SUSTAINABLE INVESTMENT

OCTOBER 2015

5TH EDITION

blue&green tomorrow

PUBLISHER'S LETTER

"The most alarming of all man's assaults upon the environment is the contamination of air, earth, rivers, and sea with dangerous and even lethal materials."
Silent Spring (1962), Rachel Carson

Another year, another Good Money Week, another Guide to Sustainable Investment. This is Blue & Green's fifth year and, appropriately enough, this is the fifth edition of the Guide to Sustainable Investment.

We've taken a slightly different tack in 2015, to answer the one question we are most often asked. *"In a universe of 3,000 or so funds, with just over one hundred options for sustainable, responsible and ethical investment… which are 'the best'?"* To date we've avoided answering the question for three reasons.

Firstly, we would much prefer people to talk to a qualified adviser, experienced in sustainable investment (see page 70) so that they can explore all the options and create an investment portfolio that meets the individual goals and needs of the investor. Investment is complex and the value of investments can go down as well as up. We still feel that way.

Secondly, the '*foe*', if there is one, is the unsustainable, irresponsible and unethical majority of funds that couldn't give two hoots what despicable human activity was being invested in as long as it made a quick buck. We still feel that way.

Thirdly, we've never found a satisfactory rating system that doesn't allow some godawful stocks and funds through. Sadly, there is still gallons of greenwash swilling around the sustainable universe, twinned with a frightening lack of transparency for many so-called SRI funds. And then a revelation.

In deepest, darkest Cumbria one of our good friends had been beavering away to create exactly the system we wanted. A system that would better inform the discussion between a financial adviser and a client, but also answer the perennial question: *'who's the best?'*

We explore the philosophy that underlines the ratings announced in this guide. We also publish those ratings themselves. We hope it will trigger a fierce debate and undoubtedly ruffle some feathers. But we have one master – our reader. You've asked us this question for five years and we've taken the fifth. No longer as you'll see – this is our go-to system going forward.

Just to stress, the rating system takes a universe of possible sustainable options and is then incredibly tough on them. On that basis, to be included on the list is a pass. A 2* is good, a 5* is a first-class distinction. But we've been asked for the best and we're happy to share them. Funds that disagree will have to take it up with our impartial friend in Cumbria.

For the self-directed social investor we also write about our friends at Ethex (page 18), whose excellent platform allows you to make a direct investment into projects that are doing some social good.

We hope you enjoy the guide as much as we've enjoyed putting it together this time. We no longer have to hold our nose as write about ethical funds that don't pass muster.

Simon

Simon Leadbetter
Publisher, Blue & Green Tomorrow

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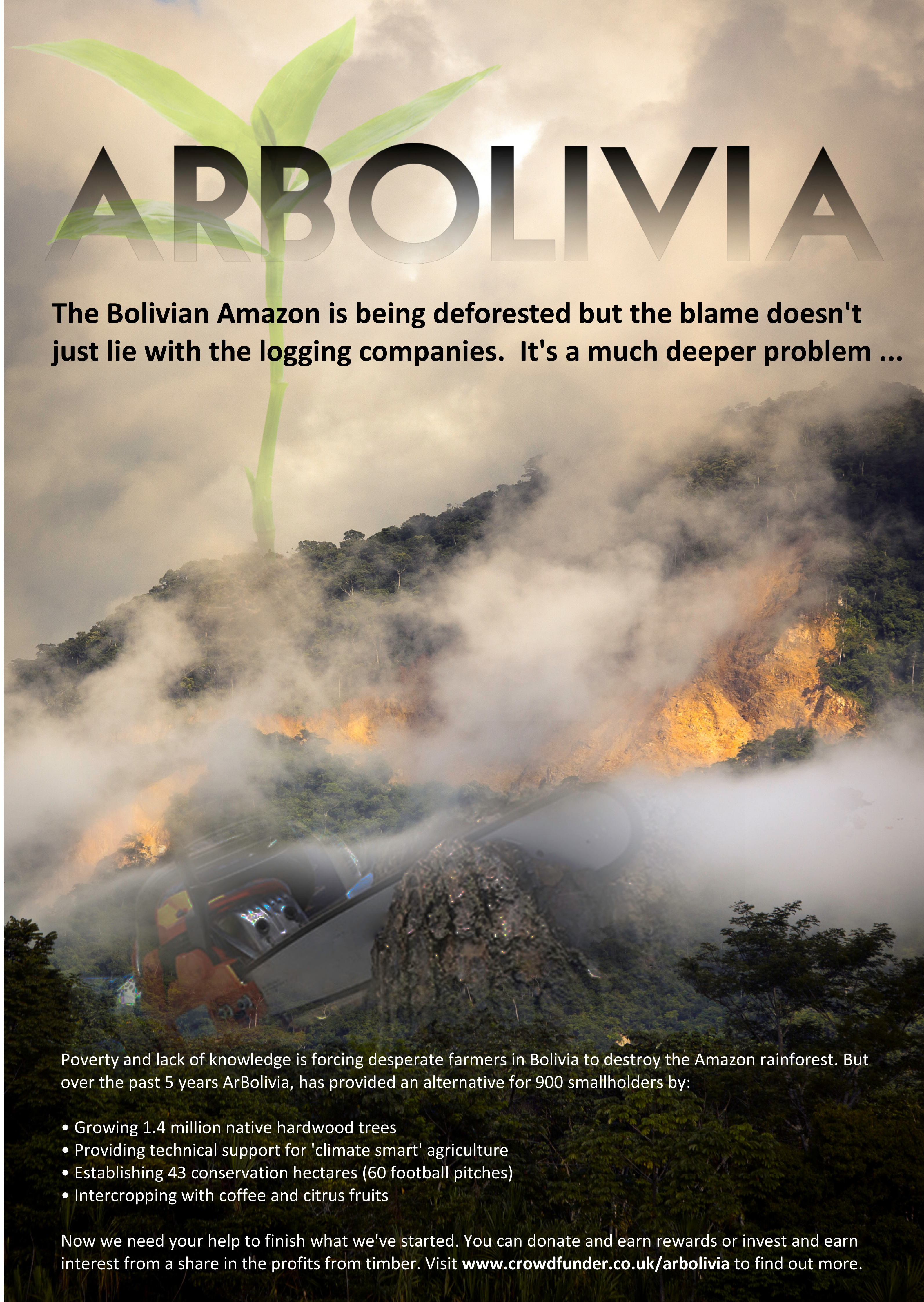

ARBOLIVIA
The Bolivian Amazon is being deforested but the blame doesn't just lie with the logging companies. It's a much deeper problem ...
Poverty and lack of knowledge is forcing desperate farmers in Bolivia to destroy the Amazon rainforest. But over the past 5 years ArBolivia, has provided an alternative for 900 smallholders by:
• Growing 1.4 million native hardwood trees
• Providing technical support for 'climate smart' agriculture
• Establishing 43 conservation hectares (60 football pitches)
• Intercropping with coffee and citrus fruits
Now we need your help to finish what we've started. You can donate and earn rewards or invest and earn interest from a share in the profits from timber. Visit www.crowdfunder.co.uk/arbolivia to find out more.

UKSIF CEO'S CAUTIOUS OPTIMISM

"*Whisper it quietly but things may be looking up in the retail sustainability market*". That's my current view and since most people know I'm a glass-half empty guy it needs some explanation.

The starting point was the Good Money Week (GMW) 2014 polling data. We have numbers now for several years in answer to an opinion poll question which seeks to assess where the retail investor stands on a spectrum running from focusing purely on making money to purely doing good. The 2015 data showed the second best answers on record and the highest of recent years. The numbers are still low, but it was better.

OK, useful data, but is it real, would the money follow? Well, the signs are that it has. The Investment Association publishes data for what it terms *"ethical"* funds each month. In total they account for only 1.2% of retail funds in issue, but the sales figures in the first part of 2015 were very encouraging with net retail sales of ethical funds reaching 4.7% of total net retail fund sales in Q1 2015 and indeed those funds have had a share of c3% every calendar quarter for the 12 months. So, sales have been running markedly ahead of existing market share. This is encouraging and let's hope the GMW data for 2015 is even better.

So, box ticked, retail sorted? Well not quite, a shadow has appeared. In the budget the Government announced a major review into UK financial advice to examine various things including the *"advice gap"*, regulatory barriers in giving advice and the part new technology can play. This is all fine: there are important issues in those areas. We need more people to receive financial advice, I know from UKSIF members that the current regulatory burden hurts and we all know that there may be valid, new ways of engaging with clients. It's just the risk that the review may be bogged down in the wrong areas.

What we and readers of B&GT want is for people to be able to invest in accordance with their values, and in funds which are run the right way. Getting that outcome will be our aim and UKSIF will seek to play a full part in the review in support of our members in the Ethical Investment Association. Their efforts in boosting sales - part of the success outlined above - are notable and it's great that the retail and advisory spaces are being celebrated in here ahead of GMW 2015.

Simon Howard
Director of UKSIF

Make Money and Make a Difference

18 - 24 October 2015

Good Money Week's
Myths of Ethical Investment

Sustainable and ethical investment means choosing specific accounts and funds which screen out unethical choices

Sustainable and ethical investing is an investment philosophy that combines environmental and social criteria with conventional investment criteria. It combines an investor's financial objectives and any social or environmental objectives they may have. It is defined by use of this philosophy, not by any specific technique.

Ethical investment means sacrificing financial performance for ethical value

There is now ample evidence that good fund managers can deliver excellent investment performance over the medium and long term using sustainable and ethical investment approaches.

According to the Investment Association, "investing ethically does not necessarily mean you have to sacrifice investment performance."

Sustainable and ethical investors are mainly teachers and social workers

Financial advisers report a wide range of 'non-traditional' clients interested in sustainable and ethical investment today, including younger entrepreneurs and those inheriting wealth.

www.goodmoneyweek.com

It has to be all or nothing as far as my money's concerned

Many sustainable and ethical investors choose to dip a toe in the water by mixing some sustainable and ethical options with their other investments.

Investing ethically is just too complicated

There are resources available to help you understand the language of the finance system and make more informed decisions about where your money is going. If you are not sure of your bank's policy, you can always ask them.

It's impossible to influence big banks

Large corporations follow a steady stream of information on consumer trends. They value the trust of their customers and will listen if public opinion on conventional finance changes.

I don't have much money to invest so it won't make a difference

There are a growing number of options to invest small amounts, such as crowd-funded community projects which may accept as little as £5.

Good Money Week
www.goodmoneyweek.com

PUBLIC EVENTS

Good Money Week
www.goodmoneyweek.com

17 Oct 2015	Ethex	Launch of the Ethex Positive Investing Report 2015	Online	Details
17 Oct 2015	Operation Noah, Quaker Peace, Social Witness	Disinvest to reinvest - investing for a just economy	London	Details
19 Oct 2015	Charity Bank	Follow the Money: Northern Ireland	Belfast	Details
19 Oct 2015	Charity Bank	Follow the Money: North West	Chester	Details
19 Oct 2015	Matter&Co and Social Value International	Critical Mass - Good Deals 2015 Conference	London	Details
19 Oct 2015	Social Change UK, The University of Lincoln	Secrets of Sustainable Business - who cares wins	Lincoln	Details
20 Oct 2015	Charity Bank	Follow the Money: North East	Middlesbrough	Details
21 Oct 2015	Charity Bank	Follow the Money: Midlands & East	Northampton	Details
22 Oct 2015	Charity Bank	Follow the Money: London	London	Details
22 Oct 2015	The Social Stock Exchange	Social Stock Exchange Annual Investor Conference	London	Details
23 Oct 2015	Charity Bank	Follow the Money: South East	Folkestone	Details
23 Oct 2015	Shared Interest	Shared Interest Supporter Day	Manchester	Details
24 Oct 2015	Ecumenical Council for Corporate Responsibility	Your Faith, Your Finance and the Common Good	Exeter	Details
24 Oct 2015	ShareAction, the Guild of St George	Using your Money for Good	London	Details
28 Oct 2015	Charity Bank	Follow the Money: Scotland	Glasgow	Details
28 Oct 2015	Charity Bank	Follow the Money: South West	Cheltenham	Details

THE STATE OF SOCIALLY RESPONSIBLE INVESTMENT (SRI)

By SIMON LEADBETTER

The Tale of Two SRIs – expanding but 'still in a bubble'

Charles Dickens' Tale of Two Cities begins,

> *"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way – in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only."*

Like so much of Dickens' writing, his '*superlative degree of comparison*' applies today as well. We live in the best of times and in the worst of times.

Global poverty falls as inequality rises. Global conflict is a receding threat, but we live in a state of fear from random acts of terrorism. Advances in technology have allowed us to save and extend lives, communicate unmediated with people across the planet more than ever before, but the rising threat of pandemics and the atomisation of society threatens us all. Divestment in fossil fuels grows while fossil fuel companies continue to invest in unburnable carbon. We know how to save our fragile planet but we're not doing it - a true age of foolishness.

Everything and its dog is *'sustainable'* now, while the unsustainable status quo persists – in terms of over consumption and resource inefficiency.

Investment shapes our world

Global GDP in 2014 was $77 trillion[1].

According to Boston Consulting Group[2], the global value of professionally managed assets grew to $74 trillion in 2014. 1,382 organisations have signed the UN-sponsored Principles of Responsible Investment including 287 asset owners, 909 investment managers and 186 professional service partners – with $59 trillion under management.

Mixing sources, the Global Sustainable Investment Alliance (GSIA) reports[3] that global sustainable investment assets had continued to grow to $21.4 trillion at the start of 2014. We will need to wait until 2016 for the next GSIA report to come out to see what progress has been made.

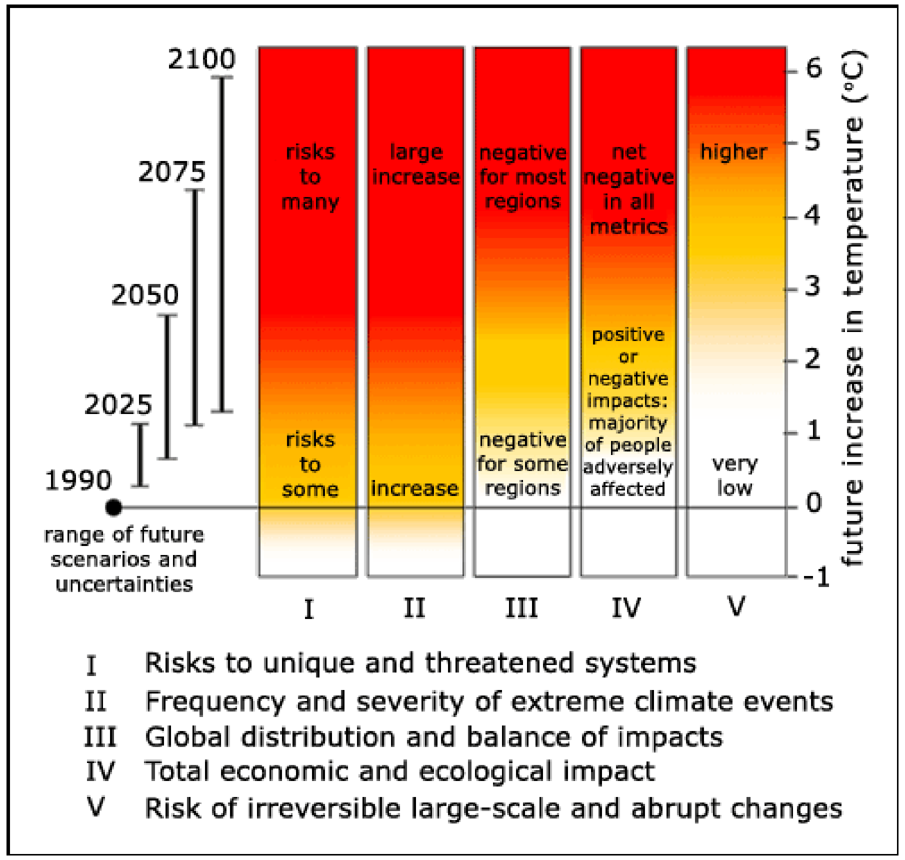
There's a big discrepancy between the $74 trillion of global assets under management, the $59 trillion that operates under signatory status of the PRI and the $21 trillion which is actually managed sustainably.

Enlightened Europe represents the majority (64%) of global sustainable investment with 59% of funds managed according to sustainable principles – compared to 18% in the US and less than 1% in Asia.

While sustainable investment has grown steadily the unsustainable majority still represents 70% of global assets under management. This doesn't feel like the necessary action commensurate with an existential threat, the clear and present danger. Nor does that 30% of sustainable assets under management necessarily mean the assets classified as such are sustainable in any way that a rational person would understand them.

When a large percentage of sustainable, responsible or ethical funds contain companies with incredibly poor environmental, social or governance track records, it's hard to accept the positive headline figure at face value. It still feels like an enormous volume of greenwash is being splashed about alongside tortured justifications of why certain unsustainable stocks could be ever classed as sustainable – turning junk to prime has been a core competence of the investment world that has burnt us badly before.

Unless we address economic activity which will lead to a 2 degree increase in global mean temperatures, we're going to be in trouble economically, socially and environmentally.



A summary of the risks and impacts of global warming over the 21st century, plotted against the potential increase in global average temperature (source: IPCC 2001d)

A bold proposal

All environmental and social progress has been triggered by protest from a group of disruptive people who are at odds with the status quo, followed by a change in the law when the early majority catch on.

The abolition of slavery, votes for women, equal rights, child protection, health and safety rules, workers' rights, clean air and other environmental protection measures have never been addressed speedily enough by an industry itself, through voluntary codes or pushed by divestment.

It is only the power of the people and the subsequent imposition of laws that has made progress happen and then secured it.

While the developed world now enjoys many of these protections and rights, industry has often exported its least savoury social and environmental practices to the developing world.

True blood free marketers everywhere will howl and gnash their teeth in anguish, but perhaps we need stronger government action and more robust national and international laws to protect the environment and society from the worst excesses of unfettered capitalism.

Fear not capitalists, the father of modern liberal economics Friedrich Hayek agrees, so it's going to be okay hon'.

From the Hayek's 1944 Road to Serfdom:

> *"To prohibit the use of certain poisonous substances, or to require special precautions in their use, to limit working hours or to require certain sanitary arrangements, is fully compatible with the preservation of competition. The only question here is whether in the particular instance the advantages gained are greater than the social costs they impose."*

On the environment:

> *"Nor can certain harmful effects of deforestation, or of some methods of farming, or of the smoke and noise of factories, be confined to the owner of the property in question or to those who are willing to submit to the damage for an agreed compensation. In such instances we must find some substitute for the regulation by the price mechanism.*

> *"But the fact that we have to resort to the substitution of direct regulation by authority where the conditions for the proper working of competition cannot be created, does not prove that we should suppress competition where it can be made to function."*

On fraud:

> *"Even the most essential prerequisite of its [the market's] proper functioning, the prevention of fraud and deception (including exploitation of ignorance), provides a great and by no means fully accomplished object of legislative activity."*

On welfare:

> *"There is no reason why, in a society which has reached the general level of wealth ours has, the first kind of security should not be guaranteed to all without endangering general freedom; that is: some minimum of food, shelter and clothing, sufficient to preserve health. Nor is there any reason why the state should not help to organize a comprehensive system of social insurance in providing for those common hazards of life against which few can make adequate provision."*

He concludes:

> *"In no system that could be rationally defended would the state just do nothing."*

And all this was written before globalisation, before mass media advertising, before high frequency trading, and before an understanding of man's effect on climate. Those who cleave to the '*free*' aspects of '*the market*' while dismissing the sensible precautions set out by the father of their claimed economic philosophy, are conspiring in an intellectual fraud against the people.

A new set of rules for investment

Science fiction author Professor Isaac Asimov created the three laws of robotics in 1942. The Three Laws have subsequently pervaded science fiction and are referred to in many books, films, and other media. These laws really come into their own as robots and artificial intelligence become a reality.

1. A robot may not injure a human being or, through inaction, allow a human being to come to harm.
2. A robot must obey the orders given it by human beings except where such orders would conflict with the First Law.
3. A robot must protect its own existence as long as such protection does not conflict with the First or Second Laws

Asimov later wrote that he should not be praised for creating the Laws, because they are

> *"obvious from the start, and everyone is aware of them subliminally. The Laws just never happened to be put into brief sentences until I managed to do the job. The Laws apply, as a matter of course, to every tool that human beings use."*

The Laws apply, as a matter of course, to every tool that human beings use

One such tool is investment. So here's the rules adapted for investment that do not harm our environment, society or our prosperity.

1. An investment may not harm the environment or humanity or, through inaction, allow the environment or humanity to come to harm.
2. An investment must fulfil the mandate given it by human beings except where such a mandate would conflict with the first law.
3. An investment must ensure its continued existence as long as such existence does not conflict with the first two laws.

If all investments were judged by those simple rules or principles - rules that prohibit harm and encourage benefit - we'd live in a much more sustainable and stable world.

The best of times.

1. *"GDP (current US$)" (PDF). World Development Indicators. World Bank. Retrieved 2 July 2015*
2. *https://www.bcgperspectives.com/content/articles/financial-institutions-global-asset-management-2015-sparking-growth-through-go-to-market-strategy/*
3. *http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf*

SEVENS HABITS OF HIGHLY EFFECTIVE FUNDS

By SIMON LEADBETTER

We recently dug out a book written a quarter of a century ago by Stephen R. Covey that set out the seven habits of highly effective people. Today we look at the seven traits of highly effective investment funds.

So here are the seven habits of highly effective investment funds:

1. Highly effective investment funds will match your goals such as current income (e.g. a focus on bonds) or capital growth (e.g. a focus on stocks)

2. Highly effective investment funds will match your risk tolerance. Higher risk options may deliver higher returns but also carry higher volatility (e.g. stocks). Conversely, lower risk options may deliver lower returns but also carry lower volatility (e.g. bonds)

3. Highly effective investment funds have a strong rating with one of the major rating agencies such as Standard & Poor's, Morningstar OBSR, Citywire or FE Trustnet

4. Highly effective investment funds have exceptional fund managers with a strong track record of out-performance

5. Highly effective investment funds have clear and transparent charges and fees. If you invest you may have to contend with transaction fees, custody fees, administrative fees, structured product fees, fund fees, trial fees, retrocession and rebates. These costs (the total expense ratio or TER) can be as much as 4%pa, so you need to make at least 4% + whatever your preferred measure of inflation is before you're making a profit, and that ignores tax implications. The True and Fair campaign has done some excellent work and has some very scary stats on this. The UK is woeful at making investment charges transparent

6. Highly effective investment funds regularly disclose all of their stock holdings, not just their top ten, so you know just what you're investing in

7. Highly effective investment funds understand the full spectrum nature of risk (political, governance, economic, social, environmental) and they are signatories to national and international standards on sustainable and responsible investment such as the UK Stewardship Code, UKSIF, Eurosif's Transparency Code, and the UN-sponsored Principles of Responsible Investment.

Selecting a fund might seem like quite an intimidating task with over 3,000 options, but having a clear view of your own objectives and tolerance to risk is vital to whittle them down. If you know this before selecting a fund, you will increase your chances of success. If you're looking for a fund, we would always recommend starting with 3D Investing who has a list of sustainable, responsible and ethical funds here.

SEVENS HABITS OF HIGHLY EFFECTIVE ADVISERS

By SIMON LEADBETTER

A quarter of a century ago Stephen R. Covey (1932-2012) wrote an acclaimed management text that set out the ‘seven habits of highly effective people’. A useful corollary would have been the seven habits of highly defective people. The original book, recently dug out of a box in the garage, inspired us to look at the seven traits of highly effective financial advisers.

But what are the seven habits of highly effective people, I hear you ask. In short;

1. Be proactive,
2. Begin with the end in mind,
3. Put first things first,
4. Think win-win,
5. Seek first to understand, then to be understood,
6. Synergize
7. ‘Sharpen the Saw’ (i.e. balance and renew your personal resources).

You can buy the book here.

So here are the seven habits of highly effective financial advisers:

1. Highly effective financial advisers build a real understanding of you and your family’s needs and goals
2. Highly effective financial advisers focus on building a year-round, long-term relationship, with you, not just at financial year end
3. Highly effective financial advisers ask about your values, beliefs, charity interests and the legacy that you want to leave – they never dismiss them
4. Highly effective financial advisers see themselves as wealth managers and offer financial planning and holistic services
5. Highly effective financial advisers send more personal communications and useful articles
6. Highly effective financial advisers have actually entered the 21st century with a strong digital presence, plain English communications and an understanding of the emerging role of social media
7. Highly effective financial advisers are members of the Ethical Investment Association (EIA) – as it means they’re looking at the bigger picture (economic, social and environmental risk) and are therefore much more likely to be doing some or all of the above

If you’re looking for advice we would always recommend starting with the EIA who has a list of good financial advisers here.

Photo by MIKE JOHNSON via stock.xchng

WHAT IS ETHEX?

By GEORGINA MATTHEWS

Ethex is an online platform that makes positive investing and saving easy to do. In just over two years, it has raised over £18 million of investment into over 40 charities, companies and community businesses supporting community-owned renewable energy projects, organic farms, micro-finance schemes, social property, and fair trade.

"We are seeing an explosion of interest from people who want to invest their money where it will earn a return and make an impact. Ethex is helping to finance a more sustainable world by providing a marketplace for businesses creating positive change and connecting them with like-minded investors." says Ethex's CEO, Lisa Ashford.

The Ethex platform provides detailed information on the social, environmental and financial performance of almost 40 positive investment products, allowing people to easily browse, compare and choose between them. These include charity bonds, equity investments; community shares and bonds; positive funds; stocks and shares; ISAs; savings accounts and bonds; and children's savings accounts and ISAs. What's good about Ethex is that you can actively invest and save in businesses you believe in, and social businesses can also find the investment they need to grow.

The offers listed online for this year's Good Money Week include Stockwood, a community organic farm inspired by Radio 4's The Archers, Thera Trust's Charity Bond, launching on 19th October, and Clevedon Pier and Heritage Trust, which is looking for funding to upgrade the pier and build a visitor centre.

Ethex was founded after social entrepreneur Jamie Hartzell realised that many investors wanted their money to make a positive impact but there was nowhere for them to easily find and compare investments that support sustainable economic development, enhance quality of life and safeguard the environment. The not-for-profit aims to develop a mass market in positive investing and saving by increasing the choice of products available and making it accessible and easy to do. Ethex's annual report on Positive Investing is part of this push to the mainstream. Now in its third edition, the 2015 report is launched online on the 17th October to coincide with Good Money Week.

Not only has Ethex raised £18 million into social business but has also been fettered with awards over the last year – an accolade to Ethex and its partners. It won Investment Deal of the Year at the 2014 Social Enterprise Awards, the Finance Award at the 2014 PEA Awards, the Sustainable Finance Award at the 2015 Sustainable City Awards and, most recently, the Community Energy Funding Award in the 2015 Community Energy Awards.
www.ethex.org.uk | help@ethex.org.uk | 01865 403304 | @ethexuk

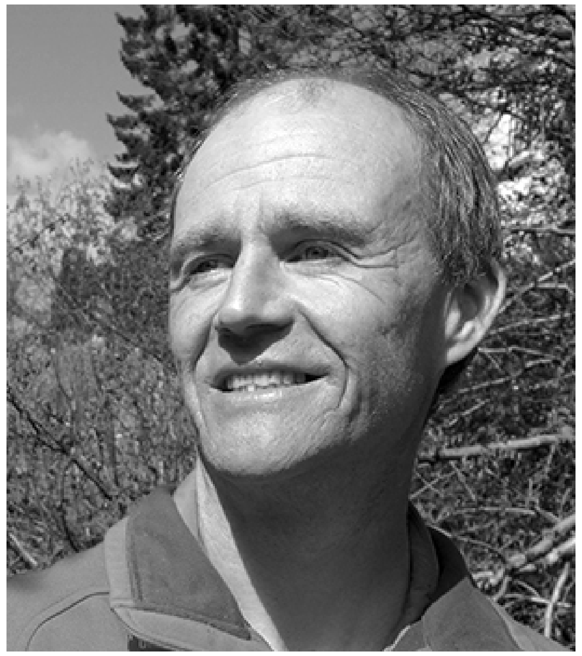
Photo: JAMIE HARTZELL (far left) and LISA ASHFORD (far right) collecting the 2015 Sustainable Finance Award

Any specific investment-related queries or concerns should be directed to a fully qualified financial adviser. blue&green tomorrow

Q&A WITH JOHN FLEETWOOD, DIRECTOR OF 3D INVESTING

Tell us about your background before 3D Investing?

I'm a bit of an old hand at socially responsible investment (SRI), having entered the industry in 1991 as an ethical investment adviser. I've always tried to delve that bit deeper into ethical funds, and issued an annual guide to ethical funds whilst practising as an IFA. I sold my IFA business to focus on developing discretionary portfolios that better delivered the sort of social impacts that socially motivated investors expect. This led me to research direct equities as well as funds, which in turn, means I can better analyse the funds through knowledge of all the constituent stocks. I think my background as a specialist IFA, as well as someone who cares about the same issues as socially motivated investors, places me in a good position to understand where investors are coming from and to assess investments in that light.



Why did you develop 3D Investing?

3D Investing is the latest step in a journey that started a long time ago. Over that time, I've seen SRI blossom but I've increasingly felt that it's been diluted in an attempt to make it more acceptable to the mass market. Not only that, but funds seem to be judged according to criteria rather than what they actually invest in. This can mean investors believing that they are doing good when in reality, the fund isn't achieving much of a social impact. I wanted to help redress the balance by identifying those investments that actually deliver what socially motivated investors are looking for. It might sound a bit trite, but I want to help steer more money toward those investments that do good and to alert investors to funds that might not be as good as they were led to believe.

Who is it for?

Anyone who wants to do good with their money, but also wants a proper investment and doesn't want to take too many risks. This approach is designed to appeal to a wide range of investors that care about the world and want to invest in something they can believe in. With our help, managers and advisors can offer practical and high quality investment solutions for their socially motivated clients.

What's different about 3D Investing – why 3d as opposed to any other approach using some of the material about whats wrong with socially responsible investment?

Its my experience that ethical or socially responsible investment portfolios often sound great in theory, and are promoted with pictures of wind turbines and carefully selected positive stories but the reality is sometimes disappointing. Too often SRI funds have few holdings in positive companies and too many stocks courting ethical controversy. I believe that 3D investing is very different to this for a number of reasons:

1. 3D Investing seeks to maximise social impact and reports on the impact so that you know what impact your investment actually makes.
2. 3D Investing seeks to minimise ethical compromise and discloses any potential ethical issues.
3. 3D Investing is not just about chasing financial returns – rather it seeks to deliver decent returns whilst making an impact

Any star performing funds or stocks that would interest our readers?

Our top rated funds include the WHEB Sustainability Fund and the Triodos Pioneer Fund. Both of these have very high levels of transparency, describing each and every holding so that it's clear what you are getting. They also have very clear strategies and themes running through the portfolios, coupled with disciplined investment management. Another fund that gets our top rating is the Threadneedle UK Social Bond fund which reports on its social impact. This has been made possible by a unique partnership between investment manager, Threadneedle, and Big Issue Invest, an impact investment pioneer.

Any future developments we should be watching out for?

Look out for 3D Portfolios from our partners in early 2016. These will be the first portfolios to be run along 3D lines. I'm really excited about this as it will make 3D investment very accessible.

What impact do you want it to have?

I'd like to think that the 3D Star Rating will move more money toward those investments that really do make a positive social impact. I'd also hope that it will lead to an improvement in the funds themselves as a result of aspiring to a better ranking and knowing what they have to do to rate more highly.

How do our readers access the system – does it cost anything to use?

Readers can go on to www.3dinvesting.com and use our Ethical Fund Analyst to compare SRI funds for free. All you need to do is register with your name and email address to access all 140 funds on our system.

THE 3D APPROACH

3D investing is a distinctive investment approach that maximises the social impact of a portfolio, whilst minimising ethical compromises

By JOHN FLEETWOOD

It is an evidence-based approach that analyses the constituent holdings of each and every investment, so that investors can be confident that their money is being used in a way that really does make a social difference whilst meeting their financial needs. The evidence-based approach means that, not only can investors be assured of successful financial outcomes, but they can be equally confident in maximising the social impact of their portfolio.

Too many ethical portfolios invest in companies that investors would find unacceptable if only they knew, and the social impact is often tokenistic. 3D investing involves a fully transparent process, making any compromises clear and seeking to maximise social impact and to inspire investors. A methodical and disciplined approach is followed to determine the social impact, acceptability and financial standing of each investment

We analyse the ethical suitability and impact of each constituent investment

We hold a number of enduring convictions that form the basis of our investment philosophy and these underpin our strategy.

Guiding Principles

Social impact is a core purpose. It's not enough to simply avoid the 'bads' (negative screening), choose the 'least worsts' (best of class) or to put a small amount of the portfolio in positively screened stocks (thematic investment). Within the given financial parameters, the goal is to maximise social return wherever possible.

Financial returns should reflect the level of risk being taken. It is not a philanthropic exercise, but rather a way of generating long-term financial returns commensurate with the investor's attitude to risk.

Minimise ethical compromise. Some ethical compromise is inevitable but this should be readily defensible and reduced wherever possible.

Take good risks. Taking risk is part and parcel of 3D investing, but risks need to be quantifiable, known and reduced by utilising a wide variety of assets and by appropriate use of collective vehicles.

Be transparent. Transparency is at the heart of 3D investing. If compromises have to be made (and they usually do), then you need to be confident that all of the pros and cons have been considered, and to be able to see the evidence.

Investments are not short-term trades. 3D investing is all about investing in financially sustainable investments in the long-term. This means low levels of turnover, which also means lower transaction charges.

Inspiring investments. 3D investments need to inspire the investor. It's no good just replicating an index. 3D investments need to be compelling.

We identify areas of concern so that investors are aware of any ethical compromises. Rather than sweeping them under the carpet, we highlight these issues, whilst also assessing how well the fund is addressing the inevitable ethical conundrums.

What's different about 3D Investing

Ethical or socially responsible investment portfolios often sound great in theory, with pictures of wind turbines and someone to look after your money so you can sleep easily at night, but the reality is sometimes disappointing. Here's why 3D investing is very different to this:

1. The proportion of ethical funds investing in social or environmental solutions is often low, so your money isn't actually doing that much good. 3D investing measures how much of each fund is invested in companies providing social solutions. We can then identify those funds with a relatively high social impact, enabling investors to make a difference with their money.

2. Typically, ethical funds profile companies with positive attributes but say little about more controversial holdings. 3D investing actively seeks to identify any potential areas of concern so that investors are aware of any social compromises and can make informed judgements as to social suitability.

3. Ethical investment is often reduced to maximising investment returns from a pre-described universe of ethically screened stocks or funds. Despite having an ethical badge, this does little to make a social impact. 3D investing does not seek to chase financial returns at the cost of watering down the social impact, nor is it a philanthropic gesture. Rather, it seeks to deliver on financial expectations by investing in a broad portfolio of well managed funds, all of which have a social purpose.

4. The average holding period of equities is measured in months rather than years. This makes 'investing' more like a trade than a true investment. There is no social value to this. 3D investing therefore holds investments on a long-term basis and does not seek to change them unless there is a fundamental change in outlook or the needs of the investor.

Most 'investing' is actually trading, with no social benefit

5. Portfolio managers virtually all claim to spread risk by appropriate asset diversification, but this often comes down to a simple split between bonds and equities, with little or no allocation to alternatives. 3D investing offers a much wider choice of assets including microfinance, social property and infrastructure. As part of a diversified portfolio, these contribute to reducing overall risk.

6. Investment is commonly reduced to facts and figures. Indeed some investment analysis discusses numbers without even stating what the company does! 3D investing seeks to inspire investors, to get you excited about your money and what it can achieve.

Download monthly free reports at www.blueandgreentomorrow.com

Any specific investment-related queries or concerns should be directed to a fully qualified financial adviser.

Why 3D Investing?

The core motivator is one of using money to make a social impact whilst meeting personal financial goals. 3D Investing goes way beyond simply avoiding undesirable activities or targetting environmental technologies. It provides a solution for the investor wanting to maintain a high degree of ethical integrity in their portfolio, whilst delivering long-term financial returns and generating sustainable income flows. It melds the best of a number of different approaches to make a cohesive whole, and it does so in such a way to maximise the social impact within this framework.

Because the problems are getting worse and investment solutions are needed

Despite the best efforts of charities and governments across the world, the problems that they have poured so much money into trying to solve over the last century persist. If anything, they get worse and the scale of the problems is such that investment solutions are required, and these solutions offer great potential for financial profit.

Because investors want to make a difference

Once you've made yourself comfortable, what do you do with your wealth? Buy a football team, another house, sponsor a university or invest to make an impact? And this applies to the less wealthy too. Investing for social impact as well as financial return gives a real purpose and excitement to investment. Leading financier, Sir Ronald Cohen, sums it up:

> *"In making philanthropic contributions, you get fulfillment. But with social investment, the additional satisfaction that you get is to see the whole system change."*

Sector	Potential Invested Capital Required, $billion	Potential Profit Opportunity, $billion
Housing: Affordable urban housing	$214 - $786	$177 - $648
Water: Clean water for rural communities	$5.4 - $13	$2.9 - $7
Health: Maternal Health	$0.4 - $2	$0.1 - $1
Education: Primary education	$4.8 - $10	$2.6 - $11
Financial Services: Microfinance	$176	Not measured

Table 1: Opportunities & costs, Source: JP Morgan, 2010

Because capital can be reconnected with the rest of life

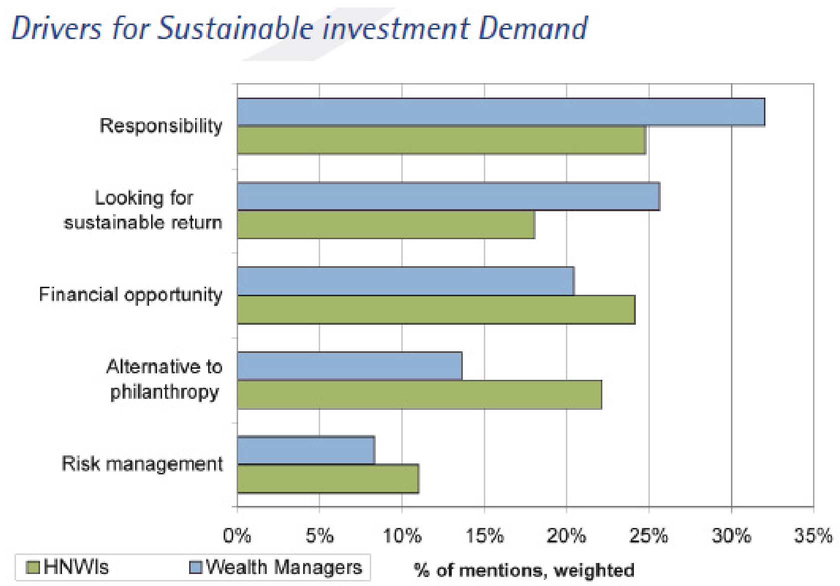
Investment largely seems to operate in a moral vacuum, with the social consequences of investment not being considered at all, even by many philanthropic organisations. The Panahpur Foundation puts it like this:

> *"We live in a world where charitable pounds, taxation pounds and investment pounds are operated in isolation of each other, in three completely different ways. Why? In the evolving world of investing for positive social outcomes, the conventionally applied grant is the financial equivalent of a flint axe head."*

3D Investing reconnects investors with their money by making the social impact of every investment transparent and by justifying each investment on social grounds.

Because it reduces social compromise

Many ethical or socially responsible funds make very significant social compromises, investing in companies that socially motivated investors struggle to reconcile with their beliefs. Furthermore, the majority fail to adequately justify these holdings from a social perspective and are far from transparent in detailing the portfolio. Application of rigid screening criteria without a team to make value judgements also leads to a rather straitjacketed approach that regularly throws up surprising anomolies. 3D Investing maintains ethical integrity without exposing the investor to excessive risk. It achieves this through investing in a wide range of assets including individual equities and bonds, funds and less conventional holdings. It combines approaches to manage risk, but is always mindful of the actual social impact.



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

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3D INVESTMENT IN PRACTICE

By JOHN FLEETWOOD

So what does all this mean in practice? After all, 3D Investing isn't an academic exercise, but a grounded way of investing in the real world. The aim is to enable advisers and asset managers to run 3D portfolios for socially motivated investors. Our end goal is to enable widespread access to 3D portfolios for investors who care about social returns as well as financial rewards.

The starting point is to define a universe of investments that allow the design of a portfolio for differing levels of risk. The mainstay of the universe is the funds, as these benefit from a high level of management expertise, are well diversified and whose performance can be readily monitored. The majority of the funds are thematic, since these focus on social and environmental solutions and make a clear social impact. More general ethical or sustainability funds are included to provide exposure to specific markets or asset classes including fixed interest, UK equities and emerging markets.

One of our strong themes is infrastructure, since investing in better infrastructure makes a vital contribution to society, whether this be by way of schools, medical centres, wind farms, solar installations or care homes. Rather than investing directly in volatile shares, we prefer investment companies that target a high and index linked yield which is underpinned by predictable and government backed income streams. Given the low volatility, clear social impact and attractive yield, infrastructure is a key part of our investment universe.

Operational wind farms are predictable investments

We also include impact investments that take thematic investing one step further by investing for the primary purpose of making a social or environmental difference. These are illiquid, often carry high levels of risk and are not available on fund platforms. Unlike listed investments, however, they directly enable social initiatives by providing new capital. They represent the 'cutting edge' of social investment. We prefer investments that seek capital on an ongoing basis as these allow detailed due diligence to be undertaken.

Finally, we supplement our fund selection with selections of direct equities. These complement the funds where there is a dearth of suitable investments. Income is important for many investors and although there are a number of ethical corporate bond funds, there is little in the way of income producing equity funds, and those that do make significant ethical compromises. We have therefore devised an Income Selection which includes companies offering an above average dividend yield whilst demonstrating social leadership in their sector. These may be suitable for investors seeking income or a lower risk approach, since any ethical compromise is readily identifiable and is minimised.

Impact investments reconnect investors with their investments

Many ethical funds focus on small to medium sized companies, or else make major ethical compromises in selecting large companies. In response we have constructed our Game Changer

Game Changers are companies whose shares are easily trade-able and that are key players in moving to a more sustainable world

Selection - a universe of companies whose shares are easily trade-able and that are key players in moving to a more sustainable world. Small companies carry high levels of volatility and often prove to be disappointing investments without excellent management.

By way of contrast, these game changer stocks have proven track records, have the capacity to make a big social impact and have a clear social vision. They can be used to provide an extra ‘cutting edge’ to the portfolio, with a high level of conviction.

Each constituent investment qualifies for investment by virtue of its social impact, financial and sustainability management, relative to comparable investments with similar risk profiles and investment purposes. Extensive use of collective funds helps to reduce stock related risk. However, given the inevitable ethical compromise involved with general collective funds and the lack of screening in many thematic funds, considerable discretion is required. We have analysed and identified those funds that have the capacity to deal with the inevitable ethical compromises or that provide thematic solutions.

Stock Name	Theme	Ethical Type	Ethical Suitability	Sustainability Management	3D Investing Rationale	Web Address
3M			GO		Many environmentally beneficial products	www.3m.com
ABB			!		Manufactures energy efficient power plants and transmission networks	www.abb.com
Adidas			?		Good supply chain monitoring & product sustainability	www.adidas.com
Adobe			GO		Pioneer of PDFs and zero energy goal	www.adobe.com
Akzo Nobel			?		Reduction in VOCs and resource efficiency in its paint & chemicals	www.akzonobel.com
Allianz	£		GO		Climate change solutions, access to finance	www.allianz.com
ANZ	£		?		Leading bank lending policies on critical issues	www.anz.com
ASML			GO		Energy efficiency of chip machine manufacture	www.asml.com
Australian Ethical Investment	£		GO		Ethical investment provider	www.austethical.com.au
Autodesk			GO		Makes sustainable design products	www.autodesk.com
Baxter			?		Resource efficient treatment of blood disorders and delivery of drugs.	www.baxter.com
Berkeley Group			GO		Construction of homes with low environmental footprint	http://www.berkeleygroup.co.uk/
Borg Warner			GO		Products increase car efficiencies	www.borgwarner.com
BT			GO		Telephony products help customers to live within resource constraints	www.bt.com
Coloplast			?		Better access to healthcare for conditions with a social taboo	www.coloplast.com

Stocks are analysed according to social impact, financial performance and sustainability management

Not only do we look at the methodology and capability of the team in addressing complex ethical issues, but we assess portfolios on a stock-by-stock basis rather than simply relying on ethical criteria. We believe that investors want to know what the portfolio does invest in as much as what it doesn’t, and not just the top ten holdings. A high level of transparency is essential, as is a well argued strategy. Critically, we compare investments by looking at what companies do, as much as how they do it. This ensures that the social and environmental impact is primary.

Any specific investment-related queries or concerns should be directed to a fully qualified financial adviser.

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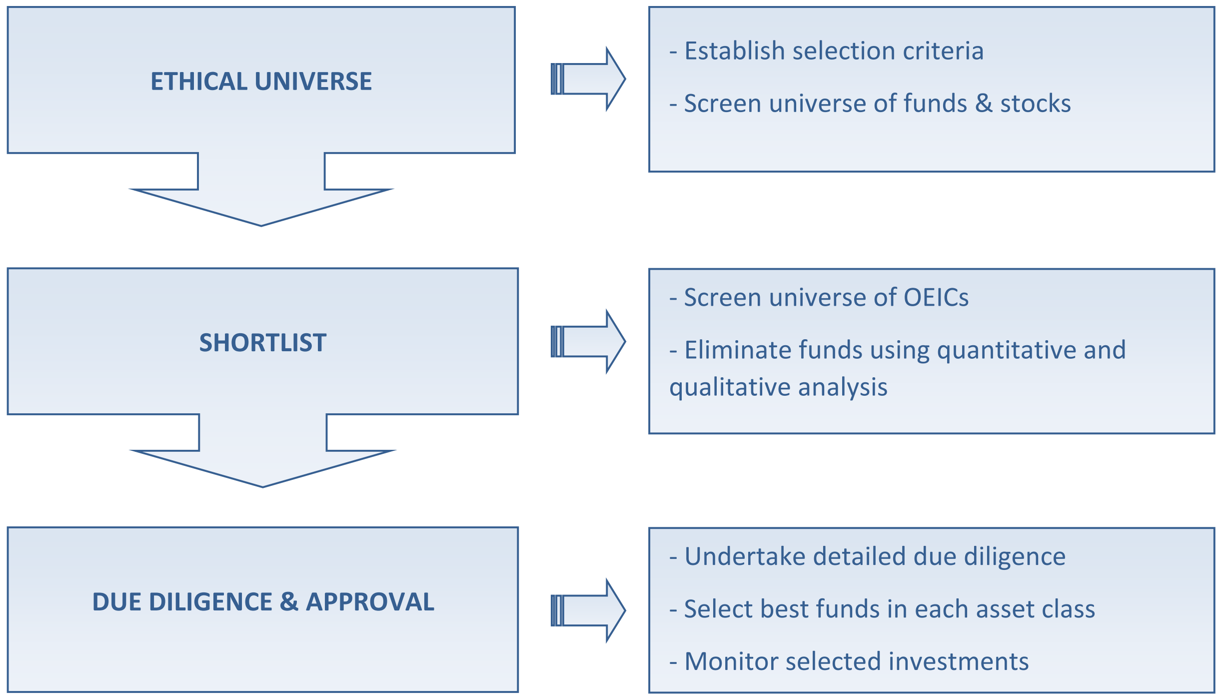
3D SELECTION CRITERIA & PROCESS

By JOHN FLEETWOOD

The starting point is defining a wide universe of socially responsible or ethically screened funds including OEICs, ETFs, SICAVs, equities and investment trusts.

We then draw up a short-list of funds and stocks that meet our pre-described criteria, with due diligence being conducted on this short-list to arrive at a final selection.



Ethical Universe

The universe of potential investments is growing all the time and is now quite extensive. Each stock in the universe has to apply some form of ethical screening, sustainability criteria or to be classified under one of our social or environmental themes. Most notably it does not include funds that only consider how companies operate and not what they do. This is because we believe that what a company does is just as important as how it does it. For example, is a socially responsible tobacco company an oxymoron? We believe it is.

Ethical Universe Selection Criteria

Ethical screening
exclusion criteria applied to investment universe

Sustainability criteria
investments meet some form of environmental sustainability standards

Thematic selection
investment policy is based on one or more social or environmental themes

Investments cover a range of assets including:

- **Equities** - ethical funds and direct equities
- **Fixed Interest** – ethical funds
- **Infrastructure** – funds of social and environmental infrastructure
- **Real Estate** – thematic funds
- **Impact Investments** – funds not listed on a recognised stock market

Selection Criteria

Before conducting detailed research, we compile a shortlist of funds and stocks. This is based on a set of carefully chosen, objective criteria. Some criteria apply to all funds and others are specific to a given asset class. Not all of the criteria need necessarily be met, but there has to be a compensating reason for inclusion if the target is not achieved. For example, we may consider new funds if there is a compelling reason to do so and there is a reason to be confident in the fund management. Overall, we look for funds that we regard as '*best in sector*'.

Fund Selection Criteria	Target
Ethical suitability	No exposure to controversial stocks that are likely to be of concern
Financial Track Record	In line with (or better than) sector benchmark
SRI Capability	Amongst highest in sector (capacity to assess complex issues)
Social Impact	Better than average in sector
Transparency	Details of all holdings in portfolio
Fund Age	> 5 years
Risk	Depends on type of asset (see below)
Fund Size	> £50 million

Ethical Suitability

Individual investors have individual ethical outlooks and to be sure of meeting these concerns, additional checks may have to be made. However, socially motivated investors often share key values and given the need for diversification, some element of ethical compromise is necessary. By scrutinising funds on a stock by stock basis, we identify potential concerns and rate the funds as '*suitable for most investors*', '*check with investor*' and '*take care*'.

One of the key principles of 3D investing is to minimise ethical compromise, so shortlisted funds would be expected to exemplify best practice within their sector by limiting the exposure to controversial stocks. These might include mining, fossil fuels, banks, animal testing, nuclear power, controversies over human rights, intensive agriculture and military contracts. Portfolios are screened at specific point in time, but this nevertheless gives a strong indication of the likely exposure to controversial stocks.

Likely to be suitable for most investors. This means that a fund will suit the majority of socially motivated investors and contains relatively few, if any, controversial stocks.

Check with investor. This indicates that there are significant ethical issues associated with the fund, which make the quality and capability of the managing team of utmost importance, in order to have confidence in the ethical research process.

Take care! There are major ethical issues concerning the fund and it is unlikely to be suitable.

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 editor@blueandgreentomorrow.com with your thoughts and contributions.

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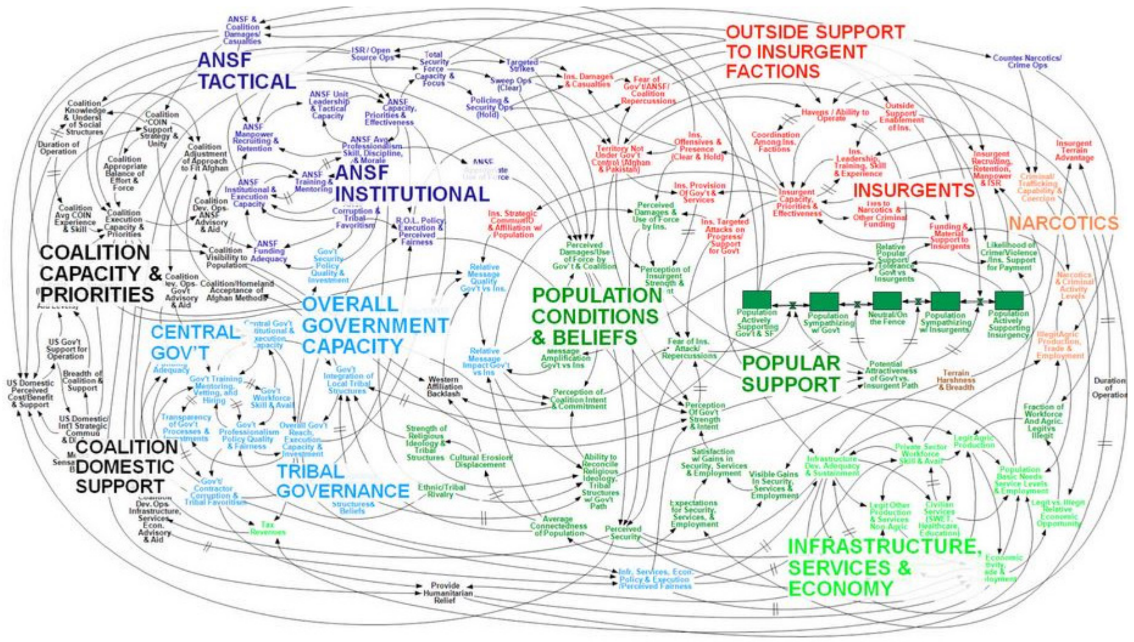
Financial Track Record

The objective of 3D investing is to deliver financial returns commensurate with investor expectations whilst maximising social impact and minimising ethical compromise. This means that the objective is to achieve financial returns in line with, or better than, benchmark returns for each asset class, and without taking excess risk. By their very nature, ethically screened or thematic funds won't hug more general indices and will experience times when they under or over perform the index. This is to be expected, but over the longer term (> 5 years), we would expect performance to be in line with comparable indices. Consideration is also taken of absolute performance, consistency and volatility, the overall aim being to avoid unpleasant surprises.

SRI Capability

This is critical where value judgements need to be made, particularly where the fund contains ethically controversial stocks. It is less important for thematic funds, which, by their very nature, invest in specific areas that make a positive social impact. At the base level, funds may employ an external agency to conduct ethical screening, but we look for more than this. We prefer teams with the capacity to assess complex ethical issues which requires a significant internal research team and a well thought out methodology.



Many issues are complex and require an internal research team

Social Impact

The other major aspect of our philosophy is maximising social impact. We interpret this to mean the percentage of the fund held in socially or environmentally beneficial companies, including clean energy, resource efficiency, clean air and water, healthcare, education, public transport, safety, sustainable food and agriculture, social housing and inclusive finance. The highest rating is reserved for unlisted investments since this generally involves making something new happen by introducing new capital.

Transparency

Transparency is a key element of 3D investing. At the very least we need to know what a fund invests in and not just the top ten holdings. A 'black box' mentality whereby managers claim commercial confidentiality, is the very opposite of what we are looking for. 3D investing seeks to reconnect investors with their money so an open, understandable process and clear communication is vital to properly understand the reasoning of the managers in addressing difficult ethical issues. We therefore apply a higher rating to funds with a very clear rationale and that provide ongoing evidence of their engagement, decision making and reasoning for specific investments.

Risk

There are different risk factors for different types of assets and where possible we seek out assets that reduce risk whilst maximising social impact within a given asset class. Given the inevitable variance from conventional benchmarks, a greater degree of short-term volatility is to be expected, at least amongst equity funds, but we seek to identify key risks as follows:

Equities – We consider both high and low risk investments, as the overall balance of the portfolio can be adjusted to match an investor's profile. However, in order to determine the inherent risk of an investment, we look at the volatility, market capitalisation distribution, number of holdings and other portfolio metrics.

Fixed Interest – There are limited numbers of funds, especially those with a higher social impact, so there is limited scope to be too prescriptive in terms of credit duration, quality and geography, but we look for diverse funds, chiefly consisting of investment grade credit.

Infrastructure & Real Estate – A low premium to net asset value is preferred all other factors being considered.Also we look for low levels of gearing and predictable income flows underpinned by long term contracts with some form of backing from UK government.

Fund Age

Words are fine, but seeing is believing. We prefer funds with a track record of at least 5 years, since this gives us a much higher level of confidence in the fund management.

This doesn't preclude funds with a much shorter track record, but this means that there has to be a very good reason why they might be preferred to more proven funds. This could be by virtue of a compelling and very different investment strategy, or by previous success in other areas.

Fund Size

It is very difficult for small funds to be profitable and only larger funds can sustain a credible social investment team.

We therefore prefer funds of at least £50 million, although smaller funds may make it on to the shortlist if they can show that they are sustainable at a smaller size or are likely to grow quickly.

Dear reader,

We rely on the generous support of individuals and organisations to maintain a free-to-access website, which means we can reach the largest possible readership - over half a million in 2014.

If everyone who read this free guide donated just £12 we'd be fully funded for over six months.

If you value Blue & Green Tomorrow as a free-to-access resource, please support us online here.

Thank you!

B&G Team

Due Diligence & Approval

Once funds have been selected for the shortlist, they undergo more extensive due diligence. This involves rigorous analysis of the underlying portfolios, typically rechecking the underlying portfolios as for the short-listing and then doing additional analysis. This includes the following:

Identification of Ethical Issues

We also look at the complete portfolio listing to identify any potential ethical issues that may be of concern to investor, highlighting these where appropriate. These might include fossil fuels, controversial finance, animal testing, intensive agriculture, genetic modification, misleading marketing, military contracts, nuclear power, mining and human rights controversies.

Financial Track Record

Our focus is on the proven ability of the fund to deliver returns that are in line or better than the average for the sector. This means that we look for predictability, consistency and a level of returns that is within expectations for the sector over the longer term. In practical terms this means that we look at performance attribution, performance versus the index on a year by year basis, fund manager experience and fund strategy. The aim of all of this is to assess how confident we are in the fund to deliver expected returns in the future.

Any specific investment-related queries or concerns should be directed to a fully qualified financial adviser.

Ethical classification of each holding

We assess the overall social impact by calculating the proportion of the fund held in different types of stock in relation to their ethical characteristics. This involves screening every holding at a snapshot in time. They are categorised as follows:

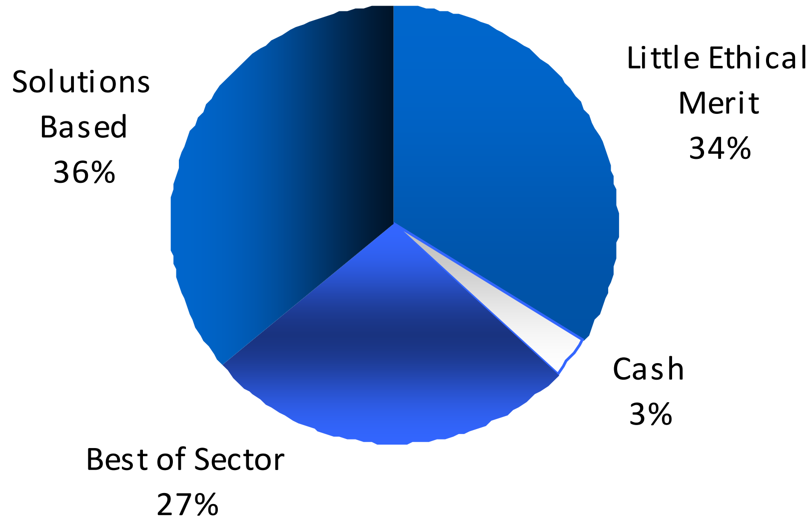
Little Ethical Merit – Core activity confers no clear social or environmental benefits

Best of Class – Social and/or environmental practices are amongst the best in its sector

Game Changer - Key players in moving to a more sustainable world

Solutions Based – Core products and services are of direct social or environmental benefit

Once we've classified each holding we can objectively identify the extent to which the fund makes a social or environmental impact and this level of research also gives us a much clearer picture of how the fund is being run.



We calculate the proportion of each fund in each of our ethical categories

SRI Management

We need to know how a fund is being managed in terms of strategy and the capability of the team behind the fund. We therefore spend time getting to understand the fund strategy and what makes it different from its competitors, and this also informs how confident we feel about the fund and its management. A clear and reasoned strategy backed up by evidence of its implementation is critical.

Transparency

3D investing is the very antithesis of 'black box' investing. It seeks to reconnect investors with their money, so being able to understand and see through the underlying investments is key. We therefore look for a good level of communication and evidence as to how the fund is engaging with their investments and as to why it is investing in specific companies.

Risk

Understanding the risks associated with a fund is vital to have a sufficient degree of confidence in the fund meeting expectations. To this end, we consider the make-up of the fund with regard to market capitalisation, diversification, currency, geography, and where appropriate, levels of borrowing, credit ratings and strength of contracts.

OUR AFFILIATE PARTNERS

Travel

Hoseasons By Wyndham Vacation Rentals
Voyages-sncf.com
Legoland Holidays
Great Rail Journeys

Charities

English Heritage
Christian Aid
National Trust
Present Aid Gifts That Keep Giving
Oxfam

Retailers

ArtGallery.co.uk
even greener
Orchira UK
Ashadegreener
Green People Organic Lifestyle
Ordnance Survey
People Tree Sustainable and Fair Trade Fashion
BigGreen smile .com
Good Energy
Pukka
ETA
lonely planet
Riverford organic farms
ethical superstore.com
natural collection
Spirit of Nature Eco-friendly living for baby & mum
Etsy
Neal's Yard Remedies Covent Garden
Waitrose

THE PERFORMANCE MYTH:

ethical investment means sacrificing financial performance for ethical value

On this and the next two pages you will see the clear evidence alluded to elsewhere that good fund managers really can deliver excellent investment performance over the medium and long term using a 3d investment approach.

John Fleetwood of 3D Investing crunched the numbers for the period between August 2010 and August 2015. His comparison of a basket of UK ethical funds against their benchmark points to the period having been clearly favourable for ethical funds. This can partly be explained by avoidance of resources and oil, which in other periods may detract from relative performance. Across Sterling corporate bonds, in the majority of periods, ethical funds outperform.

UK All Companies

- An average outperformance of ethical funds over benchmark funds of 9.58% over last five years
- 11 out of 15 ethical UK equity funds outperformed the sector average over the last five years
- The average ethical fund outperformed in three of last five years
- Two funds outperformed in each discrete period over the past five years, including Henderson Global Care UK Income, one of the 3d portfolio funds
- Results would have been even more compelling were it not for the Scottish Widows' funds which have been poorly managed (and these get a one star 3d rating)
- All 3d portfolio funds outperformed in at least three out of the five year periods
- The comparison of UK 3d funds is very favourable

Sterling Corporate Bonds

- Five out of seven funds outperformed over five years
- Average outperformance over five years is 3.11%, significant for bond funds
- Ethical funds outperform in four out of the five year periods as do the 3d funds
- The average 3d fund outperforms by 9.24% over five years

Global Growth

- Ethical global funds outperformed in three of the five year periods
- Over five years they outperformed marginally
- Seven out of eleven funds performed better than the global average over five years
- Note: all general ethical funds in the global equity sector which are domiciled in the UK are included
- Note: narrow thematic funds, such as renewable energy and water, as they aren't really comparable, are excluded
- Note: a comparison of 3d portfolio funds vs the average are included. In the global sector there's only two 3d funds for most periods so they are not that representative and it includes WHEB whose management changed three years ago

According to the Investment Association, *"investing ethically does not necessarily mean you have to sacrifice investment performance."*

Funds and bonds in the 3D Portfolio

Outperformed sector average

Benchmark

Data as at 31 August 2015. Data from the Hargreaves Lansdown (www.hl.co.uk), published with permission. Blue & Green accepts no liability for the reliability or accuracy of the data provided by third parties.

	2010-2011	2011-2012	2012 - 2013	2013 - 2014	2014 - 2015	2010 - 2015
UK All Companies						
Aberdeen Fund Managers Responsible UK Equity	8.93%	11.53%	17.19%	4.54%	-6.59%	27.96%
Alliance Trust SF UK Growth	7.26%	11.27%	26.16%	6.69%	9.81%	66.35%
Alliance Trust UK Ethical	8.15%	10.69%	29.49%	6.95%	11.27%	72.35%
Edentree Amity UK	9.96%	15.04%	23.58%	7.32%	7.35%	67.74%
F&C Responsible UK Equity Growth	3.00%	13.81%	22.60%	10.99%	3.27%	54.73%
Henderson Global Care UK Income	8.85%	15.14%	26.62%	12.04%	7.65%	78.95%
Jupiter Responsible Income	5.66%	16.06%	25.88%	8.09%	-0.36%	53.92%
Kames Capital Ethical Equity	7.15%	14.36%	28.30%	10.61%	9.02%	75.60%
Legal & General Ethical Trust	6.45%	11.29%	27.05%	9.50%	5.76%	60.36%
Premier Ethical	2.22%	13.73%	36.66%	17.07%	8.62%	87.57%
Royal London Sustainable Leaders Trust	1.99%	19.39%	25.81%	10.45%	4.93%	67.08%
Royal London UK Ethical Equity				18.00%	0.14%	
Scottish Widows Environmental Investor	-2.56%	6.48%	26.28%	6.36%	-0.51%	31.40%
Scottish Widows Ethical	-2.78%	5.15%	21.09%	7.31%	-2.77%	21.78%
Standard Life Investments UK Ethical	9.99%	14.61%	32.75%	6.17%	13.05%	85.60%
Teachers Sovereign Ethical fund	7.89%	13.32%	21.85%	7.24%	-3.47%	42.00%
IA UK All Companies	6.11%	11.20%	23.14%	9.55%	1.21%	49.98%
Average Ethical UK equity fund	5.48%	12.79%	26.09%	9.33%	4.20%	59.56%
Average outperformance of ethical fund	-0.63%	1.59%	2.95%	-0.22%	2.99%	9.58%
Average 3d portfolio Fund	8.56%	13.04%	26.46%	8.25%	9.02%	71.35%
Average outperformance of 3d funds	2.45%	1.84%	3.32%	-0.013	7.81%	21.37%
Corporate Bond						
Alliance Trust SF Corporate Bond	-1.14%	12.15%	4.15%	8.49%	2.42%	28.96%
EdenTree Amity Sterling Bond	2.89%	7.72%	4.70%	10.31%	1.70%	29.44%
F&C Responsible Sterling Bond	1.22%	10.69%	1.84%	7.19%	2.47%	26.15%
Kames Capital Ethical Corporate Bond	2.57%	9.46%	3.09%	7.35%	3.90%	29.34%
Rathbone Ethical Bond	4.69%	6.52%	8.89%	10.60%	3.14%	36.83%
Royal London Ethical Bond	3.10%	11.61%	4.24%	9.55%	3.57%	36.87%
Standard Life Investments Ethical Corporate Bond	-0.43%	11.47%	3.55%	8.35%	1.93%	27.48%

(cont...)

Any specific investment-related queries or concerns should be directed to a fully qualified financial adviser.

Funds and bonds in the 3D Portfolio

Outperformed sector average

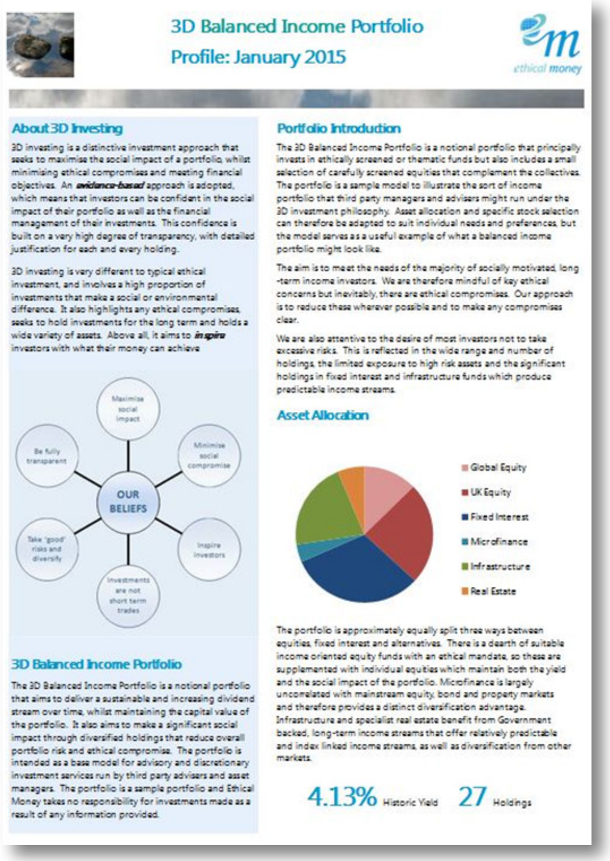
Benchmark

Data as at 31 August 2015. Data from the Hargreaves Lansdown (www.hl.co.uk), published with permission. Blue & Green accepts no liability for the reliability or accuracy of the data provided by third parties.

	2010-2011	2011-2012	2012 - 2013	2013 - 2014	2014 - 2015	2010 - 2015
Threadneedle UK Social Bond					3.71%	
IA Sterling Corporate Bond	0.88%	10.63%	2.43%	7.83%	2.64%	27.61%
Average Ethical Sterling Corporate Bond fund	1.84%	9.95%	4.35%	8.83%	2.73%	30.72%
Outperformance of average ethical bond fund	0.96%	-0.68%	1.92%	1.00%	0.09%	3.11%
Average 3d portfolio Fund	3.90%	9.07%	6.57%	10.08%	3.47%	36.85%
Average outperformance of 3d funds	3.02%	-1.57%	4.14%	2.25%	0.83%	9.24%
Global Growth						
Aberdeen Fund Managers Ethical World Equity	5.63%	8.26%	12.00%	9.32%	-12.30%	13.81%
Alliance Trust SF Absolute Growth	7.39%	8.83%	20.08%	6.97%	3.18%	43.14%
Alliance Trust SF Global Growth	2.68%	15.18%	18.46%	9.49%	3.50%	49.93%
EdenTree Amity International	2.31%	1.28%	16.52%	11.05%	-10.03%	13.91%
F&C Responsible Global equity	5.08%	9.35%	20.19%	7.12%	9.54%	52.47%
First State Worldwide Sustainability				4.86%	5.32%	
Halifax Ethical	4.13%	13.77%	19.21%	9.74%	-3.39%	40.43%
Henderson Global Care Growth	5.18%	5.39%	22.92%	13.72%	6.73%	54.87%
Jupiter Ecology	6.32%	2.53%	24.05%	7.70%	-1.21%	38.14%
Legal & General Environmental Enterprises				19.84%	-15.87%	
Old Mutual Global investors Ethical	6.56%	4.56%	30.81%	6.77%	-2.19%	43.62%
Royal London Sustainable World Trust	6.88%	15.27%	18.52%	11.28%	7.10%	66.63%
WHEB Sustainability	-0.38%	-4.50%	20.15%	11.06%	4.11%	25.96%
IA Global	5.10%	6.97%	17.87%	9.19%	1.99%	39.16%
Average Ethical Global equity fund	4.71%	7.27%	20.26%	9.92%	-0.42%	40.26%
Outperformance of average ethical global fund	-0.39%	0.30%	2.39%	0.73%	-2.41%	1.10%
Average 3d portfolio Fund	2.97%	-0.99%	22.10%	7.87%	2.74%	32.05%
Average outperformance of 3d funds	-2.13%	-7.96%	4.23%	-1.32%	0.75%	-7.11%

3D PORTFOLIOS

We want to make it easy for advisers and asset managers to offer a really good solution for their socially motivated investors. We do this by providing the tools and supporting material to go from a universe of stocks to blended portfolios. To this end, we have developed two sample portfolios that demonstrate how investment managers and advisers might develop their own proposition using the 3D investment philosophy.



The 3D Model Portfolios mainly consist of ethically screened or thematic funds. They also include a small selection of carefully screened equities that complement the collectives, with a wide range of holdings including investment trusts, SICAVs, OEICS, equities REITs and ETFs. The model portfolios reflect the desire of most investors not to take excessive risks, with an income model and a balanced growth model. You can view profiles of the model portfolios at www.3dinvesting.com, but please note that these are just models not products. They form the basis for advisers and asset managers to run their own 3D Portfolios, with 3D Investing very much in the background.

Individual investors will be able to access live 3D portfolios through our first partner asset manager early in 2016.Watch this space.

View Sample Income Profile

3D INVESTING STAR RATINGS EXPLAINED

What's the question that everyone wants to know? In my experience, it's which funds are the best? Clearly, the answer depends on an investor's personal circumstances, risk profile and so on, but it is possible to give a generic view based on objective, reasoned criteria. The 3D Star rating is our way of answering this question.

Without going into the minutiae of the rating methodology (which you can read at www.3dinvesting.com) we combine our assessment of social impact, exposure to ethical controversies, SRI capability, financial returns and transparency to come up with an overall score. This is represented by a star rating of 1-5.

3D Investing One Star

One Star funds are ones to avoid – funds that are so tiny they are in danger of being wound up; or funds containing stocks that totally undermine our confidence in the ethical integrity of the fund; or serial underperformers

3D Investing Two Star

Two Star funds may be worth considering, although they may have a poor financial track record, contain stocks that are likely to be of ethical concern or else have a low social impact.

3D Investing Three Star

Three star funds are definitely worth looking at. They may well rate as best in their sector, have a high SRI capability, or a relatively high social impact, but will also have weaknesses.

3D Investing Four Star

Four star funds are amongst the best 3D funds. They are likely to have a high social impact with limited ethical concerns. Thematic funds are well represented.

3D Investing Five Star

Five star funds are the real pioneers in the industry. They are required to demonstrate at least a fair financial performance, excellent transparency, a high social impact and a lack of exposure to ethically controversial companies.

3D INVESTING RATINGS OF ETHICAL AND ENVIRONMENTAL FUNDS

Ethical & Environmental Funds	3D star rating	3D Portfolio?
Threadneedle UK Social Bond	★★★★★	YES
Triodos Sustainable Pioneer	★★★★★	YES
WHEB Sustainability	★★★★★	YES
Impax Environmental Markets Fund	★★★★	YES
Impax Environmental Markets PLC	★★★★	YES
ishares US Medical Devices	★★★★	YES
Jupiter Ecology	★★★★	YES
Quilter Cheviot Climate Assets	★★★★	YES
Alliance Trust Investors SF Absolute Growth	★★★	NO
Alliance Trust Investors SF Cautious Managed	★★★	NO
Alliance Trust Investors SF Corporate Bond	★★★	NO
Alliance Trust Investors SF Defensive Managed	★★★	NO
Alliance Trust Investors SF Global Growth	★★★	NO
Alliance Trust Investors SF Managed	★★★	NO
Alliance Trust Investors SF UK Growth	★★★	YES
Alliance Trust Investors UK Ethical	★★★	YES
Edentree Amity UK	★★★	YES
First State Asia Pacific Sustainability	★★★	YES
First State Global Emerging Markets Sustainability	★★★	YES
First Trust ISE Water Index ETF	★★★	NO
Guggenheim Solar ETF	★★★	YES
Guinness Asset Management Alternative Energy	★★★	NO
Henderson Global Care Growth	★★★	NO
Henderson Global Care Managed	★★★	NO
Henderson Global Care UK Income	★★★	YES
Impax Asian Environmental	★★★	YES
ishares Global water	★★★	NO
Jupiter Green	★★★	YES

Ethical & Environmental Funds	3D star rating	3D Portfolio?
Market Vectors Global Alternative Energy	★★★	NO
Market Vectors Solar Energy ETF	★★★	NO
Old Mutual Ethical	★★★	NO
Pacific Assets Trust	★★★	YES
Pictet Timber	★★★	NO
Pictet Water	★★★	YES
Powershares ETF Cleantech Portfolio	★★★	NO
Powershares ETF Wilderhill Clean Energy	★★★	NO
Powershares Global Water Portfolio	★★★	NO
Rathbone Ethical Corporate Bond	★★★	YES
Robeco SAM Sustainable Water	★★★	NO
Royal London Ethical Corporate Bond	★★★	YES
Sarasin Sustainable Equity - Real Estate Global	★★★	YES
Sarasin Sustainable Water	★★★	YES
Triodos Sustainable Equity	★★★	YES
Vontobel Clean Technology	★★★	NO
First State Worldwide Sustainability	★★	YES
Aberdeen Multimanager Ethical	★★	NO
Alliance Trust Investors SF European Growth	★★	NO
AXA IM Ethical Distribution	★★	NO
CF 7im Sustainable Balanced	★★	NO
Ecclesiastical Amity European	★★	NO
Edentree Amity Sterling Bond	★★	NO
F&C Responsible Global Equity	★★	NO
F&C Responsible Sterling Bond	★★	NO
F&C Responsible UK Equity Growth	★★	NO
F&C Responsible UK Income	★★	NO
First Trust NASDAQ Clean Edge Green Energy	★★	NO

Ethical & Environmental Funds	3D star rating	3D Portfolio?
ishares Global Timber & Forestry	★★	NO
ishares S&P Global Clean energy	★★	NO
Kames Capital Ethical Cautious Managed	★★	NO
Kames Capital Ethical Corporate Bond	★★	NO
Kames Capital Ethical Equity	★★	NO
L&G Global Environmental Enterprises	★★	NO
Powershares ETF Global Clean Energy	★★	NO
Royal London CIS Sustainable Managed Growth	★★	NO
Royal London CIS Sustainable Managed Income	★★	NO
Royal London CIS Sustainable World	★★	NO
Standard Life Ethical Corporate Bond	★★	NO
Standard Life European Ethical	★★	NO
Standard Life UK Ethical	★★	NO
Aberdeen Ethical World	★	NO
Aberdeen Responsible UK Equity	★	NO
Alquity Africa	★	NO
Conbrio Best Income	★	NO
DWS Invest Clean Tech	★	NO
Edentree Amity International	★	NO
F&C Climate Opportunities	★	NO
Family Charities Ethical	★	NO
First Trust Clean Edge Smart Grid Infrastructure	★	NO
First Trust ISE Global Wind Energy	★	NO
Halifax Ethical	★	NO
Jupiter Responsible Income	★	NO
L&G Ethical	★	NO
Leaf Clean Energy	★	NO
Ludgate Environmental	★	NO

Ethical & Environmental Funds	3D star rating	3D Portfolio?
Lyxor ETF World Water	★	NO
Market Vectors Environmental Services ETF	★	NO
Pictet Clean Energy	★	NO
Pictet Emerging Markets Sustainable Equities	★	NO
Pictet Environmental Megatrend	★	NO
Pictet European Sustainable Equities	★	NO
Powershares ETF Wilderhill Progressive Energy	★	NO
Premier Ethical	★	NO
Robeco SAM Smart Energy	★	NO
Robeco SAM Smart Materials	★	NO
Robeco SAM Sustainable Climate	★	NO
Royal London CIS Sustainable Diversified	★	NO
Royal London CIS Sustainable Leaders	★	NO
Royal London UK Equity Ethical	★	NO
Sarasin Equisar Socially Responsible	★	NO
Sarasin New Power	★	NO
Schroder Climate Change Equity	★	NO
Scottish Widows Environmental	★	NO
Scottish Widows Ethical	★	NO
Socially Responsible Investment Fund PCC	★	NO
SVM All Europe SRI	★	NO
Teachers Sovereign Ethical	★	NO
Virgin Climate change	★	NO
Vontobel New Power	★	NO
Vontobel Sustainable Asian Leaders	★	NO
Vontobel Sustainable Global Leaders	★	NO
Way Green Portfolio	★	NO

3D INVESTING RATINGS OF SOCIAL AND ENVIRONMENTAL INFRASTRUCTURE

Social & Environmental Infrastructure	3d rating	3D Portfolio?
Brookfield Renewable Power	★★★★★	YES
John Laing Environmental Assets	★★★★	YES
Innergex	★★★★	NO
NextEnergy Solar Fund	★★★★	YES
Bluefield Solar	★★★★	YES
The Renewable Investment Group	★★★★	YES
Target Healthcare	★★★★	YES
Primary Healthcare Properties	★★★★	YES
Foresight SolarW	★★★★	YES
GCP Infrastructure	★★★★	YES
Generation Healthcare REIT	★★★★	NO
Greencoat Wind	★★★★	YES
GCP Student Living	★★★	YES
Hannon Armstrong Sustainable Infrastructure	★★★	NO
HICL	★★★	YES
International Public Partnerships	★★★	YES
Assura	★★★	NO
Medical Properties Trust	★★★	NO
MedicX	★★★	YES
Ventas	★★★	NO
LTC Properties	★★★	NO

INVESTING FOR CHANGE

By JOHN DAVID

It is difficult to pick up a paper or listen to a news bulletin without being reminded of the many challenges we face in creating a sustainable future for life on a planet already under social and environmental stress.

We may consider ourselves to be conscientious consumers and think about where we work, what we do, how we travel and how we can lead more sustainable lives. But what about the role of money - not just how we spend it, but how we save and how we invest? At Rathbone Greenbank Investments we continually ask ourselves what role investors can play in helping to address sustainability challenges.

Traditionally, the investment of capital has demanded returns at any cost - or at least with very little regard for the environmental or societal impact of business. Whilst philanthropy has, at the other end of spectrum, been focused on social or environmental '*return*' rather than financial reward, there has often been little thought given to how money donated has been accrued. Clearly there can be a conflict between the two.

Ethical investment has addressed some of these issues, originally avoiding companies engaged in activities of moral concern, but evolving over recent years to consider a wider range of environmental, social and governance factors. In the light of the growing debate on sustainability some of the concerns considered '*ethical*' historically are now reflected in the environmental, social and governance (ESG) analysis increasingly being conducted by more traditional investors as a tool to manage risk and identify investment opportunities.

Investors have had some painful experiences in recent years where risks could have been avoided had greater heed been paid to such ESG factors, notably BP's Macondo Well disaster, the Lehman Brothers' collapse and, most recently, the VW emissions test scandal.

Similarly a greater understanding amongst the wider investment community of issues such as resource scarcity, climate change or access to medicines has risen and we have seen the evolution of opportunities in '*thematic*' investment – investment targeted at companies providing products or services addressing the problems we face today or seeking to prevent those we seem set to face in the future.

Outside of the main financial markets we have seen the growth of alternative sources of finance such as crowdfunding, where returns to investors may be in the form of rewards or more conventional interest payments or equity ownership. And at the same time we have seen the emergence of impact or social enterprise investment, which may blend financial returns to investors with positive impacts to society or the environment, for example through the provision of social housing or community renewable energy schemes.

When looking at how we might invest in the future, we should look beyond simply being passive investors, albeit socially responsible ones. Shareholders, as part owners of the companies in which they invest, have a role to play in ensuring that businesses are run responsibly and with the longer term in mind. Shareholder action can range from informed voting, to dialogue with management, to more active engagement such as the tabling of special resolutions to encourage a change of Board behavior. The aim must always be to bring about positive change for all stakeholders: shareholders, employees, customers and the societies in which companies operate.

Perhaps most excitingly, the part played by investors can go beyond the boardroom, as demonstrated by the collaborative action taken this year on the issue of modern slavery. This insidious activity affects over 35 million people worldwide and costs the global economy $150bn per year as well as causing untold human suffering, and it has been the target since 2011 of a coalition of investors, politicians and NGOs seeking to change UK law. Through the work of this coalition a Transparency in Supply Chains Clause was finally included in the Modern Slavery Act which was passed earlier this year. This requires companies, for the first time, to report on, and therefore pay greater attention to, the risks of slavery and human trafficking in their supply chains.

It is clear that the world is facing a huge range of social and environmental challenges, and we believe that, as individuals and as investment managers, we can all play our part in creating the type of future we want to see through the way in which we invest our money.

At Rathbone Greenbank Investments we firmly believe that those companies who are rising to meet the challenges of a changing world are the ones who will succeed and prosper in the long-term. Investing in the future should provide financial as well as social and environmental returns.

John David, Chartered FCSI
Head of Rathbones Greenbank Investments

Rathbone Greenbank Investments manages ethical and sustainable investment portfolios for private clients, trustees, and their independent financial advisers

DIVEST:INVEST

THE STORY OF UNBURNABLE CARBON

Analysis from one group of financial experts could dramatically change the energy landscape for the better – but our communication needs to improve before it can.

On August 28, 1963, Martin Luther King Jr stood on the steps of Washington's Lincoln Memorial and told 250,000 people about his dream of a more equal society. His speech is considered one of the most powerful in human history and his visions of black children joining hands with white children in unity inspired an entire generation.

A key factor in its influence was that people knew first-hand about the alternative. King was telling them his dream; but they already knew the nightmare – the segregation, the oppression. When it comes to climate change – the 21st century's defining challenge – this couldn't be further from the truth.

This is something Anthony Hobley knows all too well. Chief executive of the London-based thinktank the Carbon Tracker Initiative since February, he and his colleagues work to translate the complex climate science into something tangible and understandable for the financial world. Their ground-breaking 2011 report, Unburnable Carbon, estimated that as much as 80% of known fossil fuel reserves cannot be burned if we want to tackle climate change. Suddenly, they had investors' attention.

"If you just tell people there is a massive, complex problem, the psychology is to switch off to protect yourself from the stress", Hobley says, sitting in a London café at the foot of the Shard building. *"We've done the climate nightmare and that doesn't work. We've done the green dream and that doesn't work. We need some great leaders, great communicators, who find a powerful way to combine the two in language that people understand."*

Bill McKibben, the environmentalist and author, communicated Carbon Tracker's concept to the masses in his 2012 Rolling Stone article – Global Warming's Terrifying New Math – that really gave rise to the divestment movement. Since then, universities, pension funds and other major investors have pledged to take their money out of oil, gas and coal – most of them with Carbon Tracker's analysis as their motivation.

For Hobley, while this is clearly useful in furthering the conversation, divestment is not the sole answer. *"You cannot practically divest from energy overnight. We're more about a mainstream discussion, which is about managing the climate risk and allowing for a managed deflation of the carbon bubble."*

Hobley himself spent 25 years as an environmental lawyer. The skills he had picked up in this time were described as the *"perfect amplifier"* to Carbon Tracker's existing talent pool when he was unveiled as chief executive last December. He has come a long way and jumped many hurdles in his career.

He couldn't read or write until he was nine. But he is proudly dyslexic. Like the Bransons, Da Vincis and Einsteins of this world before him, Hobley sees the condition as a gift. His dyslexia thrust him down a very academic route, including postgraduate chemistry research at Cambridge. Despite holding a first-class honours degree he realised his future was in another *"more meaningful"* field.

He became interested in law and started going to some of the early lectures on modelling climate change. Putting the two together – a *"powerful combination"*, he says – he embarked on a new career in environmental law.

Much of his work for the next few years focused on issues like mergers and acquisitions liability, waste and contaminated land, but his passion was always climate change. He spent the following two decades working at a range of leading law firms – Nabarro, CMS Cameron McKenna and Baker & McKenzie – and with his mentor James Cameron at Climate Change Capital.

In 2007, he moved to Norton Rose Fulbright with a mandate to build a global climate change practice, and in 2009 worked with the Lithuanian government at the now infamous Copenhagen climate change negotiations, when world leaders tried, and failed, to agree on a global deal on cutting back greenhouse gas emissions. Hobley says, *"Like many people, I went into extreme 'counselling' and soul searching after Copenhagen. We all went in with such optimism and such hope – and that was obviously so cruelly dashed against the rocks that it took a bit of time to recover."*

He started at Carbon Tracker in February. Of his decision to move away from law, he says, *"I realised that this was one of those critical times. If you really understand what's at stake with climate change and the fact that we have fortuitously been given a second bite of the cherry with [the Paris climate negotiations, the follow-up to Copenhagen] in 2015, you kind of felt you want to be somewhere to make a difference."*

He maintains that the climate change movement's *"biggest failure"* is its communication of the science. It hasn't made it understandable in everyday language or relevant now for most people, he argues.

"Most people's brains are wired to deal with life as it is now over the next 12 months or at most two years, whereas I think many of us in the climate movement have a longer horizon, we're weird to most people. In evolutionary terms, we're the human canaries I guess.

"What I saw that was so exciting about Carbon Tracker is they had found a way to make this relevant to their community – the financial community – in their language. They had used basic financial analysis in a way that I hadn't really seen done in the climate movement before."

The way investors react to Carbon Tracker's analysis will likely shape how the threat that is climate change plays out. Many are divesting; many others are actively engaging with fossil fuel firms to get them to consider these climate risks – but most, so far, are not.

As for Paris next year and what the world's response to climate change will look like after that, Hobley says there are only three scenarios. The first is the goldilocks scenario, whereby strong policy allows for an orderly low-carbon transition at relatively low-cost. There would be few '*stranded assets'* – stocks that are essentially worthless – in this scenario, like Carbon Tracker is currently forecasting, because investors would see the risks in advance and act upon them.

The second outcome is the nightmare – a world 3-6C warmer, and rising, which Hobley says is *"catastrophic, existential, game over"*. He adds, *"If we allow that to happen, this will be the most hated generation that ever lived."*

The third scenario – which is most likely in Hobley's eyes – sees the world leaving climate action until the last possible moment and then throwing everything at it as we did in the financial crisis. Whether this will be spawned by some severe weather event, disruptive technological change or a financial shock, he is unsure, but this scenario will be massively more expensive than the first. This is where stranded assets and systemic risk raise their ugly heads.

Carbon Tracker's analysis helps connect these three scenarios with the people with the most power to do something about it – the investors. But it cannot stop there. We need similar translations into industries like retail, tourism, advertising, education, engineering and medicine. We need films about climate change – and not just disaster movies – and we need people to write fiction and songs about it.

Martin Luther King's place in history is assured because he made the issue of civil rights relevant to everyone. And crucial to our future is making climate change relevant to everyone. Creating a new dream is in everyone's best interest.

www.carbontracker.org

UN BACKING FOR THE FOSSIL FUEL DIVESTMENT CAMPAIGN

Ethical investment is not a new thing, but the recent trend towards massive and sweeping fossil fuel divestment from pension funds, universities and cities, has definitely taken the idea of considering the morals of an investment to a new level – and the UN Framework Convention on Climate Change (UNFCCC) is backing the widespread campaign, lending its *"moral authority"* in the lead up to a major UN climate summit in Paris later this year.

Speaking to the Guardian, Nick Nuttall, spokesman for the UNFCCC, made it clear that the UN is fully supporting the current global divestment campaign.

"We support divestment as it sends a signal to companies, especially coal companies, that the age of 'burn what you like, when you like' cannot continue," said Nuttall.

Nuttall's comments come in the wake of a number of major institutions and cities around the world making public commitments to divest from fossil fuels.

In early March, the City of Oslo, capital of Norway, announced that they would be divesting $7 million (£4.7m) worth of coal assets from its pension fund. Norway announced last December that it would begin excluding the most harmful of climate offenders from its $870 billion (£589bn) sovereign wealth fund on a *"case-by-case basis"*. Subsequently, the bank in charge of the country's sovereign wealth fund announced in February that 49 companies had been divested from the fund's investments.

An ever-increasing number of universities around the world have also made the decision to divest their fossil fuel investments, including a number throughout the US, Sweden, and the University of Sydney, the first Australian university to do so.

The most prominent universities currently faced with the decision to divest are the University of Oxford and Harvard University. The University of Oxford deferred the decision on whether to divest from fossil fuel investments to May, sparking widespread condemnation from school and alumni.
Despite the obvious widespread interest in fossil fuel divestment, and the ever-increasing action taken to divest, fossil fuel companies are unhappy with the UN's support of the movement.

The World Coal Association (WCA) is quoted by the Guardian as criticising the UNFCCC's decision to back divestment, saying it threatened investment in cleaner coal technologies. In a statement from February, the Association wrote, "Coal plays a vital role in society by providing 40% of global electricity and as an indispensable ingredient in modern infrastructure."

Benjamin Sporton, WCA's acting chief executive, commented, *"Calls for divestment ignore the global role played by coal and the potential offered by HELE and CCUS technologies. It is essential that responsible investors actively engage with the coal industry. All low emission technologies are needed to meet climate targets. We cannot meet our energy needs, tackle energy poverty and reduce global emissions without utilising all options available to us, including low emissions coal."*

Nevertheless, the UNFCCC stand by their support of global divestment, as Nuttall explained, *"Everything we do is based on science and the science is pretty clear that we need a world with a lot less fossil fuels. We have lent our own moral authority as the UN to those groups or organisations who are divesting. We are saying 'we support your aims and ambitions because they are fairly and squarely our ambition', which is to get a good deal in Paris."*

FOSSIL FUEL DIVESTMENT PLEDGES SURPASS $2.6 TRILLION

Global Coalition Announces Major Commitments as World Leaders Gather at UN; Thousands of new commitments represent a 50-fold increase in one year.
The movement to divest from fossil fuels and invest in renewable energy and climate solutions has exploded, topping $2.6 trillion (£1.68tn), according to a new analysis released today.

More than 400 institutions and 2,000 individuals have pledged to divest from fossil fuels, the report from Arabella Advisors found. These commitments include governments and investors from 43 countries and multiple sectors, including pension funds, health, education, philanthropy, faith, entertainment, climate justice and municipalities.

Recent notable commitments include the California Public Employees' Retirement System, the Norway Pension Fund, the Canadian Medical Association, the World Council of Churches, the University of California system, Leonardo DiCaprio and the Leonardo DiCaprio Foundation.

"Climate change is severely impacting the health of our planet and all of its inhabitants, and we must transition to a clean energy economy that does not rely on fossil fuels, the main driver of this global problem," said actor and environmentalist Leonardo DiCaprio, who announced his commitment today. *"After looking into the growing movement to divest from fossil fuels and invest in climate solutions, I was convinced to make the pledge on behalf of myself and the Leonardo DiCaprio Foundation. Now is the time to divest and invest to let our world leaders know that we, as individuals and institutions, are taking action to address climate change, and we expect them to do their part this December in Paris at the U.N. climate talks."*

Recent analyses from HSBC, Citigroup, Mercer, Bank of England and the International Energy Agency all indicate a significant, quantifiable risk to portfolios exposed to fossil fuel assets.

"The Arabella Report shows that more and more investors are reducing their carbon risk today and diversifying their portfolios with the goal to harness the upside in the sustainable clean growth industries of the future," said Thomas Van Dyck, Managing Director-Financial Advisor of SRI Wealth Management Group. "That underscores what I see every day as a financial advisor–that the demand for fossil-free investment products is increasing."

"Investing at scale in clean, efficient power offers one of the clearest, no regret choices ever presented to human progress," said Christiana Figueres, executive secretary of the UNFCCC, in a video statement at a press conference in New York today unveiling the Arabella Advisors report. The United Nations climate chief has been advocating for the shift of investment flows from fossil fuels to climate solutions to meet the $1-trillion-a-year need for clean energy investment–and to create momentum ahead of the upcoming international climate negotiations in Paris this December.

"This shift in investment flows is especially critical for underserved communities and people living in poverty, who are disproportionately affected by the negative impacts of climate change," said Rev. Lennox Yearwood, Jr., president and CEO of Hip Hop Caucus.

"Climate change hits the poor first and worst. It is a racial and economic justice issue that must be addressed with solutions like the Divest-Invest movement to empower these communities, eliminate health disparities and drive the shift to a clean energy economy."

"If these numbers tell us anything, it's that the divestment movement is catching fire," said May Boeve, Executive Director of 350.org.

"Since starting on the campuses of a few colleges in the U.S., this movement has struck a chord with people across the world who care about climate change, and convinced some of the largest and most influential institutions in the world to begin pulling their money out of climate destruction. That makes me hopeful for our future, and it's sending a clear message to world leaders as they head into Paris: It's time for them to follow suit, and divest our governments from fossil fuel companies too."

"Pope Francis told us this past June in his encyclical that the earth is a gift from God and that we are responsible for protecting it," said the Rev. Fletcher Harper, executive director of GreenFaith. *"The pace of fossil fuel divestment within faith communities worldwide, combined with the growing commitment to investing in clean energy, particularly for the world's poor, show that the world's spiritual and moral leaders grasp the urgency of the climate crisis and are ready to act."*

Divestment strategies vary among participants in the movement. Some have divested from all fossil fuel companies both large and small; others are beginning with coal and/or tar sands. The Arabella Advisors report provides details on commitments made to date.

For more information on the announcement or to download the Arabella Advisors report, please visit www.divestinvest.org.

DivestInvest

ETHICAL INVESTMENT ASSOCIATION MEMBERS SPEAK

The Ethical Investment Association (EIA) is an association of financial advisers from all around the UK, dedicated to the promotion of green and ethical investment.

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.

Richard Essex, BA Hons Dip PFS
Adviser at Grayside Ltd

With the ever pressing environmental and social challenges that face us together with the fragility of the world economy there has never been a more important time to invest more responsibly and sustainably.

What is really exciting is that responsible and sustainable funds have really developed and now offer the investor an added dimension to their portfolios. Investors can now access a range of differing investments including more traditionally screened funds, thematic funds, best of class, and social impact investments. Central to all of these is the recognition that investments cannot simply be judged on pure financial analysis alone. It is becoming increasingly evident that environmental, social and governance factors must also be assessed alongside if we are truly able to create the sustainable economy that is vital to the healthy continuation of our planet.

We at Grayside fully recognise the importance of investing in a sustainable and responsible way. We also recognise that additional environmental and social governance analysis can help achieve better risk adjusted returns for the client. Because of this we offer specialist advice in the Socially Responsible Investment (SRI)/ethical arena, including offering our own SRI model portfolios.

I also recognise that everybody supporting SRI is part of a movement to encourage this type of investing to become the norm. It is for this reason that organisations like the Ethical Investment Association are so important. The EIA is unique in offering financial advisers education and stimulation in this area. It is also a vital part of the wider SRI lobby looking to make responsible and ethical investing truly part of the mainstream.

Richard Essex is the author of

'Invest Feelgood Make a Difference'

Amelia Sexton,
Investment Analyst

holden and partners

Sense & Sustainability

In the past few years '*Sustainability*' has become the newest buzzword on the block. So much so, in fact, that it is hard to find a FTSE 100 company which does not possess a sustainability agenda of some kind, as part of its overall business strategy. Diageo, Unilever, BSkyB and Vodafone are all big-name companies which have embraced the notion of corporate social responsibility (CSR) in order to secure the long-term viability of their businesses. If being sustainable is so important to companies and consumers alike, then why is it rarely considered as a factor in investment decisions?

According to a survey conducted by Ecclesiastical Investment Management, two thirds of all investors now class themselves as '*ethical*' or '*sustainable*' consumers: a more environmentally and socially aware class who think carefully about what goods and services they buy, and where they buy them from. It appears, however, that the same attitude is not exercised with regard to investments. Despite being Europe's largest sustainable investment market, the assets under management in responsible investment funds within the UK has consistently lagged that of '*mainstream*' investment strategies.

Part of the reason for this may be the fact that '*sustainable investment*' is a relatively subjective term, which can confuse, and potentially deter, some investors. What does it actually mean? There is certainly no accepted definition of '*sustainability*' nor are there any set rules on how a '*sustainable investor*' should behave. However, most would agree that avoiding controversial areas, such as tobacco and arms, whilst including positive criteria, is a feasible start.

At Holden & Partners we believe that sustainable investment simply means investing in a way which recognises future threats and opportunities over the long-term. The emphasis on the long-term trends is crucial; companies which limit their focus to short-term results may not be sustainable.

The financial markets can be full of uncertainty at times, and there is little doubt that resource scarcity, climate change, and further demographic shifts, will continue to influence their movement to an even greater extent in the future. Identifying companies which account for environmental, social and governance factors (ESG) provides investors with exposure to the fast-growing industries of tomorrow, helping clients to preserve and, ultimately, increase their wealth.

This view contrasts significantly with the performance '*myth*' which has plagued the investment industry for so much of its life; the idea that commitment to sustainable principles and good performance cannot be combined is an out-dated concept, albeit one which continues to frighten potential investors. For example, in the 12 months prior to August 2013, the average sustainable fund returned 24 per cent, 6 per cent more than its non-sustainable equivalent. We believe that the moral or '*ethical*' argument is no longer the only incentive to invest sustainably; it also makes compelling financial sense.

And we are not alone. The UN Principles for Responsible Investment strongly encourages companies to develop sustainable business practices, reflecting a greater realisation that poor corporate governance, and a lack of environmental discipline, can lead to underperformance. Just as sustainable investment should help investors to achieve superior risk-adjusted returns over the long-term, investing unsustainably involves accepting higher risk. There is no guarantee that industries which have experienced steady, but unsustainable, growth up until now will continue to do so in the future.

Take the Tobacco industry for example. Despite its reputation as a defensive sector which is able to deliver consistent sales and dividend growth, greater public health awareness and tighter regulation in the developing world, has meant that tobacco companies are actually losing value. In the short-term they have been able to maintain profitability by increasing prices to compensate for falling sales, but it is doubtful whether this can be sustained in the long-term.

Collective funds in the UK Equity Income sector are typically highly exposed to the risks surrounding mega-cap tobacco companies due to their heavy weighting in the FTSE 100 Index. Sustainable investors avoid such risks by diversifying away from industries which are not well-placed to benefit from a changing global economy.

But there is more to sustainable investment than simply excluding specific companies. More recently, sustainable funds have adopted a broader remit, focusing on global themes which will have a positive consequence, and also be profitable. WHEB Sustainability and Pictet Environmental Megatrend Selection are just two of the funds we regularly use in all client portfolios, not exclusively those with specific ethical criteria. We believe these funds will generate superior returns that can be sustained for the long term.

In short, sustainable investment equals sustainable prosperity, which is why we at Holden & Partners remain so committed to it.

Tanya Pein
Investment specialist for charities and private clients at In2 Consulting and co-chair of the Ethical Investment Association

"Can anybody offer me a good price on a second-hand, top-of-the range Volkswagen?" That was the question I put to some of the UK's leaders in Responsible Investment, when we met to discuss key issues for pension fund investors, by chance two days after news broke of fraud on a global scale in measuring the toxic emissions of Volkswagen diesel cars. We all laughed, but my serious point was that the 40% drop in the market value of Volkswagen within 48 hours was already a short-term capital loss for investors, and with a potential $18 billion of fines to come, yet another illustration of how integrating Responsible Investment (RI) reduces risk for investors.

One of the experts at the meeting said that his investment house had spotted low governance standards at Volkswagen years ago, as part of their standard RI due diligence, and so reduced their own investors' exposure to the company. Reading this Blue & Green guide and seeking out an adviser specialising in RI is a useful step towards reducing risk in your own portfolio.

Responsible Investment is a proven way of reducing investment risk, boosting investment returns and starting to unify the values of individual investors and pension scheme members with their investments. The multiple benefits to investors of this approach are borne out by regular news events such as Volkswagen diesel emissions/ BP oil spills/ Tesco manipulation of profitability figures/ HSBC money-laundering breaches (too many to list here) and are well recognised. These regular news events, rigorous academic research and anecdotal experience all combine to produce a sound basis for requiring Responsible Investment to be integrated into your portfolio.

Responsible Investment focuses on two main areas: integrating Environmental, Social and Governance (ESG) factors into the investment decisions, and stewardship of the investments once purchased. Some investment houses and fund managers have stronger expertise in these two areas than others, and the financial advisers listed in this guide have the specialist knowledge required to advise you who they are; and in future years, how the situation is evolving. Gaining and maintaining this valuable expertise takes time and experience, so it is a prudent investment move to seek out advisers with a track record in the field.

The Ethical Investment Association (EIA) holds regular events, where members learn of new developments in this fast-moving field, share knowledge and communicate the views of their clients (including you, if you wish) directly to the fund managers of ethical investment funds.

If you want an adviser who can guide you towards investments that take environmental standards and good working practices into account; towards funds that are early in spotting investment opportunities (such as new technologies to alleviate water poverty); and towards funds that reduce the risk of having over-valued oil and gas companies in your portfolio, then an EIA member is a good choice.

Whichever adviser you choose, encourage your friends and colleagues to switch to Responsible Investment – for the benefit of all of society.

Amelia Sexton,
Investment Analyst

holden and partners

Thirsty Work

Many investors understand the importance of aligning portfolios with global megatrends to achieve sustainable future growth and aid diversification – the investment case is categorical. Doing so effectively is a more difficult task. Investment in renewable power and energy efficiency has undergone a renaissance in recent years, but another sector which has proved slightly less popular, although no less critical to sustainable development, is water. For all the confusion surrounding its status as an asset class – how it should be measured and valued, whether it may be classed a commodity, or even a basic human right – one thing is clear; the opportunities in the sector are numerous, diverse and exciting. Investing in water need not be thirsty work.

There is a common misconception that the planet's water resources remain plentiful and infinitely reusable, but this could not be further from the reality of a world in which supply is becoming increasingly scarce and constrained. Whilst it is true that water comprises over seventy per cent of the Earth's surface, 97 per cent of this is salt water, confined to the oceans. Of the remaining three per cent, 98 per cent is either frozen or underground, making it effectively redundant and leaving less than one per cent of the global supply potable and accessible with current technologies.

Indeed, to understand the central investment thesis for water, look no further than the 2015 World Economic Forum in Davos, at which water crises were described as the most severe global risk facing the world. In fact, issues involving water have been listed in the top three global threats since 2013, and are perhaps exacerbated by the continuation of extreme weather events which are ranked number two in terms of likelihood in 2015. The crux of the issue is that the supply of this natural resource is under threat, whilst simultaneously the demand for it is set to grow exponentially. The phrase 'peak water', derived from a term used by the oil industry to imply finite resource are being reached, is featuring increasingly in the rhetoric of academics, governments, and even investors.

How has the world come to face such an acute water shortage? Most of the Earth's water is not potable or reachable and large areas are in a state of drought or have questionable access to a sustainable water supply. This is particularly pronounced in regions of the United States where a combination of ecological issues, alongside mismanagement of existing resources, culminates in periods of near drought, many of which are becoming more prevalent as climate change aggravates weather patterns. Burgeoning cities, agricultural plots, and leisure complexes across arid regions has generated a new, and insatiable, demand for water, and without sufficient precipitation to fill rivers or reservoirs, damaging depletions of this crucial natural resource arise as a result. California may be the eighth largest economy in the world, but it needs to dedicate $40 billion to meet its water infrastructure needs over the next twenty years. Even more startling, is the fact that across Western Europe and Northern America, one in three people live in a region experiencing '*water stress*'.

This is not to mention developing nations in which population growth and urbanisation are increasing at a rate which surpasses that of developed economies. Indeed, it is here that the demand for water is unprecedented and the severest of shortages ensue. In some of India's biggest cities, such as Delhi and Mumbai, the combined population is set to increase to 60 million in 2025. With more people comes the need for more water distribution networks, sanitation systems and wastewater treatment facilities, especially given that current infrastructure improvements have not kept pace with the speed of urbanisation, and water pollution is rife as a result. It seems that the crisis in water supply is a global phenomenon, and one that is completely entrenched.

Nevertheless, with every crisis comes opportunity. It would be wrong to resign ourselves to the fact that catastrophe is inevitable. Instead, it is more beneficial to establish how to access opportunities in safeguarding water resources, through areas which are well-placed to profit from finding solutions in a water-constrained world.

Water efficiency is a sector at the forefront of this theme, as conserving supply is central to meeting the surging need for food and energy, as well as limiting water wastage. Due to its use as a vital input for a range of industrial activities, efficiency projects in the fields of construction and agriculture will be crucial, and it is in this area that the majority of investment institutions are focusing their exposure to the long-term water proposition.

Agriculture, today's biggest consumer of water, will continue to account for an increasing level of supply as populations grow and the industry expands. Much of its existing use is already unsustainable, effectively reducing the supply just as the need is mounting.

Shale gas, although controversial, also provides renewed impetus for investment in water efficiency, as it, too, intensifies the pressure on resources and poses threats to water quality. Extraction is dependent on a plentiful water supply but, to date, there has been little focus on the need for water accessibility, and safety has been lax; as recently as May 2015, traces of fracking chemical were found in drinking water in Pennsylvania, USA. Despite this, stricter regulatory oversight is pressurising the industry to improve the treatment of waste water and the volume that is recycled, as well as facilitating management of contaminated water, and disclosure over which chemicals are used. All of these improvements require investment, and those with the insight to look towards the water sector for opportunities are appropriately positioned to benefit.

Some commentators may argue that it is distasteful to generate investment returns through such an essential resource as water. However, it is likely that the technologies needed to recycle, purify, and deliver clean water to growing urban populations, may not ever be developed without the financial backing that is so greatly needed from private companies and investors. It could take some time before the full effects of water scarcity become apparent, but possessing exposure to the sectors which are helping to prevent a global water crisis, now, can be a rewarding endeavour, and one which is rapidly gaining the attention of the investment industry.

ETHICAL FINANCIAL ADVISER DIRECTORY

Abbott & Booth Ethical Financial Planning
Web: www.abbottandbooth.co.uk
Address: Burton House 2 Church Terrace Handforth Cheshire SK9 3LW

Aptus Wealth
Contact: Alan Kitchener
Web: www.aptuswealth.co.uk
Address: The Courtyard, 30 Worthing Road, Horsham, West Sussex, RH12 1SL

Ardent UK
Contact: Mark Fisher
Web: www.ardentuk.com
Address: 80 Clifton, York, YO30 6BA

Ashlea Financial Planning
Contact: Diane Weitz or Nik Marsh
Web: www.ashlea-fp.co.uk
Address: 81 Hatherley Road, Cheltenham GL51 6EG

BARCHESTER GREEN INVESTMENT

Barchester Green Investments
Contact: John Ditchfield
Web: www.barchestergreen.co.uk
Address: Barchester Green Investment, c/o Castlefield, 2nd Floor, 4-6 Staple Inn, High Holborn, London, WC1V 7QH

Contact: Rob Blackshaw , Tim Bradford, Andrew Faulkner, Andy Hillier or Rupert Lovesy
Address: Barchester House, 45/49 Catherine Street, Salisbury, SP1 2DH

Bolton, Kris
Contact: Kris Bolton
Email: theteam@thinkethical.co.uk
Address: c/o Clear Finance, 200 Portland Road, Sandyford, Newcastle upon Tyne, NE2 1DJ

Bromige Independent Financial Advisers

Bromige
Contact: Juergen Schumacher
Web: www.bromige.co.uk
Address: 22 Hartfield Road, Forest Row, East Sussex, RH18 5DY

Brookdale IFP
Contact: Paul Mabon
Web: www.brookdaleifp.co.uk
Address: 135 Brookdale Avenue South, Greasby, Wirral, CH49 1SP

Celandine
Contact: Annie O'Keeffe
Web: www.celandine.co.uk
Address: 7 Beaufort Arms Court, Agincourt Square, Monmouth, NP25 3UA

Essex, Richard
Contact: Richard Essex
Email: r.essex@grayside.co.uk
Address: c/o Grayside Financial Services, 52 Merrylands Road, Great Bookham, Surrey, KT23 3HW

Ethical Financial Planning
Contact: Andrew Sotiriou
Web: www.ethicalfinplanning.co.uk
Address: 45 Fallow Court Avenue, North Finchley, London N12 0EA

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Ethical Futures
Contact: Julian Parrott or Martin Wight
Web: www.ethicalfutures.co.uk
Address: 9 Mansfield Place, Edinburgh, EH3 6NB

Ethical Investment Co-operative, The
Contact: Ian Harland
Web: www.ethicalmoney.org
Address: 95 Main Street, Fulford, York, YO10 4PN

Ethical Investors Group
Contact: Lee Coates
Web: www.ethicalinvestors.co.uk
Address: Montpellier House, 47 Rodney Road, Cheltenham, GL50 1HX

Farrow, Alex
Contact: Alex Farrow
Address: c/o Independent Insurance Consultants, 51 Gatley Green, Gatley, Stockport, SK8 4NF

Financial Planning Group, The
Contact: Tim Norris
Web: www.fpgonline.co.uk
Address: 1 Cambridge Road, Teddington, Middlesex TW11 8DT

Foster, Alex
Contact: Alex Foster
Email: alex.foster@wardgoodman.co.uk
Address: c/o Ward Goodman, 4 Cedar Park, Cobham Road, Ferndown Industrial Estate, Wimborne, Dorset, BH21 7SF

Gaeia

Gaeia
Contact: Olivia Bowen, Helen Tandy or Haydon Waldeck
Web: www.gaeia.com
Address: 9th Floor, 111 Piccadilly, Manchester, M1 2HY

Green
FINANCIAL ADVICE LIMITED

Green Financial
Contact: Ian Green
Web: www.iangreen.com/ethicalinvest.php
Address: Hyde Park House, 5 Manfred House, London, SW15 2RS

Heron House Financial Management
Contact: Saran Allott-Davey
Web: www.hhfm.co.uk
Address: Heron House, 1 Bryngwyn Road, Newport, South Wales, NP20 4JS

Highcliffe Financial Management
Contact: Georgina Bennett
Web: www.highcliffegroup.co.uk
Address: Ivy House, 65 High Street, Lymington, Hampshire, SO41 9AL

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Holden & Partners
Contact: Steven Pyne
Web: www.holden-partners.co.uk
Address: 4th Floor, The Piano Factory, 117 Farringdon Road, London EC1R 3BX

Holder & Combes
Contact: Ed Holder
Web: www.holderandcombes.co.uk
Address: 68 Lombard Street, London, EC3V 9LJ

Hughes Financial Services
Contact: Stephen Casey
Web: www.hughesfinancial.co.uk
Address: 4 Jubilee Road, Newtownards, Co Down, BT23 4WN

Interface Financial Planning
Contact: Alan Moran
Web: www.interfacefp.co.uk
Address: 122 Hamstead Hall Road, Handsworth Wood, Birmingham B20 1JB

invest-ethical
Contact: Sean Harris
Web: www.invest-ethical.com
Address: 11 Church Meadows, Dromore, Co Down, BT25 1LZ

Investing Ethically
Contact: Lisa Hardman
Web: www.investing-ethically.co.uk
Address: 33 Whiffler Road, Norwich, Norfolk, NR3 2AW

Keyte Chartered Financial Planners
Contact: Dr Robin Keyte
Web: www.keyte.co
Address: Keyte Chartered Financial Planners, 10 Middle Street, Taunton, Somerset, TA1 1SH

Kingswood Consultants
Contact: Mike Daniels
Web: www.kingswoodconsultants.com
Address: 29 North Street, Bicester, Oxon, OX26 6NB

Life Financial Planning
Contact: Ian Gourley
Web: www.lifefinancialplanning.co.uk
Address: 3rd Floor, Bridgewater Place, Leeds, West Yorkshire, LS11 5BZ

Lighthouse (Impact)
Contact: Ash Rawal
Web: www.ethicalinvestmentsuk.com
Address: 132 Station Rd, Mickleover, Derby, Derbyshire DE3 9FN

Lira, Cleona
Contact: Cleona Lira
Web: http://cleonalira.co.uk
Address: Heron Tower, 110 Bishopsgate, London EC2N 4AY

McMenamin, Columba
Contact: Columba McMenamin
Web: www.columbamcmenamin.co.uk
Address: c/o St. James's Place, 3 Moorgate Place, London, EC2R 6EA

OakTree Wealth Management
Contact: Ian Brady
Web: www.oaktreewm.co.uk
Address: Newtown House, Newtown Road, Henley on Thames, Oxfordshire, RG9 1HG

Oliff, Jan
Contact: Jan Oliff
Email: jan@oliff.info
Address: Noumena, Little Green, Broadwas-on-Teme, Worcestershire, WR6 5NH

OnTrack Financial Planning
Contact: Graeme Barclay
Web: www.ontrackfinancial.co.uk
Address: 6 Wallacebrae Grove, Reddinmuirhead, Stirlingshire, FK2 0FF

Pein, Tanya
Contact: Tanya Pein
Email: tanya@in2consulting.co.uk
Address: c/o In2 Consulting Ltd, 53 Tabernacle Street, London, EC2A 4AA

Platinum (SRI) Financial Services
Contact: Ray Boucher
Web: www.pt78.co.uk
Address: 6 Church Croft, Hollins, Bury, BL9 8JD

Prest Financial Services
Contact: Graham Prest
Web: www.prestfinancial.co.uk
Address: 315/317 London Road, Hazel Grove, Stockport SK7 4PS

Profit With Principle
Contact: Greg McCrave
Web: www.profitwithprinciple.co.uk
Address: St Walburges Centre, StWalburges Gardens, Preston, PR2 2QJ

Smythe & Walter
Contact: Lee Smythe
Web: www.smytheandwalter.co.uk
Address: Smythe & Walter Chartered Financial Planners, Office 9, Brogdale Farm, Brogdale Road, Faversham, Kent, ME13 8XZ

Stanley, Michael
Contact: Michael Stanley
Email: michael.stanley@spi.sanlam.co.uk
Address: c/o Sanlam Private Investments (UK) Ltd, 5 Miles's Buildings, George Street, Bath, BA1 2QS

Stewart Investment Planning
Contact: Martin Stewart
Web: www.stewartinvestmentplanning.co.uk
Address: 1 The Courtyard, Leigh Court, Abbots Leigh, Bristol BS8 3RA

Virtuo Wealth Management
Contact: Scott Murray
Web: www.virtuowealth.com
Address: 77 Montgomery Street, Edinburgh, EH7 5HZ

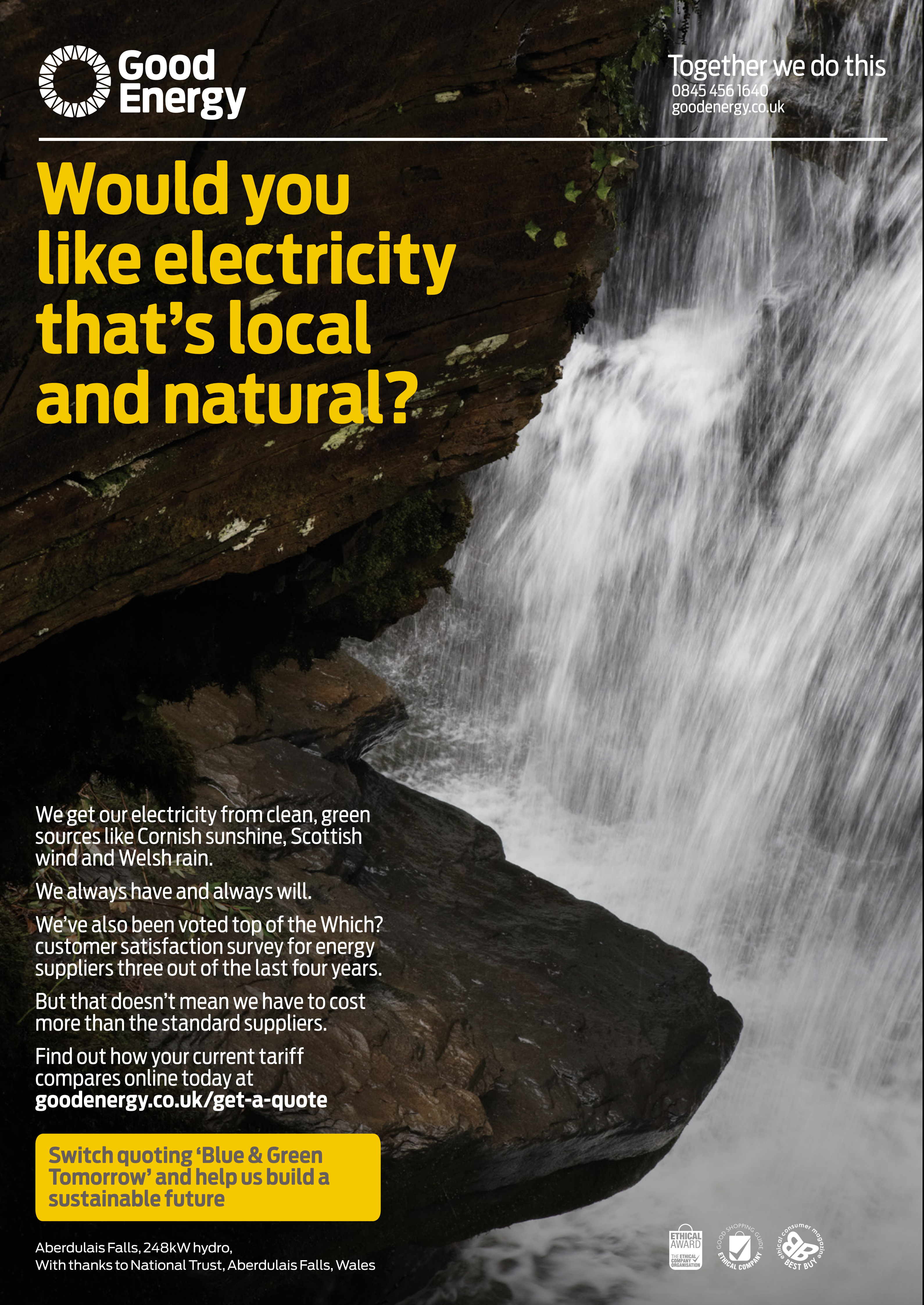
Walter & Partners
Contact: Ben Walter
Web: www.walter-partners.co.uk
Address: 2 Grafton Mews London, W1T 5JD

Walton, Graham
Contact: Graham Walton
Email: graham@hamnettwealth.com
Address: c/o Hamnett Wealth Management, 160 Baslow Road, Totley, Sheffield, S17 4DR

Waterhouse Financial Planning
Contact: Sinead Meenan
Web: www.waterhousefp.com
Address: 1 Carlisle Terrace, Londonderry, Northern Ireland, BT48 6JX

White, Carey
Contact: Carey White
Email: carey.white@carematters-uk.com
Address: c/o CareMatters, Suite 1 & 2, Three Gables, Corner Hall, Hemel Hempstead, HP3 9HN

Wood, Robin
Contact: Robin Wood
Email: robin.wood@mail.com
Address: 8 Lon Cwmgwyn, Sketty, Swansea, SA2 0TY



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