE TO EXCLUDE THESE INDUSTRIES FROM THEIR PORTFOLIOS.

Alcohol kills an awful lot of people

Alcohol is responsible for 2.5 million deaths a year, which would place it roughly third in the most murderous wars in human history on a deaths per year basis. It also reduces the quality of life of those addicted, as well as the tens of millions of families and thousands of innocent bystanders that are affected by drink driving or drink-related violence.

Very few ethical investors object to responsible drinking, but the drinks industry actively markets its products to the underage and countries with little public health. Walk through any town centre on a Saturday night and see the kind of society your healthy returns from investing in alcohol is creating.

Further reading: http://bit.ly/165Dada

Smoking kills an awful lot more people

Killing 6 million people a year is a pretty impressive haul for the tobacco industry, placing it 2nd in the most murderous wars in human history, snugly between the first and second world wars. And those dead consumers need to be replaced.

What is most appalling about the tobacco industry is that, as public awareness of health issues has grown in the developed world, the companies have actively targeted countries with little or no public health education. Tragically, these countries also do not have the public health system to cope with the many health issues that smoking creates.

If you invest in tobacco, you're investing in, and benefitting from, the worst type of free market colonialism.

Further reading: http://bit.ly/Zd72On

Freedom and choice or brainwashing and exploitation

We respect and share the liberal arguments about individual freedom and choice that are so often used to defend the first two sectors. What we cannot ignore is the hundreds of millions spent on advertising these products to young people and making drinking 'cool' (if it didn't work, why would they do it?) and, more despicably, in countries that cannot resist the onslaught of alcohol- and tobacco-related deaths.

On an annual basis these two sectors alone represent more lives lost than the annual deaths during the second world war (6.7 million), more than the extermination camps of the whole war (3.1 million) and more than any natural disaster the world has yet seen.

Heads the gambling industry wins, tails you lose

Gambling can be an enjoyable pastime down at the races or the dogs. Many people (73% of the adult population) enjoy a flutter on the outcome of a race or event. Once again, to think of gambling as harmless is to ignore its historical links with crime or the insidious techniques that are used to hook people to what can often prove to be a life-destroying habit. Recently the Advertising Standards Authority warned the industry to adopt a more responsible marketing approach.

Gambling addiction affects between 250,000 and 507,000 people in the UK, predominantly in lower socio-economic groups, many of whom will have spouses and children.

Further reading: http://bit.ly/Z6n9k0

Sex sells, so sell sex

Ethical investors are not prudes, but they do recognise a causal link between the current free-for-all in pornography and human trafficking, sexualisation of children, objectification of women and organised crime.

There is nothing fundamentally wrong with filming or watching sex between two or more genuinely consenting adults, unless you hold religious or strict moral beliefs. That said, the links between pornography and organised crime and abuse of women and children are strong.

A UN report from 2009 estimated that 79% of all human trafficking is for sexual exploitation, whereas a UK SOCA report placed the figure at 31%.

When you're watching pornography, how can you be sure that the people in the film have not been drugged, abused or trafficked or are over the age of consent and are freely consenting?

Investing in adult entertainment legitimises the more dubious and violent side of this industry. When does the watcher or investor become the accomplice?

Further reading: http://bit.ly/YsvrSg

The profits of war

Ever since human's earliest predecessors picked up something long and hard and clubbed someone over the head with it, there's been profit in conflict. Not a year has gone by since 1945 that there hasn't been an armed conflict somewhere in the world. And armed conflicts need arms. Apologists for the arms industry use either the 'economic benefit' argument or the 'weapon doesn't kill someone, the person does' argument.The arms industry does create lots of skilled jobs and is a valuable export industry. The problem is that many of those exports go to regimes that kill, torture or maim their own citizens, engage in wars of aggression or commit acts of genocide. Sometimes they even use the weapons to kill our own soldiers; after all, we have the receipts. Weapons do kill people.

As the technology become more advanced, it becomes easier to kill lots of people remotely. Once you remove direct personal involvement from killing and reduce war to a remote control arcade game, sometimes supported by artificial intelligence, the weapon itself becomes the decision-maker rather than the tool. Around 526,000 people die violently every year with 55,000 of them losing their lives in conflict. While we live in relatively peaceful times on a global scale, producing more weapons and selling to more countries means violence will rise.

Further reading: http://bit.ly/XnxwQz

Nuclear power is an explosive issue

At one time, nuclear power was seen as a panacea to inexorably rising energy demands. Capturing the power of the atom would free us from fossil fuel dependency. A recurring vision of a nuclear age ended at Three Mile Island (1979), Chernobyl (1986) and most recently, Fukushima (2011).

While emerging technologies, such as thorium, all make nuclear power look more affordable and safe, there are two inherent risks that no amount of scientific progress will solve. Nuclear waste lasts forever in human terms, roughly 100,000 years. We need to find storage solutions that will last longer than any other man-made structure and that's an enormous ask. The second risk is proliferation. Once you accept civilian nuclear use in one country, it is hard to deny its use in another such as Iran or North Korea. Once a civilian programme is in place, there's an admittedly huge and complex step to military use, but it's only a step. And you don't need weapons-grade radioactive material to create a dirty bomb. Put simply, why would we pursue a source of power that has such inherent risks from an environmental and geopolitical perspective, when we have a limitless and clean alternative?

Further reading: proliferation http://1.usa.gov/ZkV0nu

So, there's the sextet of sin.

Ethical investors aren't naïve or unsophisticated. In many ways, they are the most enlightened and engaged investors. They simply do not want to profit from other people's suffering or more global uncertainty.

FIVE SAINTLY AREAS OF SUSTAINABLE INVESTMENT

BY SIMON LEADBETTER

IT'S TIME TO LOOK AT FIVE AREAS WHERE YOU CAN INVEST SUSTAINABLY. AS UKSIF CHIEF EXECUTIVE PENNY SHEPHERD POINTED OUT IN A RECENT ARTICLE DURING NATIONAL ETHICAL INVESTMENT WEEK 2012, INVESTING ETHICALLY IS A LITTLE BIT MORE INVOLVED THAN UNETHICAL INVESTING BUT FORTUNATELY, BLUE & GREEN TOMORROW IS HERE TO CLEAR THE PATH.

Climate change – it's a clear and present danger to our way of life

Whatever the cause, our climate is changing, and we need to mitigate, or make less severe, our contribution to that change; adapt to unavoidable change it or geoengineer (the deliberate large-scale intervention in the Earth's climate system, in order to moderate global warming) our way out of the mess.

This order of words in this mantra on tackling climate change is, mitigate, adapt and geoengineer is is important. It is better and cheaper to reduce our impact (mitigate), before we are forced to adapt to inevitable change. The last on the list is geoengineering, as on paper it offers a straightforward engineering solution and means we can carry on business as usual. The downside is any 'large-scale intervention in the Earth's climate system' is going to have unforeseen consequences and the scale of that intervention may be beyond us.

Many funds invest in green or clean technology or renewable energy companies and/or screen out those with heavy carbon footprints.

If you're most concerned about climate change, then look for or ask about funds that take this approach.

The environment – there's more to the biosphere than the climate

As we, and Zac Goldsmith, often point out, the single issue of carbon emissions often disguises

the broader issue of widespread pollution and waste. Any level of pollution and waste means harm and inefficiency in a process, so the lowest polluting and least waste-creating companies are, by definition the least harmful, most efficient and sustainable.
Funds may seek the best green performers and to screen out those with poor records on waste or pollution.
If you're most concerned about the environment, then look for or ask about funds that take this approach.

Equal opportunities – sustainability is about people as well as the planet

For years, businesses casually discriminated against people on the grounds of race, gender, disability, age and sexuality. It is only over the howls of indignation that business lobbies and companies were dragged kicking and screaming, using law, to more enlightened practices. This is not the case throughout the world and many developed world companies rely on divisions or third parties that do not subscribe to standards of behaviour that we would accept as normal.
Funds may take companies' performance on key issues like race, gender, disability, age and sexuality into consideration.
If you're most concerned about equality, then look for or ask about funds that take this approach.

Human rights – no really; humans and their rights really matter

Ever since the Universal Declaration of Human Rights (UDHR) was adopted in 1948, individuals, corporations and governments around the world have been doing their level best to circumvent or override them.
While a corporation is not a member state or signatory of the UDHR, one would like to think that as they enjoy the freedoms of living in a country subject to the articles, they would use their considerable power and reach to adhere to them in principle and practice.
If a company treats it employees unfairly they are in breach of article 23 that, "Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment." If a company invests in or supports an oppressive regime that are in breach of almost every single clause.
Funds that have human rights at their core ask whether a company treat its employees fairly or whether it has dealings with oppressive regimes.
If you're most concerned about human rights then look for or ask about funds that take this approach.

Positive business focus – and sustainability means stronger profits

As repeated research has shown, companies that act more sustainably reap higher long-term profits. As the CBI recently reported, low-carbon products and services could add £20 billion to Britain's GDP by 2015.
Funds can choose to invest in companies that contribute positively to society and the environment such as green technology companies, healthcare or public transport systems.
If you're most concerned about companies playing appositive role in society, then look for or ask about funds that take this approach.

Get the right advice

So there you have it. These are just five of the positive investment options for the enlightened and engaged investor and six sectors to avoid. Don't be fobbed off by misinformed financial advisers and profiteering commentators who discourage you from matching your ethics and values with your investment approach, at any cost to society and the environment.
A large number of financial advisers would simply place your money with whoever paid them the most commission but that has now gone since the Retail Distribution Review kicked in at the end of last year. Now they won't move your portfolio as they lose valuable trail commission or touch you unless you're wealthy.
Remember, financial advisers are human and dependent on their bounded rationality, experience, prejudices and need for income.
An ethical IFA is simply one that has specialist knowledge of ethical stocks and funds. An IFA is required by the FSA to take into account your ethics and values, and an ethical IFA is just more able to do so. Most don't or try and put you off doing so.
The enlightened and engaged kind of people who choose a specialist ethical IFA over another IFA tend to want to place more importance on ethical considerations but it's a continuum from dark green (maximise good) to light green (minimise harm) to couldn't give a fig (sin stock territory).

ETHICAL AND SUSTAINABLE: WHAT'S THE DIFFERENCE?

GEORGE LATHAM, MANAGING PARTNER AT WHEB ASSET MANAGEMENT, LOOKS BACK AT A NUMBER OF RECENT EVENTS IN THE ETHICAL AND SUSTAINABLE INVESTMENT SECTORS TO DETERMINE THE REAL STORY OF ENLIGHTENED INVESTMENT.

What is happening to the world of ethical funds? Over the past eight years or so, ethical funds have been one of the few areas of growth in the world of equities (stocks and shares) investment, almost trebling funds under management. Yet, in the last 12 months or so, several of the largest incumbent managers have made radical cuts to the resources they devote to these businesses.

Last October, Barchester Green Investment marked out Henderson, Ecclesiastical and F&C as its 'spinners' of the ethical investment world, and Jamie Hartzell, founder of the Ethical Property Company and Ethex, the Ethical Trading Exchange, set up a debate during National Ethical Investment Week proposing the motion 'SRI is for dummies'.

To cap it all, FairPensions, the campaign for responsible investment, published what was described by Investors Chronicle (with undisguised glee) as "a damning report that puts ethical funds under the spotlight".

FairPensions' principle conclusion that the ethical investment industry is "failing to represent the views of their customers" makes us unsure whether to be proud of achieving second place in the survey and being ranked among those that are maintaining a "robust, responsive, and engaged approach to their investing" – or whether we want to be seen to be part of the industry at all!

The problem for the traditional ethical approach of negative screening is that the starting point is to take the investment universe, screen out those sectors (tobacco, arms, pornography etc.) that conflict with the criteria and everything else that gets through the screen is passed for investment.

This has two consequences. First, for the fund manager; they are trying to beat the universe with a constraint imposed, which is at best seen as an irrelevance and at worst as an encumbrance to performance.

Second, the resulting portfolio's largest holdings tend to be banks, telecoms, even oils and pharmaceuticals, and any large mainstream sector that happens not to conflict with the screens. So when the customer looks at their portfolio's top holdings it can be quite hard to discern how it differs from a mainstream fund.

Our approach is fundamentally different to this. Instead of screening out, we screen in. Our starting point for defining our universe is to identify companies that are providing solutions to sustainability challenges.

Our contention is that those companies that are helping to solve some of the great challenges that we face as a society and an economy over the coming decades will have end-markets that are growing faster than the average for the economy as a whole. In other words, we want to invest in our themes because we believe they will lead to financial outperformance and we think they will lead to outperformance because they are offering solutions to pressing sustainability challenges.

Therefore, and as a starting point for our investment and stock picking process, we see our universe as an attractive place to invest, one that should provide a following wind to the fund's performance.

Indeed, in the years in which the team ran the 'Industries of the Future' strategy before joining WHEB, investing exclusively in the themes provided about 30% of the fund's outperformance.

The second outcome is that it is much clearer, both internally and for our clients, as to why each holding in the fund fits and has a role to play in a 'sustainability fund'. That makes it easier for us to be transparent about our investment process; for example, publishing a complete list of fund holdings together with an explanation of why each company fits the description of providing a solution to a

sustainability challenge.
It is clear from a broad sweep of research that the issues of sustainability, responsibility, trust and transparency, as well as ethics, continue to be of increasing importance in the minds of investors – be they large institutions, high net-worth individuals or ordinary savers.
A recent survey for the Kaiser Partner special report series on Responsibility in Wealth found that multi-millionaires consistently rate such issues more highly than their advisers do.
The Financial Times reported last year that fund managers recognise that environmental, social and governance (ESG) issues are of increasing importance to clients, and EIRIS's annual survey demonstrates consistent market growth in the broad areas of sustainable and responsible investment.
However, although the market appetite is clearly there, there is continuing disquiet over whether many of the available products are really serving customer's needs, as evidenced by some of the surveys mentioned above.
This is not new. Paul Hawken, writing in Natural Capital in 2004 described "how the SRI industry has failed to respond to people who want to invest with conscience." The article caused quite a stir at the time, and was perhaps one of the influencing factors that led our team to design the 'Industries of the Future' investment strategy which now lives on a WHEB.
There is no doubt that the ethical funds industry has achieved a huge amount in the last 40 years. Such funds have created meaningful change in highlighting a huge range of issues to consumers, driving real change in corporate behaviour and disclosure and mobilising politicians and regulators to force change where self-regulation in the wider investment industry has failed.
These achievements should be celebrated. However, over this period there has also been huge progress in understanding how to exploit ESG dynamics within companies and markets to support fund performance and real innovation in how to package this in a way that meets the needs of investors. This should also be celebrated and encouraged, and represents the real story behind the headlines about the industry today.
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SEE PAGES 38-39 FOR BLUE & GREEN TOMORROW'S CONVERSATION WITH GEORGE LATHAM AND CLARE BROOK FROM WHEB.
WWW.WHEBGROUP.COM

PREVIOUS *reports*

The Guide to Sustainable Investment 2013 is the second Blue & Green Tomorrow guide of the year, and our ninth overall. Click on the respective cover to read each one.

ETHICAL INVESTMENT IS BECOMING A MAINSTREAM THEME

PENNY SHEPHERD, CHIEF EXECUTIVE OF THE UK SUSTAINABLE INVESTMENT AND FINANCE ASSOCIATION (UKSIF) CHATS WITH BLUE & GREEN TOMORROW ABOUT THE CURRENT STATE – AND ENCOURAGING GROWTH – OF THE SUSTAINABLE INVESTMENT INDUSTRY.

What are the main changes you've witnessed in the sustainable investment industry in the past year?
Across three areas, in many ways it is building on the trends that we saw when we spoke this time last year, so clearly the retail distribution review (RDR) is now implemented. But it is still very early days in terms of that implementation. The expectation is that the RDR will change the retail investment environment, and inevitably sustainable and responsible investment will be affected as part of that.
What we are seeing is a situation where, for example, teams are becoming established in new places, as well as remaining in existing investment houses, so certainly I think it's a time of change and innovation and opportunity, but it's perhaps a little early to see how that will play out exactly.

The retail distribution review (RDR), implemented at the beginning of the year, is the shift from opaque commission-based advice paid by providers, to transparent fee-based advice paid by clients. Has it has benefitted ethical investment?
I think that RDR is part of a process of change within the industry, of stronger focus on meeting the needs of clients and a stronger focus on delivering cost effective support. It sits in parallel with a focus also on a greater use of technology, and a stronger focus on access to investments

> "THERE ARE A WIDE RANGE OF CLIENTS WHO ARE INTERESTED IN INVESTING IN LONG-TERM WEALTH CREATION THAT ADDRESSES THE CHALLENGES THAT THE WORLD FACES

through the workplace. And I think that sort of change is healthy and a stronger focus on client interests, and a stronger focus on long-term returns, can only be in the interests of sustainable and responsible investment.

Do you think, to retail investors, the green and ethical fund market is more attractive now than it was this time last year?

I think that is the wrong question, because I think that what is so is that green and ethical investment is becoming established as a mainstream trend and theme, within investment.
I think also, one area of change and development is impact investing. The whole field of green and ethical investment is much wider than funds. One challenge the green and ethical investment is around access to the market in this changed environment, and I think one interesting question is whether we will start to see a broader range of ways for consumers to access green and ethical investment. So for example, at a very simple level and specific to impact investing, we've seen the launch of the Ethex platform.
But one potential industry trend is that some commentators think that there will be significant consolidation in the industry more broadly, so that a smaller range of funds will be available; in that environment, you may find that a need for better ways to access to green and ethical funds, in addition to the channels that are there at the moment.

What trends have you noticed in sustainable investment in the past 12 months?

An area of innovation is an impact investing, although as we see a greater range of products available, from boutiques as well as large investment institutions, it will be interesting to see whether we will therefore see more innovation as a result.
For example, if you look at the funds that are now available from WHEB ṣsee page 38ț, one thing that is interesting is that it doesn't have overt negative screens, but that the adviser community seems very happy that the stock selection will be something that will be attractive to the clients.

Is this trend going to change in the next year?

The first thing to say is that it will take time for the RDR to be clear, and therefore I think the conversation is not specifically about the next 12 months.
But I do think that there is potential for more innovation, and that we may see a focus on additional forms and ways to give consumers access to funds. From an industry perspective, you could describe that as new approaches to distribution.
The other thing which is relevant, again, is that the responsible investment industry is affected by the underlying trends in the investment industry, and what we do seem to be seeing is some commentators identifying a shift taking place for retail investors from bonds back to equity. Given the historical tilt of green and ethical funds towards equity, that potentially benefits them.

We looked into the sextet of sin (alcohol, tobacco, pornography, gambling, armaments and nuclear power) on page 11 of this guide. Do you think this list of most commonly excluded stocks is still relevant in the 21st century?

I think first of all, in many of the traditional ethical funds, the criteria was set some time ago. The product providers have been concerned to those people who invested in the funds knowing that those funds enabled them to avoid certain things, and that what seems to remain so is the core of the issue that many investors are concerned about, which I think has remained unchanged in the time that I have been working in green and ethical investment.
At the core, many ethical investors do not feel comfortable profiting from industries that kill people. Tobacco and the defence industry tend to be the core issues that many green and ethical investors wish to avoid.
Issues like alcohol, I think, sometimes screened out by funds because they were issues of concern to the very early investors, rather than because they are issues of concern to the majority of people considering those funds today.

Do you see the most popular sin stocks changing?

What I see is no change in the interests in avoiding tobacco and arms, but a situation where increasingly, cluster bombs and similar weapons are being excluded because in some countries it is now illegal to invest in them.
The point around issues like alcohol is a question about whether it is appropriate to change the criteria, taking into account the interests of existing investors in the fund, or whether it is more appropriate to leave the criteria unchanged. I don't think anybody sees whether or not a fund invests in alcohol significant marketing tool nowadays.
Frankly, what funds avoid is not an issue on which funds have competed for a very long time. By and large, the competition among funds and the area of innovation is around what they invest in, not around what they don't invest in. So in a sense, what are going to be the new avoidance criteria is going to be the hot debate; it's going to be the much more positive areas.
But what I would say is that one thing which is clearly an area of growing debate is the financial implications of some issues. There is an increasing concern about the financial risks from investing in

fossil fuels, about whether stocks are mispriced and about whether therefore, investors are taking risks that are not priced in.
Following on from that debate, it wouldn't be surprising if there was a stronger focus on decision-making in relation to those, but in many ways financially motivated decision, not a moral judgement. One of the issues is the language: the issue is not about sin stocks, the issue is about death stocks.

Our survey of independent financial advisers last year showed that 73% get requests for ethical investment options from clients, but that among these IFAs, it is only a minority of their clients (1 in 9) asking about it. What needs to change for that proportion to increase?

There are a wide range of clients who are interested in investing in long-term wealth creation that addresses the challenges that the world faces. My concern is whether advisers are still looking through the land basically saying, "The client that I regard as an ethical investor is the one that comes through the door and tells me what they want to avoid."
One thing that needs to change is for the advisers have deeper conversation by about what activities they want to benefit from, rather than only which activities they want to avoid.
One of the trends following the RDR is the view that the adviser that maintains the loyalty of the client, is the adviser that understands the client's life, rather than just the client's investment, and why the client wants to save and invest. Part of that, I think, is about understanding the client's value more deeply, and taking account of those in the investment decision-making process.
It's not around a language of ethical options, it's about this being a natural part of an advice process that is client centric, rather than product centric.

What is the consequence for people who don't invest ethically, sustainably or responsibly?

Their fund managers may be taking risks in the portfolio that they are not fully aware of because they not looking through an environmental, social and governance (ESG) lens alongside a conventional financial lens, and there are a range of issues where this seems to be becoming more pertinent, of which the issue around stranded carbon assets is just one. Other issues are around, for example, unrecognised dependency on water in a world of increasing water constraints. There are also emerging opportunity areas, such as social impact bonds, that may or may not be appropriate today but are likely to grow over time.

How do we make sustainable investment mainstream?

It's very easy to underestimate the progress that has been so far. But ultimately, as in any other area, private investors and their advisers have the ability to encourage development in in the industry by the investment choices they make. And for any investor, it is about having a diversified portfolio. So it is partly about the choices that an investor makes for the bulk of their assets, but it's also about what they choose to do in terms of small exposure to new areas.

Are you optimistic about the future of sustainable investment?

Yes, but I think what we will regard as sustainable investment will be an increasingly broad range of offerings in the future.

> **"IT'S A TIME OF CHANGE AND INNOVATION AND OPPORTUNITY**

WHAT IS UKSIF?

The UK Sustainable Investment and Finance Association, commonly referred to as UKSIF, is the membership network for sustainable and responsible financial services.
Its job is to promote responsible investment and similar forms of finance that "support sustainable economic development, enhance quality of life and safeguard the environment".
Launched in 1991, initially as the UK Social Investment Forum – seven years after the UK's first retail ethical fund (the Friends Provident Stewardship Fund) became available – it changed its name to its current title in 2009.
For more information, see UKSIF's website **[http://uksif.org/]**.

UKSIF

Write for us....

Whether anonymously, under a pseudonym, or with your name published loud and clear.

Journalism is changing rapidly through a digital and social media revolution. It is no longer the preserve of press barons and elite groups; journalism is now democratic and everyone has a voice.

And though that means there's a lot of noise and rubbish out there, there's a lot of great stuff, too.

The role of media has changed. We still write stories every day about the amazing people and organisations that make a positive difference to the world in which we live, but we also promote and publish the most relevant blogs, tweets and articles from our readers.

We want to report on the diverse voices of our audience and beyond—regular people writing as travellers, investors and consumers.

So, if you blog, tweet or write about sustainability we want to hear from you. You don't need to be an experienced or aspiring writer or worry about article length, spelling or grammar—we'll tidy that up for you.

We can't publish everything, but if it's likely to resonate with our readers or challenge them in some way, you'll fly to the top of our list.

Join us today by emailing
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with your thoughts and contributions.

blue&green tomorrow

Essential intelligence on sustainable investing and living

ENVIRONMENTAL INVESTORS ARE FINALLY BEING REWARDED FOR TAKING RISKS

BLUE & GREEN TOMORROW CAUGHT UP WITH JOHN DITCHFIELD – CO-CHAIR OF THE ETHICAL INVESTMENT ASSOCIATION (EIA) AND FINANCIAL ADVISER AT BARCHESTER GREEN – ABOUT WHAT'S HAPPENED IN THE INDUSTRY OVER THE PAST 12 MONTHS.

What are the main changes you've witnessed in the ethical investment industry in the past year?

There are two big themes. One is that investors are now being rewarded for holding some of the riskier funds that are available. The theme to pick up on there is the fact that if you look to the last five years, they've characterised by what's called risk aversion.

Generally, investment markets have favoured lower risk assets such as guilds and the shares issued by very large companies with strong dividend flows, and that's been very bad news for investors into environmental technology. So what we've seen is a strong rally in some of the growth funds we monitor.

A classic example of that would be Impax Environmental Markets PLC, which is an investment trust focused on environmental technology, and that has returned over one year 9.2%, and over three months, 12.3%. So it's had an extraordinarily strong period.

We're finally seeing environmental investors being rewarded for taking some risks, basically.

How has the retail distribution review (RDR) affected ethical investors?

It's had no specific impact on ethical investors, but obviously ethical investors are impacted if they take advice, because now advice is fee-based or adviser charging-based, rather than commission-based.

The way to summarise this is that the RDR brought an end to the payment of commission to financial advisers. We at Barchester Green believe this is good news, and that improved transparency in the market is good for both private investors and intermediaries over the long-term.

Our research shows 73% of IFAs get requests for ethical options from clients. What's your experience with this?

Barchester Green markets itself as an ethical investment specialist, so every client that comes to us asks about it. We see a steady flow of enquiries from clients around ethical and environmental investment.

We believe that asking about ethical values should be integral to the know-your-client process, which is ultimately a statutory requirement. How can a conventional firm really understand its client without asking questions about values?

Is the sextet of sin (alcohol, tobacco, gambling, armaments, pornography and nuclear power) still relevant in the 21st century?

Ethical investors are less focused on the negative screens, and much more focused on positive outcomes. They no longer want to simply avoid alcohol, armaments or tobacco companies; they also want to be focused on some positive investment stories.

For example, they want to be investing into renewable energy, energy efficiency and companies which are combatting the adverse consequences of climate change. That's the way to approach it.

It's absolutely true that the most interesting funds out there are not just saying, "We don't buy BAE Systems; that makes us a great fund to hold." They've got a much more interesting story than that.

"ASKING ABOUT ETHICAL VALUES SHOULD BE INTEGRAL TO THE KNOW-YOUR-CLIENT PROCESS

This has always been implicit within the concept of ethical investment, but it wasn't really expressed and there weren't really products available in the market to help people achieve that. It's something that's come to the fore over the last few years, with funds launching that actually facilitate that.

Are there any funds that people should be looking into and talking to you about?

I would have a look at WHEB's Sustainability Fund [see page 38]. It's a fund that is getting a lot of attention at the moment because of the new management team that joined in May 2012.

They've got a large, well-resourced investment team, and everything you'd expect to see in a good quality fund, with good systems and processes in place, and a good approach to ethics. It's all looking very solid.

What have you found to be the most common reasons for people investing ethically?

People just want to see their money doing something positive in the world. People feel that they want to exercise some degree of control on the impact their money has on the world; it's as general as that, really.

What is the biggest consequence for people if they don't invest ethically?

You could argue that they'll fail to take advantage of some of the great opportunities around the growth of the environmental sector. Over the next 10 years, there will be some very interesting growth stories, broadly around the pressure on the Earth's natural environment, and environmental investors are going to benefit financially from understanding that change. In terms of a consequence, my view is as simple as lost returns.

How do we make ethical, sustainable or responsible investment mainstream?

It would be by seeing it adopted as part of the know-your-client process by a wider range of advisers. That's what we're doing with the EIA.

WHAT IS THE EIA?

The Ethical Investment Association (EIA) is a membership association for financial advisers in the UK who are committed to promoting green and ethical investment to their clients.

An offshoot of the UK Sustainable Investment and Finance Association (UKSIF) [see page 18], it was set up in 1998 and is managed by a voluntary advisory group.

According to its website, EIA members are "committed to increasing access to green and ethical investment advice for individuals, businesses and charities, and to increasing and improving their own professional knowledge". This is on top of increasing public awareness of the industry and working closely with the government and regulators.

For more information about the EIA, and if you're a financial adviser who wishes to become a member, visit its website **[http://ethicalinvestment.org.uk/]**.

MOST POPULAR ASSET MANAGERS

BLUE & GREEN TOMORROW CONDUCTED A SURVEY OF ETHICAL INVESTMENT ASSOCIATION (SEE PAGE 22) MEMBERS AT THE END OF 2012. RESPONDENTS WERE ASKED WHICH ASSET MANAGERS AND FUNDS THEY USED MOST OFTEN (THEY WERE ABLE TO SELECT UP TO FIVE FUNDS) AND THESE WERE THE HEADLINES.

Ecclesiastical top of the tree

Winning the Moneyfacts award for best ethical investment provider four times in a row, as voted for by the independent financial adviser (IFA) community, and having its Amity UK Fund voted best ethical fund at the Investment Week Climate Change and Ethical Investment Awards 2012, was simply not enough for Ecclesiastical Investment Management. It also recently topped the B&GT poll of Ethical Investment Association (EIA) members.

For 125 years, Ecclesiastical has been at the forefront of socially responsible insurance and investment. Established in 1887 to protect the Anglican church, it has now grown to provide insurance to charities and heritage property owners as well as being a Which? recommended provider for home insurance 2012. In addition, it manages assets of just under £650m across six funds.

Kames a close second

Recommended by two-thirds of EIA financial advisers, Kames Capital's funds came second in our survey, just missing out on the top spot by a whisker. Formerly Aegon Asset Management, Kames is a specialist investment management company with £50 billion under management as of June last year.

It is a signatory of UN PRI and runs its ethical funds on a 'dark green' basis, meaning it excludes companies that do not meet strict guidelines. In effect, this means Kames is only able to invest in approximately 30% of the FTSE 100 based on market capitalisation.

The Kames Ethical Equity Fund has delivered 43.5% over three years, compared to 34.7% for the All UK Companies benchmark. Meanwhile, the Kames Ethical Cautious Managed Fund delivered 35.7% over three years compared to the 19.6% delivered by the Mixed Investment 20-60% Shares benchmark over the same period.

Jupiter and F&C come in third and fourth

The next two funds, recommended by more than half of EIA financial advisers, were Jupiter and F&C.

John Duffield, who went on to found New Star Asset Management, founded award-winning Jupiter in 1985. It has since become one of the most well-known brands in the fund management space headed by Edward Bonham Carter, brother of the famous actress. Jupiter provides three EIRIS-rated options (see page 26), the Jupiter Responsible (previously Environmental) Income Fund, Jupiter Ecology Fund, and Jupiter Green Investment Trust PLC.

Meanwhile, F&C Asset Management was established in 1972 as the manager of the Foreign and Colonial Investment Trust – a publicly traded investment trust established in 1868. F&C's Stewardship Funds are some of the longest established ethical options available to investors. The asset manager has been an active proponent of robust corporate governance, ranking first in a recent FairPensions report into responsibility.

Royal London and WHEB claim fastest risers title

The two fastest rising funds were Royal London, which rose from 3% (=26th) of EIA advisers using them in our 2010 survey to 41% (=8th) in 2012, and WHEB, which rose from 3% (=26th) to 32% (=12th).

Royal London offers one EIRIS-rated option, its Ethical Bond Trust, but also offers an Ethical Equity Bond. Founded in 2007, the Ethical Bond Trust invests in a broad range of sterling denominated fixed interest securities. The fund avoids investing in alcohol, armament, gambling, tobacco and pornography and held just over £50m in 2009. Over three years it has delivered 31% against a benchmark of 23%.

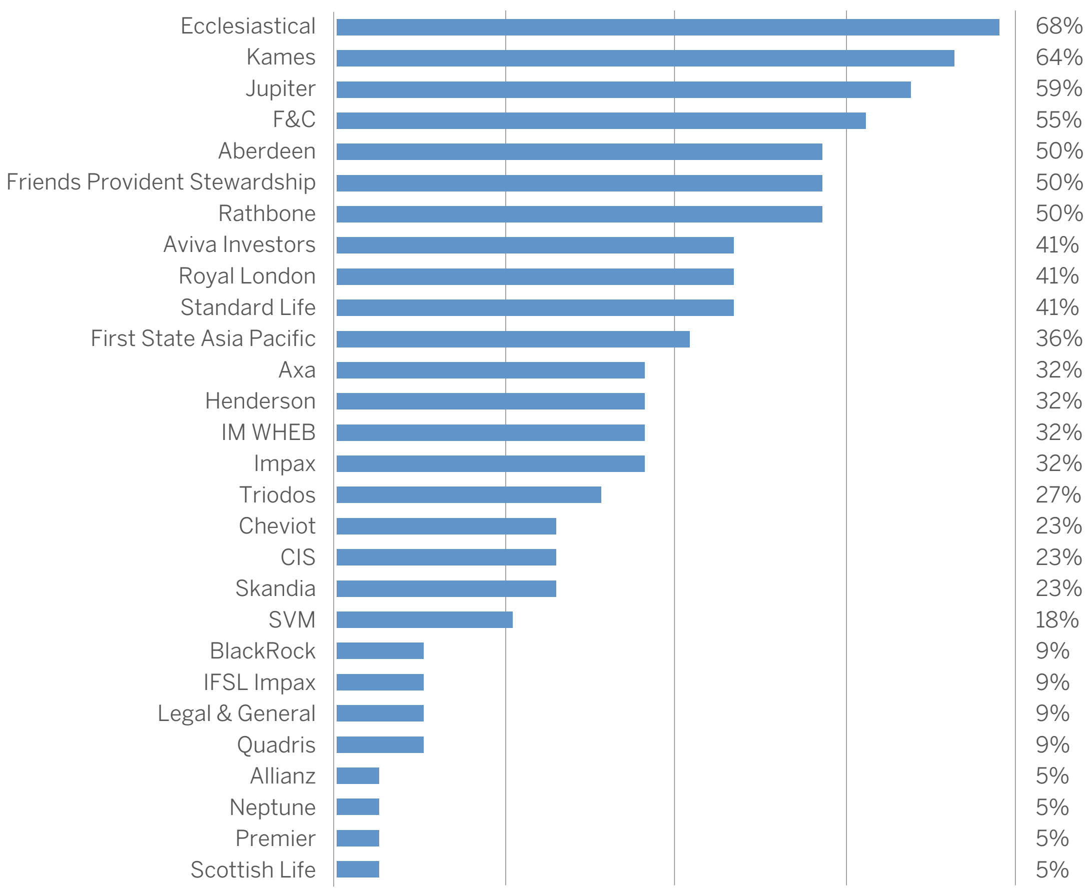
WHEB Asset Management şsee page 38ţ focuses exclusively on sustainability themes such as energy, efficiency, water management, transport and demographic shifts. Created in 2008, the firm now has £250m under management and is a member of the UK Sustainable Investment and Finance Association şsee page 18ţ and signatory to the UN-backed Principles for Responsible Investment şsee page 32ţ. The IM WHEB Sustainability Fund is its flagship, EIRIS-rated fund. Founded in 2009, is has delivered 10.1% against a benchmark of 13.3% over the last year.

Triodos and Cheviot debut as highest new entrants

Founded in 1980, Netherlands-based Triodos Bank is one of the longest established pure play sustainable banks in Europe and featured in Blue & Green Tomorrow's Guide to Sustainable Banking last year. Triodos finances companies that it thinks add cultural value and benefit both people and the environment. The name, Triodos or 'tri hodos', – is translated from the Greek as 'three-way approach'. Triodos is also the only commercial bank in the UK to provide an annual list of all the loans the bank has made and. The UK operation is based in Bristol.

Cheviot is a more conventional asset manager, founded in 2006 as a breakaway of investment staff and support staff from UBS. In January this year it agreed to merge with Quilter & Co. to create a discretionary investment firm with £12 billion assets under management. The EIRIS-rated Cheviot Climate Asset Fund invests in companies that have found opportunities in the convergence of climate change, resource scarcity and population shifts (including energy, food, health and water).

EIA members



WHY WE MUST KEEP BANGING THE DRUM FOR RESPONSIBLE INVESTMENT

JOSH BREWER, HEAD OF THE FINANCIALS AND TECHNOLOGY TEAM AT RESPONSIBLE INVESTMENT RESEARCH FIRM EIRIS, TELLS BLUE & GREEN TOMORROW ABOUT SOME OF THE KEY TRENDS IN THE SECTOR.

What problem does EIRIS uniquely solve?
EIRIS' long history of working on sustainable investment (30 years this year) coupled with our global platform of partners give our research a unique breadth and depth.
We understand that responsible investment means different things to different clients and we have the knowledge and experience to provide clients with the tools and information that they need to invest responsibly.

What trends or changes have you witnessed in sustainable investment in the past year?
The main thing is the continued growth of the sector and its movement into the investment mainstream. There was a very interesting survey of socially responsible investment (SRI) in Europe by Eurosif (see page 34) last year that showed across the board expansion in the application of the full range of responsible investment approaches but explosive growth in negative screening and norms based screening.

This is probably an indicator of new investors entering the responsible investment space. At EIRIS we have seen a sharp increase in interest in our engagement services.

> "ETHICAL AND SUSTAINABLE INVESTMENT ARE ABOUT SO MUCH MORE THAN SCREENING AND JOURNALISTS ARE INCREASINGLY REPORTING ON THE BROAD RANGE OF EXCITING STRATEGIES IT ENCOMPASSES

What do you expect will be the biggest trends going forward?
In terms of material issues, resource scarcity is going to be a big story; water in particular. There are some pretty scary projections on fresh water depletion based on current rates of growth in water usage. This is an area that is going to be a real risk to investors. They need to be checking the water impact of their portfolios.
Fossil fuel scarcity will become an issue too despite the claims being put forward for unconventional sources – there are a lot of issues around these sources that have still to play out fully.
Linked to this is the fact that climate change is not going to go away. I think there is a high probability of there being a global system in place to put a price on carbon within a decade.

Lastly there will continue to be rapid economic growth in emerging markets. This will bring significant challenges for investors as there are issues relating to regulation, corruption and human rights in many of the countries that make up these growth markets. These will impact both developed world companies operating in these countries and emerging market companies themselves.

How, and to what extent, does EIRIS engage with its clients about responsible investment?

EIRIS engages with its clients in a number of ways. We pride ourselves on the high level of client support we provide through client relationship managers. They do a lot of face to face work with clients helping them to identify their needs and then working with them to develop the environmental, social and governance (ESG) strategies' that are most suited to meeting those needs.

We also engage with them through a number of other ways including webinars, events highlighting particular areas of research. We have a deep pool of expertise here at EIRIS that we draw on to produce papers and blogs throughout the year

Your EIRIS role also sees you lead the news monitoring service and edit EIRIS' monthly publication, Corporate Ethics Overview. Generally speaking, do you think the nature of national press coverage of ethical investment is beneficial in growing the industry?

Absolutely. Strong coverage is key and it's improving year on year. National Ethical Investment Weeks in the UK and elsewhere are helping to promote the industry. Ethical and sustainable investment are about so much more than screening and journalists are increasingly reporting on the broad range of exciting strategies it encompasses.

Whose responsibility is it to encourage private investors to invest ethically?

Everyone involved in the responsible investment sector. This is something we care very deeply about at EIRIS as part of our mission is to encourage private investors to invest responsibly. Towards this end the EIRIS Foundation, the charity arm of EIRIS, has developed the YourEthicalMoney.org website. This is a fantastic resource for private investors to find out what responsible investment is and how they can go about investing in a responsible way.

In my experience, most people want their investments to be responsible and YourEthicalMoney.org is a great guide on how to do this.

What more could be done, and by whom, to encourage private investors to invest ethically?

It would be good to see a bit more support from governments. There is a fantastic example in the Norwegian government's sovereign wealth fund and the activity of its Council of Ethics.

The UK doesn't have such a fund but it should be possible to do something to encourage greater levels of responsible investment – maybe through reform of the ISA system to ensure greater tax breaks for those investing in SRI funds.

How do we make sustainable investment mainstream?

We continue to make the argument that ignoring SRI factors means that the overall risk in that investment has not been adequately calculated.

At EIRIS we feel that this idea has got real traction with many investors in the mainstream but there is still progress to be made. Towards that end we continue to provide high quality research so that investors can correctly price in the non-financial risk of their investments.

Any final comments for our readers?

Keep on banging the drum for responsible investment. There has been a real breakthrough over the last few years with responsible investment increasingly moving into the mainstream but there is still a long way to go.

WHAT IS EIRIS?

EIRIS is one of the responsible investment industry's leading research providers. An independent not-for-profit, its aim is to provide investors with information on companies and advice on how to integrate ESG performance into their portfolios.

Its knowledge base covers some 3,000 global companies and over 100 ESG issues, and it has more than 100 institutional clients – including asset managers, pension funds, charities and companies from Europe, Asia and the US.

Its charity – the EIRIS Foundation – is one of the UK's leading charitable bodies working in the field of responsible investment, providing free, objective and trusted information on ethical finance to members of the public.

Find out more information on its website **[www.eiris.org]**

WHY I CHOSE SUSTAINABLE INVESTMENT

BLUE & GREEN TOMORROW HAS INTERVIEWED A NUMBER OF ETHICAL, SUSTAINABLE AND RESPONSIBLE INVESTORS OVER THE PAST FEW MONTHS. HERE, A SELECTION OF THEM EXPLAINS WHY THEY OPTED TO CHOOSE TO TAKE A MORE ENLIGHTENED INVESTMENT PATH.

“Investment provides the funds for businesses to grow and I want my money to help organisations which are working to build a sustainable economy. I believe these businesses are also likely to do better in the long-term.

“Today we are consuming resources far faster than the Earth can regenerate them, but it doesn’t have to be that way. I believe new products, services and ways of doing business can create an efficient, low-carbon economy.

“Responsible businesses should be thinking about global problems like climate change, how to provide food, water and power to a growing global population, and how to create a circular economy which minimises waste. I believe businesses that take these issues seriously are well placed to develop products and services meeting emerging needs, gain competitive advantage and win public support.”

- David Mason

“On the positive side, because we think other people and projects should be able to make use of money that we currently don’t need, to do something useful for society or the environment.

“On the other hand we don’t want our savings being invested in businesses with the opposite effects. We’ve seen a lot of poverty and injustice in the world and our investments are one way we try to be more than just bystanders.

“More generally, we believe that as individuals one of the ways we can ‘make a difference’ is by being careful and thoughtful about where the money we are lucky enough to have is spent or invested. We believe that where one chooses to spend or invest ones money is a political act; not merely a transaction.”

- Nikky Wilson and Steve Connelly, who are advised by PHFS Wealth Management [www.phfs-ifa.co.uk]

“I felt that I couldn’t ignore my own conscience, and when I was investing, I couldn’t detach money from my conscience. I thought that money would have an impact on other people in some way, even if it’s only a small impact somewhere along the line.

“Also I’m a believing Christian, so my faith influences it a little bit as well. I want to be able to sleep at night.”

- Martin Ellis

“For me it’s one of the few times in your life that you’ve got sole control over where your money goes and what it can be invested in. It’s quite nice to know that the choices that I’m making in my pension mean ethical projects are able to go ahead,

and by me investing in this way, the likelihood is that more people will be doing the same, which will increase the pot for ethical investments looking for funding going forward."

- Julie King, who is advised by Virtuo Wealth Management [www.virtuowealth.com]

"I was brought up with a very strong understanding of fairness and of the value of hard work, and these lessons have stayed with me into my adult life. I try to buy ethical products and services where I can. For example, when I had my own car I had breakdown cover from the Ethical Transport Agency and I regularly buy Fairtrade products, so it just makes sense to me that I should apply my values to my money.

"Investment was something I thought only older people did if they had lots of money to invest in stocks and shares. That was until I came across Shared Interest, when I was looking for a job after finishing my studies. Shared Interest introduced me to a new concept: that money could be invested for good.

"INVESTMENT PROVIDES THE FUNDS FOR BUSINESSES TO GROW AND I WANT MY MONEY TO HELP ORGANISATIONS WHICH ARE WORKING TO BUILD A SUSTAINABLE ECONOMY

"I was familiar with charitable giving but the idea that I could effectively lend my money for good appealed as I had the opportunity to get it back when I might need it myself (as I did recently when putting down a deposit on a house!)"

- Sally Reith, who invests through Shared Interest [www.shared-interest.com]

ETHICAL INVESTMENT IS ONE OF THE FEW TIMES IN YOUR LIFE THAT YOU'VE GOT SOLE CONTROL OVER WHERE YOUR MONEY GOES AND WHAT IT CAN BE INVESTED IN

We're on a journey, as many people are. We're both committed Christians, and we've both had social consciences for most of our lives. We realised that with one hand, we've been supporting organisations that do relief and development work in the developing world, but with the other hand, by the unethical investments we'd inherited, we were potentially undoing that and probably doing considerably more harm."

- Will and Sally Sutcliffe, who are advised by Gaeia [www.gaeia.com]

I work in ethical and environmental communications running my own business and one day I came across a specialist green and ethical independent financial adviser (IFA). I never knew there was such a thing as an ethical IFA and I had not even realised until that point that there was an opportunity to use your money to invest in what you believe in to help create the change you want to see, while making a healthy financial return.

"Meeting John Ditchfield [see page 22] at Barchester Green was a bit of a revelation. He showed me that I could choose what to invest in and make really healthy financial returns – from between 6% right up to 28%, depending on the fund you choose. He also persuaded me, finally, that a pension is worthwhile as a tax-efficient savings vehicle. I had seen my Dad's generation lose lots of money in their pensions and I was very sceptical.

"So – three years ago I started saving regularly into a self-invested personal pension (SIPP), where I use an investment platform and choose exactly where I want my money to go. I also invested in two ISAs and I hope to start making that a regular monthly saving scheme in 2013, too."

- Anna Guyer

IF GREED WERE NOT THE MASTER

(**OF MODERN MAN** – ABLY ASSISTED BY ENVY – HOW COULD IT BE THAT THE FRENZY OF ECONOMISM DOES NOT ABATE AS HIGHER 'STANDARDS OF LIVING' ARE ATTAINED, **AND THAT IT IS PRECISELY THE RICHEST SOCIETIES WHICH PURSUE THEIR ECONOMIC** ADVANTAGE WITH THE GREATEST RUTHLESSNESS?)

How could we explain

THE ALMOST UNIVERSAL REFUSAL

ON THE PART OF THE RULERS OF THE RICH SOCIETIES – WHERE ORGANISED ALONG PRIVATE ENTERPRISE OR COLLECTIVE ENTERPRISE LINES – TO WORK TOWARDS THE HUMANISATION OF WORK?

IT IS ONLY *necessary* TO ASSERT THAT SOMETHING

WOULD REDUCE THE 'STANDARD OF LIVING' AND EVERY DEBATE IS INSTANTLY CLOSED.

THAT SOUL-DESTROYING, MEANINGLESS, MECHANICAL, MONOTONOUS, MORONIC WORK IS AN INSULT TO HUMAN NATURE WHICH MUST NECESSARILY AND INEVITABLY PRODUCE EITHER ESCAPISM OR AGGRESSION, AND THAT NO AMOUNT OF 'BREAD AND CIRCUSES' CAN COMPENSATE FOR THE DAMAGE DONE – THESE ARE FACTS WHICH ARE NEITHER DENIED NOR ACKNOWLEDGED BUT ARE MET WITH AN UNBREAKABLE CONSPIRACY OF SILENCE – BECAUSE TO DENY THEM WOULD BE TOO OBVIOUSLY ABSURD AND TO ACKNOWLEDGE THEM WOULD CONDEMN THE CENTRAL PREOCCUPATION OF MODERN SOCIETY AS A CRIME AGAINST HUMANITY.

– E.F. SCHUMACHER, SMALL IS BEAUTIFUL: ECONOMICS AS IF PEOPLE MATTERED

RESPONSIBLE INVESTMENT IS AN INEVITABLE MOVEMENT IN SOCIETY

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) IS A UNITED NATIONS-BACKED INITIATIVE THAT SEEKS TO ENGAGE INVESTORS ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES. ITS EXECUTIVE DIRECTOR, JAMES GIFFORD, RECENTLY SPOKE WITH BLUE & GREEN TOMORROW.

"I THINK THERE ARE DOZENS OF EXAMPLES THAT SHOW HOW UNETHICAL BEHAVIOUR CAN LEAD TO DRAMATIC FINANCIAL LOSSES

What are the main changes you've witnessed within the responsible investment industry in the past year?

We've seen a dramatic increase in activities around fixed income; we've set up a fixed income working group with PIMCO and many of the largest fixed income managers in the world.

There's also been significantly more interest in responsible investment in hedge funds. And I guess the overarching thing is a continued broadening of responsible investment into other asset classes. That's the top level trend which has been very strong over the last year.

The other area worth commenting on is environmental, social and governance (ESG) integration, or factoring ESG issues into mainstream, fundamental analysis – bottom-up stock picking.

I think what we're seeing is two forces, which are changing that in a very positive way. The first one is that there's just a lot more ESG research that is just higher quality, and more fund managers are starting to use it.

There's now a recognition that these issues are more material than ever; it's not just that they're important – they've always been important for companies – it's that there's a recognition that the world is changing faster than it has ever changed before. So the rate of change is increasing.

Many of the most important changes are loosely within the ESG bucket, so change is opportunity. When you're talking about investment, change equals opportunity, because when things are changing, some people will be faster and some people will be slower to understand and in effect trade on those changes.

And ESG issues, being some of the largest, most important megatrends happening in society, simply translate into opportunities for the cutting-edge of investors to outperform their peers.

The other big strand supporting ESG integration is the academic research. The proliferation of really interesting academic research around demonstrating that these issues are material is very persuasive, and we simply didn't have this level of persuasiveness in academic research 10 years ago.

What are the main drivers for this growth in responsible investment?

I think there are three drivers. There's a reputational driver, which we've seen with some of the weapons manufacturers being divested at the moment in the US. And there are financial elements to that, certainly, as well.

Then there's the investment belief. These are no longer niche, irrelevant issues. They are actually issues that are discussed by boards of companies, at the very highest levels. And yet, many investors are still waking up to this fact; that management of ESG issues, sustainability issues and anti-corruption programmes – these are core to the corporations they own, so why would they not be core to the owners of those corporations?

The third driver, which is a big one, is client pressure from the asset owners, in particular pension funds, on their fund managers. The easy way to put it is society is heading in that direction anyway. Corporations, regulators and consumers are caring more about these issues, so investors can't pretend these issues aren't relevant. They are part of that ecosystem, and as that ecosystem takes these issues into account in much more systematic and deep ways, so too will investors inevitably.

Do you think the PRI's work has led to significant behavioural change within corporations?

There are obviously a lot of drivers and it's impossible to pin it down to the PRI alone – a certain proportion would have happened anyway, because this is one of those inevitable movements in an industry – but I think we have been able to make that faster, because we've engaged with hundreds and hundreds of signatories, or investors in institutions, who were never engaged with responsible investment before.

We have signed up hundreds and hundreds of investors who are very much mainstream investors, and many of them have really moved ahead in responsible investment. There may have been another catalyst, but what we can say is that we certainly are a catalyst for many hundreds of signatories.

Next year, we're moving to a mandatory transparency framework for reporting to the public, which means that over 1,000 signatories will be reporting significant amounts of responsible investment information to the public for the first time. That's really quite dramatic, and they'll be delisted from the PRI if they don't want to participate in that process. So the PRI is really driving transparency within this industry in a way that wouldn't have happened without us.

In terms of the underlying corporations, we certainly have some good evidence that our work has resulted in improvements in corporate activity, but the easy ones to determine are things like disclosure – are the corporations disclosing more than they were before investors asked them to disclose?

But what's more important than focusing on those very difficult-to-answer questions is are the investors changing their behaviour and are they doing the type of things that we would expect, over time, to result in improvements in corporate behaviour? And to that, I think we can answer a very clear yes.

What are the main trends going forward and what will be the PRI's main focuses?

Responsible investment, active ownership and ESG integration don't really help if the system is collapsing. So reflecting on the financial crisis, we are now looking at how investors can collectively work to try to address some of the more systemic problems. So rather than focusing on the investor-company interaction, what's not working in the system overall?

How do we go about making ethical, sustainable and responsible investment mainstream?

I think there are dozens of examples that show how unethical behaviour can lead to dramatic financial losses; you can look at the fines being imposed on a number of banks right now for Libor or money laundering; you can look at News Corporation and ethical issues around phone hacking.

Combining those, academic evidence that being a good company can result in outperformance, plus obvious examples of where poor corporate responsibility leads to scandals and high risk behaviour, we just continue to make that case.

This is an inevitable movement in society; it's not just an investment movement, it's a corporate and societal movement. With each new generation, there is more recognition that these issues are important and responsible investment is simply the investor part of an inevitable movement, which is basically created by having thousands of these conversations to demonstrate why it's important. We need to demonstrate the business case.

THE SIX PRINCIPLES FOR RESPONSIBLE INVESTMENT

PRINCIPLE 1: we will incorporate ESG issues into investment analysis and decision-making processes.
PRINCIPLE 2: we will be active owners and incorporate ESG issues into our ownership policies and practices.
PRINCIPLE 3: we will seek appropriate disclosure on ESG issues by the entities in which we invest.
PRINCIPLE 4: we will promote acceptance and implementation of the principles within the investment industry.
PRINCIPLE 5: we will work together to enhance our effectiveness in implementing the principles.
PRINCIPLE 6: we will each report on our activities and progress towards implementing the principles.
Visit the PRI's website for more information **[http://www.unpri.org/].**

PRI Principles for Responsible Investment

HOW EUROPE IS STILL SETTING THE PACE ON SUSTAINABLE INVESTMENT

FRANÇOIS PASSANT, EXECUTIVE DIRECTOR OF THE EUROPEAN SUSTAINABLE INVESTMENT FORUM – OR EUROSIF – SPEAKS TO BLUE & GREEN TOMORROW ABOUT HOW SUSTAINABLE INVESTMENT IS THRIVING ACROSS THE CONTINENT.

What would you say is the general state of the sustainable investment market right now?

As evidenced by our recent reports published in 2012, the sustainable and responsible investment industry is witnessing rapid growth across Europe. If you consider all six strategies defined by Eurosif, from sustainably-themed, best-in-class to norms-based, ESG integration, engagement and voting and exclusions, these have grown each at double-digit growth between 2009 and 2011, while the overall asset management industry has grown by around 8% during the same period.

That growth, which of course covers various realities market by market, shows that institutional investors in particular are more and more recognising the importance of ESG factors. Some strategies are also getting some interesting traction and it will be interesting to see how they develop in the coming years. I am thinking here in particular about norms-based strategies, originally emanating from the Nordics but starting to percolate through other markets, including the UK, and about active ownership strategies which are continuing their steady growth and emerging in additional markets such as Italy or Spain.

The downside is that, in aggregate around Europe, retail investors have not yet really embraced SRI. This remains an area where, apart from some exceptions where the market is developing, such as sustainably-themed funds in the UK or some defined contribution (DC) products in France, the demand remains relatively weak.

This is certainly not the case in the high net-worth individual (HNWI) segment where, as evidenced by our latest HNWI and Sustainable Investment Survey from November 2012, there is a lot of interest for sustainable investment, more and more seen as an investment discipline and a key component of inter-generational wealth preservation strategies.

Finally, Europe still leads the pack on a global basis and represents over 50% of the global sustainable and responsible investment market as shown by the first Global Sustainable Investment review, a global SRI landscape published last month by the newly-formed Global Sustainable Investment Alliance, a global alliance of key SIFs worldwide to which Eurosif and UKSIF belong.

What would you highlight as the biggest opportunities in the market?

Not being a commercial organisation, this is a question I would answer differently. As said before, I believe that the institutional segment is a fast-growing one but one that has still a lot of potential for growth, especially in the mid-tier market. To date, our research shows that only 56% of corporate pension funds around Europe have a formal SRI policy. The larger funds would have one in general but beyond these, many are still either not recognising that ESG should be part of their fiduciary duty or wrestling with how to address this. Another area of interest is certainly the impact investing area. For the first time, our European SRI Market Study published last October, included a review of that market. Although historic data using our methodology is not available, we have gathered evidence that this is a fast growing area, not surprisingly with HNWI but also some very large institutional investors.

In both of these segments, there is ample room for asset or wealth managers to develop product and investment solutions taking into account ESG factors.

Are there any particular barriers for growth?

I already mentioned the challenge related to fiduciary duty. Barriers for growth are multiple of course. I think that a key other one is the potential misalignment of incentives throughout the chain of intermediaries in the investment industry, which, and this is well-known by now, might and often result in short-term orientated behaviours. Sustainable and responsible investment is better aligned with the search for long-term outcomes, one of these outcomes being long term views on financial returns. The effect of taking into account ESG factors is typically magnified over the long time. This requires a shift in thinking and that shift can be efficiently eased by a better alignment of incentives, from asset owners and asset managers to the entire asset management value chain and the investee companies themselves. The current emerging thinking around shareholder stewardship codes across Europe, and the world really, might be very helpful in this respect.

What are the consequences of unsustainable investment and finance?

This is a wide subject that many analysts, more expert than me, have already commented upon, in particular in the context of the current economic and financial crisis. I'd like to move away from this for a minute and highlight another important aspect. The International Energy Agency reckons that to reach a safe level of carbon emissions, an estimated $1 trillion investment in renewable and low-carbon technology is required every year above business as usual. To secure this, it is absolutely necessary to engage the private financial industry. Further mainstreaming sustainable and responsible investment is a key way, if not the only one, to solve this equation. I was recently at a roundtable organised by the European Commission to talk precisely about how private investments could be attracted to fund a resource-efficient Europe and they were very supportive of this idea.

Which countries in Europe would you pick out as key markets for sustainable investment?

With respect to size, the hierarchy of markets has not changed, overall, between 2009 and 2011, the years when we conducted our last European SRI Market Studies. France, the UK and the Netherlands would rank as top markets with regards to sustainable investment. Interestingly enough however, when looking at the details of each strategies, you might find signs of significant progress, starting from a low base, in several other markets, which is encouraging. This is for instance the case in Germany.

What's your prediction as to how the market will look in 10 years?

Ten years sounds like a long time away and I do not have a crystal ball. All my previous comments however point into the direction of a growing market with a key role to be played by future regulatory or legislative drivers. To recycle your expression from before, I do not think that we will be able to speak any more about unsustainable finance or investment versus sustainable investment, rather an overwhelming majority of investments will have embraced some kind of sustainable approach, all leading to better allocation of invested capital in the market. This approach will most likely be a combination of strategies. We can already see this coming with the growth of exclusions of certain sectors or practices, which is typically combined with another strategy. Also, I believe that this industry has not yet harnessed the full potential of ESG integration, despite the progress of assets covered by this strategy.

> **"EUROPE STILL LEADS THE PACK ON A GLOBAL BASIS AND REPRESENTS OVER 50% OF THE GLOBAL SUSTAINABLE AND RESPONSIBLE INVESTMENT MARKET**

WHAT IS EUROSIF?

Eurosif, or the European Sustainable Investment Forum, is the overarching responsible investment body for the whole of Europe. Its mission is to "develop sustainability through European financial markets".

It brings together a number of sustainable investment forums (SIFs) from across the continent; the five founding SIFs being from the UK (UKSIF), France (FIR), Germany (FNG), Italy (Forum per la Finanza Sostenibile) and the Netherlands (VBDO). Belgium, Spain and Sweden joined later on.

Visit Eurosif's website here **[http://www.eurosif.org/].**

Eurosif

WE NEED INVESTMENT THAT PRIORITISES LONG-TERM WELLBEING

SAMUEL JOHNSON ONCE SAID, "WHEN A MAN KNOWS HE IS TO BE HANGED IN A FORTNIGHT, IT CONCENTRATES HIS MIND WONDERFULLY." SO HOW WOULD THE THREAT OF DEATH AFFECT YOUR OUTLOOK ON LIFE? FOR JOEL SOLOMON, CHAIRMAN OF RENEWAL2 INVESTMENT FUND [WWW.RENEWAL2.CA] AND PRESIDENT OF RENEWAL PARTNERS [WWW.RENEWALPARTNERS.COM], IT SPURRED HIM ON TO USE HIS BUSINESS AND INVESTMENT NOUS TO HELP CREATE A BETTER FUTURE FOR GENERATIONS TO COME.

A number of family members, including his father, had died of polycystic kidney disease – where cysts form in the kidneys, causing them to become enlarged. And when he himself was diagnosed with the condition in his early 20s, doctors said he could die very soon – or he could live a long life.

He effectively stared death in the face, and began using his experience to drive change.

Solomon describes ethical investment as "investing that recognises and improves upon the consequences of how money is made", and we were lucky enough to pose a few questions to him.

Describe how you were first made aware of ethical investment.

As a member since the mid '80s of the philanthropically-oriented Threshold Foundation based in San Francisco, I began to learn that there was an emerging field focused on aligning values and money.

In 1987, I was a founding member of the Social Venture Network (SVN), which grew out of Threshold Foundation. SVN's goal was to create a network for the pioneer entrepreneurs, who believed making money while doing good was how all business should be done.

At SVN I was exposed to leading entrepreneurs in both for-profit and not-for-profit worlds, as well as their professional advisors and investors. The unifying theme was around doing business while learning to internalise externalities. That could happen through thoughtful company practices, as well as public policy influence that business has, being directed towards the common good as well as the private interest.

How is Renewal unique?

Beginning in the mid '90s, Renewal set out to prove that there is huge opportunity in making money while aligning with values and life purpose. "How much is enough?" and "What is our legacy contribution to the betterment of the whole?" became the central goals.

We have stayed true to that commitment, while effectively demonstrating financial success.

Renewal came out of a concept of 'integrated use of capital for social goods'. My business partner, Carol Newell, committed the majority of her fortune to this endeavour. Beyond our financial successes were many other positive contributions, ranging from bringing entrepreneurial influence to the Foundation and charitable sectors in our region and Canada, exploring mission related investing, into hybrid models and early versions of what is now known as social enterprise, whole portfolio activation to values and mission, social purpose real estate and significant investment in the psychological, emotional, and spiritual, aspects of leadership, as a foundational practice for the challenges of tomorrow.

Our financial investment ambition centres around building the field of 'money aligning with values', through taking first risk on strategies we believe will become the norm in the future. We offer proof of concept that helps normalise bottom lines beyond financial alone.

The era of transparency is changing the face of business practices and customer engagement. Soon enough, companies will need to lead the way on community positive leadership, in order to maintain social license to make money

What sectors would you ideally invest in?

Organic food, green products and environmental innovations. We would like to find opportunities in the future to invest in ever more innovative sectors and models, which broaden the tools for investing for change, in more sectors and issue areas.

We need a dramatically different way to think about investment, which prioritises long-term wellbeing for people and planet. There is more than enough money in the world to solve global issues like poverty and climate change. We are seeing the growth period of invention that will make today's business practice assumptions, look very out-dated and short-sighted. Wisdom meets wealth creation.

What sectors would you not invest in?

Because I am an entrepreneurial investor, I am able to move virtually 100% of my investments out of public markets and very large companies.

For practical reasons of size and scale, we look for industries that balance long-term wellbeing for people and planet, while reducing waste, health risks, climate change, species extinction, wealth disparity, and negative impacts.

We only invest with people whose values and integrity represent the best intentions for why they want to build big companies. We only invest where we believe we are seeing an incremental solution innovation, even if it is under recognised.

When thinking about the work you've done at Renewal, what is your proudest achievement?

Earning a good financial return while making a positive difference and building a great reputation for authenticity and integrity. We are the real thing. Launching Renewal2 Fund through the depths of a major recession, locating over 80 individuals, families and foundations, in Canada, the US and Europe, to invest $35m to become our limited partners, and then systematically placing those funds into a growing portfolio of great companies that will make good money for our partners.

You speak openly in your TEDxVancouver [http://youtu.be/RSSRnUEMsN4] talk about suffering from polycystic kidney disease. What impact do you think the condition has had, if any, on your investment outlook?

I was blessed with the awareness that life ends, and that it can happen at any time. The in my face message helped me to consider deeply my values and life purpose. I came from money and business. I was born at the early part of the era of transparency and global information. We were learning a lot about the impact of unbridled economic expansion, population growth, and the limits of the biosphere, along with the travesty and injustice of dramatic income disparity. I use my access to business and power, to contribute to the health and wellbeing of future generations. Eventually, I came to understand that for most of human existence, ancestors and descendants were the core purpose of life. In the modern industrial age, we have forgotten that perennial wisdom.

The death sentence opened the doorway for me to discover a longer view of why I am alive.

What are the main changes in ethical investment – in attitude, legislation and activity – that you have noticed during your career?

I use the analogy of organic foods. Something like 'organic money' is taking hold. Organic money is now about where organic food was in the '60s, '70s, and maybe the '80s. As the next decade unfolds, the growth rate of the industry aligning money with values is going to grow dramatically.

The rise of the B Corporation and string of successes with legislative support for these externality focused responsibility commitments of companies, the democratisation of giving and investing via new digital tools, and the proliferation of networks, conferences, MBA programs in sustainability, and rising demands on university campuses for divestiture from carbon creating in the endowment portfolios, are just a few of the change signals. When we raised our Renewal2 Fund three years ago, it was harder to familiarise people with the impact investing type rationale. Today, there is a clamouring and wealth managers are scrambling to find product to move their clients into, whether they are individuals or pension funds made up of millions of people.

How do we make ethical, sustainable and responsible investment mainstream?

Steady patient effective hard work. We need a diverse universe of experimentation, risk taking, learning through doing, and the development of dozens of products and services which offer astute, authentic, and accessible options. The full spectrum of risk and return categories must be filled out with capable professionals and offerings. Business education must step up to meet the challenge. Success stories must be built and told. Policymakers must think ahead and be bold in shifting taxation, regulatory, and subsidy strategies from the old economy to the new.

And the prognosis for his disease…?

At the time of his diagnosis, Joel had little influence over the outcome of his illness. But we're delighted he was fortunate to have a successful kidney transplant later on in life and is such a powerful advocate of ethical investment.

Renewal Funds is launching Renewal3 in 2013, continuing the social venture capital model of Renewal2 ṣwww.renewal2.caț. They will also build a smaller seed pool called Instinct Fund. Solomon also serves as a senior adviser at RSF Social Finance [www.rsfsocialfinance.org].

LOOKING FORWARD WITH WHEB

OVER THE PAST NINE MONTHS, ONE PARTICULAR SUSTAINABLE FUND HAS SHOT UP IN BOTH POPULARITY AND VALUE – TO THE POINT WHERE IT NOW SERVES AS SOMEWHAT OF A BENCHMARK IN TERMS OF HOW TO EFFECTIVELY RUN AND GROW INVESTMENTS. IT IS THE IM WHEB SUSTAINABILITY FUND, AND MANAGING PARTNER GEORGE LATHAM AND FOUNDING PARTNER CLARE BROOK SAT DOWN WITH BLUE & GREEN TOMORROW RECENTLY TO TALK ABOUT IT.

WHEB Asset Management has come a long way in a relatively short space of time. Launched in 2009, its flagship Sustainability Fund has gone from strength to strength, and is now considered one of the most attractive options in an increasingly attractive positive investment market.

For the first three years of the fund's existence, it grew steadily. Its philosophy of only investing in companies that provide solutions to some of the most urgent sustainability challenges had allowed it to grow to £29m in size by the end of 2011.

By this point, WHEB was ready to expand. It began looking for a new recruit – a fund manager who could aid this expansion, and who could eventually take over the running of the business. It was around this time that Henderson Global Investors had decided to close its sustainable and responsible investment (SRI) arm – a move that some said marked a "backward step" for the sector – leaving its SRI team unemployed and looking for work.

You can probably guess what happened next.

There are instances in life where one has to sit back and marvel at the way the universe seems to connect everything in one big, intergalactic jigsaw. Had one of these two occurrences been just a few months earlier or later, it's unlikely that a partnership between WHEB and the former Henderson team would have come about.

As it is, the two combined officially in May 2012, and have not looked back.

"We've recruited the best team in the sector", says founding partner Clare Brook, speaking at the firm's office near Manchester Square in London.

"We've put together a super team. As any follower of Premier League football knows, if you invest in the best players, you're going to start getting really good results. So our performance has really started to take off. We're outperforming our one-, three- and six-month benchmarks and a lot of people have started to notice how performance has started to improve since we put the new team in place."

> **PEOPLE WANT TO INVEST IN GLOBAL SUSTAINABILITY STRATEGIES COVERING BOTH SOCIAL AND ENVIRONMENTAL THEMES THAT TAKE A LONG-TERM APPROACH TO CREATING VALUE**

And notice they have. B&GT conducted a survey at the back end of 2012 among financial advisers that are members of the Ethical Investment Association şsee page 22ţ, asking them which asset managers they use most often.

WHEB's popularity increase was second only to Royal London – rising from joint 26th place in 2010 with 3% of advisers using it, to joint 12th last year with a third of EIA members now saying they invest some of their clients' money into its Sustainability Fund.
"We're starting to get some mainstream ratings agencies grading us very highly, and we think what they're picking up on is a) the heritage and experience of the team, and b) the robustness of the investment process", adds Brook.
"Success breeds success. People have started to see we're getting the assets in and that we are living up to the hype that they had hoped of us when the new team joined.
"We think that this fund is the answer to what people have been looking for. It's performing well and it's actually investing in the sort of companies that people interested in sustainability want to see in their fund."
But it's not only the arrival of the Henderson team that has kicked WHEB's progress on. Its fund's positive focus on nine key sustainability themes – resource efficiency, water management, cleaner energy, environmental services, sustainable transport, safety, wellbeing, education and health – has allowed it to surge ahead of many competitors in the ethical fund market that perhaps rely too much on excluding harmful and destructive industries, rather than focusing on investing in innovative, clean technologies, for example.
Any company WHEB invests in has to have at least a third of its revenue or profits coming from one or more of the nine themes (the average for the fund as a whole is over 80% coming from the themes), and the fund managers have to be comfortable that the rest of the business is not pulling in the opposite direction.
And it's the focus on companies providing solutions that has driven WHEB's popularity in the past year. Managing partner George Latham, ex-Henderson, says, "People want to invest in global sustainability strategies covering both social and environmental themes that take a long-term approach to creating value.
"People are interested in looking for logical reasons why a strategy can and should outperform over a longer period of time that goes beyond the idea that somebody's going to get up and sprinkle some magic dust over the portfolio. So many investment funds are sold on the basis of some single person's charisma and most recent track record, which I think is wrong.
"Traditionally, most evidence shows that very few people are able to continue with the magic dust approach for a long period of time."
At a time when transparency in the ethical investment market is perhaps lacking, WHEB's decision to publish every single one of its fund's holdings on its website, along with a five-line rationale as to why each fits in with its themes, also sets it apart from many of its competitors. All funds – ethical or otherwise – have this kind of information readily available. For the vast majority, it's not a question of how easy it is to publish it; it's a conscious decision not to.
A report by responsible investment campaigners FairPensions from December ranked 20 of the largest ethical investment houses on their responsibility, transparency, accountability and stewardship. WHEB came joint second, alongside Standard Life and behind F&C Investments. Only nine of the 20 published a full list of their holdings.
But WHEB's transparency doesn't stop there. Latham adds, "Another thing we do, which I think is very unusual, is we have a level of external governance looking at our fund – that's the eyes and ears of the customer in a way.
"That investment advisory committee sits down with us, and challenges us on whether our stock selection actually fits into one of our themes. In an extreme situation, they can say they don't agree.
"But what would happen if we then said we don't care? What we do, which is new to us and fairly unique, is publish the minutes of each meeting. So if we were to have that situation, then that would be very public."
Brook says that before Latham and the Henderson team joined WHEB, the Sustainability Fund did actually have a holding that was contested by the advisory committee. It was swiftly sold.
WHEB's combining of finance and sustainability has led to a prosperous past few months. What's clear is that its management team is 100% behind its strategy (each of its partners have put more than half their own personal wealth into the fund alongside its clients) – something that perhaps wouldn't be the case at larger investment houses, and something that has unquestionably benefitted both the performance of the fund, and its attractiveness to investors.
For now, its Sustainability Fund – now over £40m in size – will remain its one and only investment vehicle. But neither Brook nor Latham rule out expansion in the future. The pair are ambitious with their future growth plans, but who can blame them? After the whirlwind nine months enjoyed by everyone at WHEB, the only way – surely – is up.

WHEB Asset Management
www.whebgroup.com

ETHICAL, SUSTAINABLE, RESPONSIBLE… WHAT'S IN A NAME?

BY SIMON LEADBETTER

EVER SINCE THE IDEA BEHIND BLUE & GREEN TOMORROW CRYSTALLISED, THERE HAS BEEN A HEATED DEBATE ON WHAT WE SHOULD CALL THIS STYLE OF INVESTMENT. INVESTMENT- THAT-DOESN'T-SCREW-EVERYONE-AND-THE-FUTURE, JUST WASN'T CATCHY ENOUGH.

And naming things is very important, as T.S. Eliot will tell you.

By naming a thing, you define and scope it. People's understanding and acceptance of that thing is either aided or hindered by a name. From nations, political parties, organisations and individuals, a name can either accelerate or obstruct the fulfilment of potential.

Blue & Green Tomorrow?

We settled on Blue & Green Tomorrow for a few reasons. Our planet is more blue than green and the green movement has always been too land-centric for our tastes. Douglas Adams' description of earth as a 'blue-green planet' always resonated and we're not sure we'd like to live on an entirely green one. Tomorrow was born of a desire to be future looking, without using 'future', and it has a nice rhythm as a word.

Anyway, what to call the investment sector we cover.

What kind of investment?

We settled on sustainable investment early on, after flirting with responsible investment and discounting ethical investment for reasons we'll set out below. That said, there is some evidence that 'sustainable' is reaching unsustainable proportions, with term rapidly approaching fatigue, as everything, from education policy to policing strategies, becomes 'sustainable'.

Sustainable has origins in the 17th century and originally meant "bearable", from sustain + able. There is clear evidence that from 1845 it was used in the legal sense of "defensible"; and from 1965 with the meaning "capable of being continued at a certain level". Sustainable growth is recorded from 1965.

Sustainability is defined by the World Bank as, "A requirement of our generation to manage the resource base such that the average quality of life that we ensure ourselves can potentially be shared by all future generations. ... Development is sustainable if it involves a non-decreasing average quality of life."

Sustainable investment can therefore be defined as managing our investments such that the average quality of life that we ensure ourselves can potentially be shared by all future generations.

Responsible hails from the late 16th century meaning "answerable (to another, for something)". It derives from the Latin responsus, the past participle of respondere: "to respond". From 1836 it came to mean "morally accountable for one's actions" and retains the sense of "obligation" in the Latin root word.

Responsible investment can therefore be defined as an approach that is answerable for the outcome of one's investments.

Ethical is an early 17th century word meaning, "pertaining to morality", literally from ethic + -al. In the late 14th century, ethik was the "study of morals", derived from the old French etique. This came from late Latin ethica, which in turn derives from the ancient Greek ethike philosophia or "moral philosophy", the feminine form of ethikos. The meaning we know today of "a person's moral principles" is evidenced from the mid-17th century.

Ethical investment can thus be defined as investment that aligns with one's moral principles.

The challenge of a moral or ethical framework for investment is that it relies on a commonly accepted version of morality or ethics. You just need to look at the various religious conflicts around the world to see that commonly understood and accepted morality is a non-starter.

On a local level, the Church of England's bishops are far more hot under the collar about the role of women (equal, we humbly suggest) and the gender of who you love, than whether their church holds a stake in a media business that has blighted lives, such as Mille Dowler's parents and

the Hillsborough victims.

Other terms that are bandied around are socially responsible investment, or SRI, which adds a social or human dimension to the responsible definition above. Impact investment focuses on the difference that can be made by investing. Green investment is focused on the environmental or ecological impact of investment. And clean investment removes any moral or ethical dimension, focusing on the energy efficiency and low pollution aspect of investment target activities.

It's fair to say that the various names mean very different things. An investment that is ostensibly clean, the manufacture of weapons for example, can by unethical, certainly when they kill innocent people, as they almost do with a wearing inevitability.

An investment that is sustainable can strain the tolerance of ethical or responsible investors, such as some of the most prevalent forms of pleasure (smoking, drinking, gambling, etc.). Renewable energy sources such as dams, tidal barrages and wind farms draw these investments into conflict with green investors who see natural habitats under threat.

The terms are loose enough that they allow an enormous amount of wriggle room for those who want to fit their fund or portfolio under the sustainable, responsible or ethical banner.

Despite the risk of its overuse, we are sticking with sustainable. The melting of the ice caps is just the clearest and latest sign that the way we invest and consume has become unbearable for our planet. Whatever the morals or ethics of the current situation, it is plainly suicidal to continue to pollute the Earth in the way that we have and waste limited resources on the scale that we do.

A rose by any other name would smell as sweet, for as long as there are roses.

"THE INVESTMENT TERMS ARE LOOSE ENOUGH THAT THEY ALLOW AN ENORMOUS AMOUNT OF WRIGGLE ROOM FOR THOSE WHO WANT TO FIT THEIR FUND OR PORTFOLIO UNDER THE SUSTAINABLE, RESPONSIBLE OR ETHICAL BANNER

ETHICAL FINANCIAL ADVISER DIRECTORY

BLUE & GREEN TOMORROW WORKS WITH EXPERIENCED INDEPENDENT FINANCIAL ADVISERS WHO SPECIALISE IN ETHICAL INVESTMENT AND UNDERSTAND HOW MONEY CAN BE USED TO CREATE A SECURE FUTURE FOR YOU, FOR YOUR FAMILIES AND FOR OUR PLANET. GIVE ONE OF THEM A CALL AND TALK ABOUT YOUR PLANS – YOU MAY EVEN FIND YOU SLEEP EASIER AT NIGHT IF, LIKE US, YOU WANT A BETTER FUTURE FOR ALL. YOUR HARD-EARNED MONEY CAN DO SOME OF THE HARD WORK OF MAKING THAT HAPPEN WHILE YOU SLEEP.

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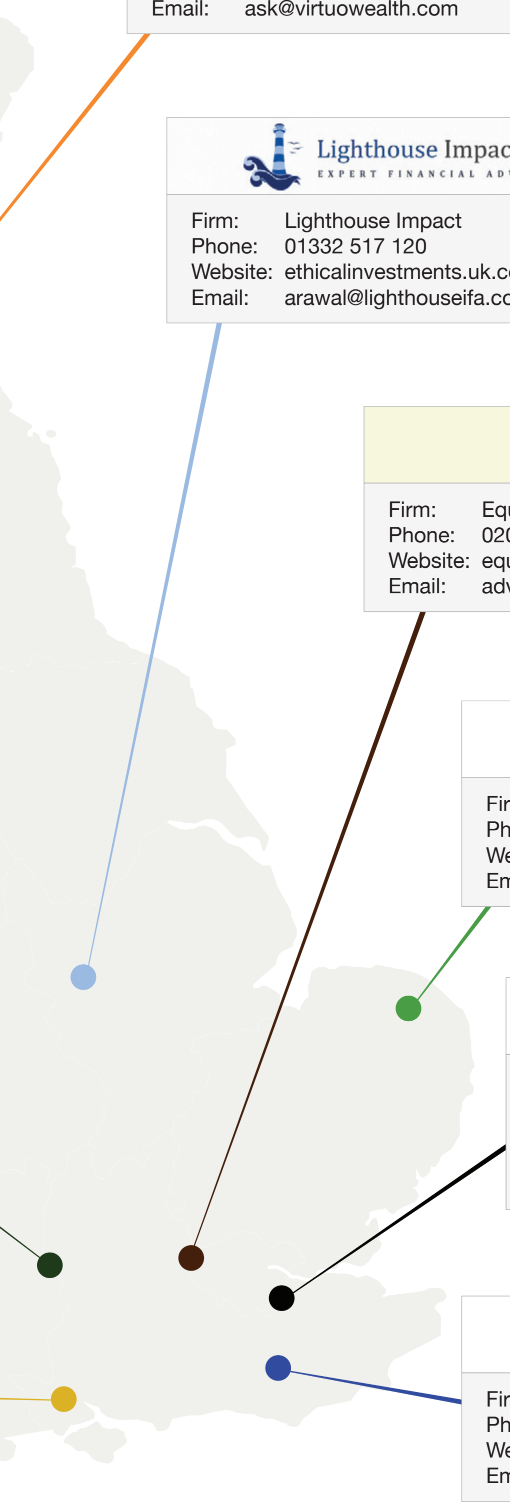
Firm: Barchester Green
Phone: 0800 328 6818
Website: barchestergreen.co.uk
Email: info@barchestergeen.co.uk

Firm: Stewart Investment Planning
Phone: 01275 371900
Website: stewartinvestmentplanning.co.uk
Email: sip@stewartinvestmentplanning.co.uk

Firm: The Ethical Partnership
Phone: 08456 123 411
Website: www.the-ethical-partnership.co.uk
Email: jeremyn@the-ethical-partnership.co.uk



Firm: Virtuo Wealth
Phone: 0131 440 9888
Website: virtuowealth.com
Email: ask@virtuowealth.com

Firm: Lighthouse Impact
Phone: 01332 517 120
Website: ethicalinvestments.uk.com
Email: arawal@lighthouseifa.com

Firm: Equity Invest
Phone: 020 8879 1273
Website: equityinvest.co.uk
Email: advice@equityinvest.co.uk

Firm: Investing Ethically
Phone: 01603 309020
Website: investing-ethically.co.uk
Email: contactus@investing-ethically.co.uk

Firm: Smythe & Walter chartered financial planners
Phone: 020 7887 1989
Website: smytheandwalter.co.uk
Email: lee@smytheandwalter.co.uk
ben@smytheandwalter.co.uk

Firm: Bromige
Phone: 01342 826 703
Website: bromige.co.uk
Email: invest@bromige.co.uk

Image: 5kW solar PV array
South Penquite Farm, Bodmin Moor, Cornwall

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