# Understanding Ethical Investors Values and Concerns

ethicalfutures
make your money change your world

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# About Ethical Futures

## Who are we?

We are an independent, Edinburgh based firm, dedicated to providing ethical financial planning and advice to private clients, small employers, trusts and charities. In our world of financial advice, our experience has convinced us that there's a better way of helping people plan for their futures - by connecting their money to their values.

Ethical Futures was established in 2005 with the aim of offering an ethical financial planning service. Our team have extensive experience in ethical financial planning and advice with combined work experience in financial services of over 75 years with companies big and small, in direct client advice, management, sales and administration.

We were also the first Scottish IFA business to become registered members of the Ethical Investment Association – a UK-wide organisation that's dedicated to the promotion of ethical and socially responsible investment (SRI).

## What do we do?

At Ethical Futures we only do ethical investments. By that we mean, that when making investment recommendations, we will only consider investments and funds that adhere to some form of ethical, values led or principles based approach to selection of underlying investments.

We are not moral arbiters – we don't decide what's right or wrong - but we do believe that our clients' money has the power of change the world and we are keen to harness it. So, that means that we have decided that we will not recommend a mainstream investment portfolio. There may well be some grey areas – but we work with our clients to agree what's acceptable and what's not.

Ethical investments come in a variety of types and styles. Mainly we focus on collective investment funds, but we also use discretionary management services, as well as deposit accounts, pensions and other more specialist structures, such as VCT's and EIS. We are comfortable, that we can address our client's financial needs with an ethically sourced solution.

## Introduction and background to study

In recent years, ethical investment has seen substantial growth. This growth can largely be attributed to increased media exposure to environmental issues such as 'Blue Planet' and a growing awareness of the imminent threat of climate change. Media attention, combined with pressure from international goals such as the SDG's and the Paris Climate agreement, has led to growing engagement with ESG issues.

Sustainable and environmental trends are rapidly influencing the investment market. Investors are now demanding more than simply a financial return; they want their investments to be made in line with their values.

Ethical investment is a personalised process and should reflect each client's beliefs and values. However, as the market develops, new issues will arise and the question of "what is ethical" will be increasingly difficult to answer. In recent years, there has been a significant increase in new funds and styles of investment, as well as several 'grey' areas to debate and consider. This research aims to tackle some of these areas.

In response to interest in ethical investment, fund managers are increasingly allocating resources towards capturing the concerns and aspirations of ethically conscious investors in order to successfully meet client's demands. Our research sought to raise emerging issues that clients may not previously have considered, presenting them with rationale from two sides of an argument and encouraging them to think about where they stand and how they would like to invest in line with their values.

The data collected offers new and exciting insights into market trends and client preferences. This research will also be informative for investment managers to understand what motivates clients and how they want their investments to reflect their values.

Our research aims to understand:

- What are the most common areas of concern amongst Ethical futures clients?
- Where do clients stand on current environmental, social and governance debates?
- Which industries they wish to avoid or pursue?

Several of the issues raised in this research included;

- *Approaches to screening*
- *Investment in Gilts*
- *Genetic modification*
- *Soya production/deforestation*
- *Investing in palm oil*
- *Investment in commercial property*
- *Investment in banks*
- *Fossil fuel divestment*
- *Nuclear energy as a low carbon alternative to fossil fuels*
- *Transparency of boards and gender diversity*
- *Tax policies*
- *Investing in cannabis*

This report will highlight trends emerging from the data and offer insights into the results of this study. We understand that many of the issues raised in this report are not black and white however, we wanted to use this survey as a start point to gauge opinions, and offer potential for future research, perhaps with face-to-face or phone interviews to allow clients to give more in-depth responses.

Although these trends offer an initial insight into key concerns of ethical investors they cannot be deemed representative. Each client will have their own individual preferences.

## Methodology

We decided that the most appropriate research method would be to send out a survey with a mixture of quantitative and qualitative questions in order to best try to capture client's priorities and receive the largest possible amount of data.

Our existing files gave us access to an extensive client base and trusted network of ethical investors which represented our target population. Using the data from our records we emailed our survey to 533 clients.

In total, we received 138 responses from active Ethical Futures clients, representing a 26% sample of the total clients contacted. This was deemed a sufficient sample to undertake analysis and draw cautious conclusions about their values and concerns. (See appendix 1 for further details)

Of the 138 ethical investors who participated in this study, the sample contained 56% females and 43% males. Additionally, respondents represented a wide range of ages which offered a diverse set of opinions.

| Age | % of responses |
|---|---|
| **<40** | 6% |
| **41-50** | 21% |
| **51-60** | 18% |
| **61-70** | 29% |
| **71-80** | 23% |
| **>81** | 4% |

*Figure 1: Age range of respondents*

Analysis of data will be thematic in nature, highlighting themes and trends that emerge from responses. The key findings will be presented in the following chapter supported with graphs and charts to visualise responses.

## Key findings

### APPROACHES TO ETHICAL INVESTMENT

#### *Towards a more pro-active investor*

One of the clearest trends emerging from this data is the movement away from negative exclusionary criteria which seek to avoid unethical activity towards a more pro-active positive approach in which ethical investors wish to actively encourage change through lobbying and "responsible investment".

Our research shows that 39% of ethical investors want to invest in positive ethical activities and themes and 36% wish to encourage lobbying and engagement to change corporate behaviour, compared to only 25% seeking traditional avoidance criteria.

This suggests that positive screening or the more pro-active responsible investing are preferred to negative screening.

Here are several quotes which support this finding;

*"I'd like to see an end to 'holier than thou'/'keep my hands clean' in ethical investing, and a hello to activism"*

*"In general terms, I am most concerned not only to exclude the unethical but to seek out the more pro-active ethical investment opportunities"*

This trend is reflected in respondent's attitudes towards emerging issues such as palm oil, tax avoidance and intensive farming (see below). Rather than avoiding these industries entirely, clients would like their investments managers to lobby for change and encourage improvement of these practices.

#### *Environmental issues take centre stage*

This research suggests that, in our current society, clients share significant concerns

about environmental issues and the future of the planet.

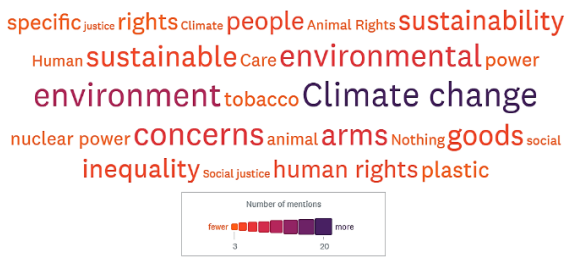


*Figure 2: Visual representation of the most common words and phrases when clients were asked what they are most passionate about.*

The image above shows that 'climate change' was the most frequently cited phrase when clients were asked what they are most passionate/concerned about, followed by 'environmental' and 'environment'.

Considerable concern was also expressed surrounding plastics, recycling, renewables, pollution, deforestation and achieving zero carbon.

In addition to this, one quarter of our clients prioritised environmental criteria over social and governance criteria.

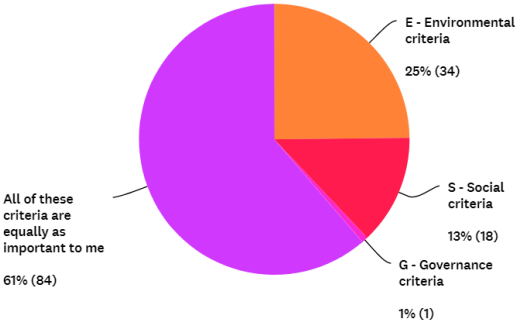


*Figure 3: Responses to "Which of the following criteria would be most important to you when choosing to invest?"*

Perhaps this reflects the urgency that our society faces in dealing with environmental issues, as highlighted by media coverage of the deforestation of the Amazon and the Extinction Rebellion protests.

### *Traditional exclusionary criteria remain important*

Armaments and Tobacco remain important concerns for our clients and were two of the most frequently cited words when clients were asked for their main concerns (Figure 2).

Additionally, social concerns such as inequality and fair treatment of workers also received significant attention. And a number of clients expressed the desire to fight poverty and ensure social justice. (Figure 2)

Another traditional area of avoidance for ethical investors is genetic modification. This research confirms that very few ethical investors are open to investing in genetically modified crops or genetically modified organisms.

*Figure 4: Attitudes towards genetic modification and supermarkets*

Main concerns seem to arise surrounding the reduction of biodiversity (43%) and the uncertainty around the safety and long term implications of genetic modification (25%). Moreover, certain individuals expressed concern about over control and mistrust of large agri-businesses.

Inserted below are quotes from several participants which explain their concerns;

*"It is not right to mess around with genetics. We do not know what the long term implications will be."*

*"I don't trust big business with such powerful and potentially dangerous technology."*

*"I don't like the idea of so called 'smart' people mucking about with natural laws, then slipping their food products onto the supermarket shelves without giving us a clear indication of what they are doing - I don't trust them."*

The following chapters will tackle the relevant environmental, social and governance issues raised in this survey.

## ENVIRONMENTAL ISSUES

### *Support for fossil fuel divestment*

Clients expressed strong support for fossil fuel divestment with 82% of investors wishing to avoid fossil fuels entirely from their investments.

Despite some interest in transitional fuels, the use of nuclear energy as a low carbon alternative to fossil fuels seemed to divide opinions. Almost half of the respondents felt that nuclear did not have a role in the transition to a low carbon economy and shared concerns over the disposal of radioactive nuclear waste, health and safety, long term costs and links to nuclear arms proliferation.

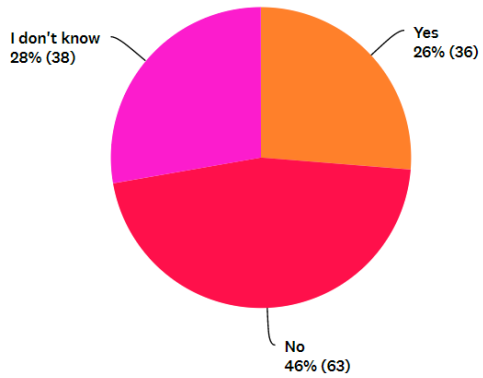


*Figure 5: Responses to "Do you think that nuclear has a role in helping the transition to a low carbon economy?"*

However, we can see how this issue divides opinions as 28% of clients expressed uncertainty and 26% were in support of nuclear as a transitional fuel.

Several clients claimed they would prefer to invest in simpler cleaner alternatives or direct their money towards renewables.

### *A pro-active approach to palm oil*

Palm oil is a common area of concern for ethical investors due to its links to climate change and loss of biodiversity and habitat however, it is used in a number of food and personal care products and can be difficult to avoid from investments.

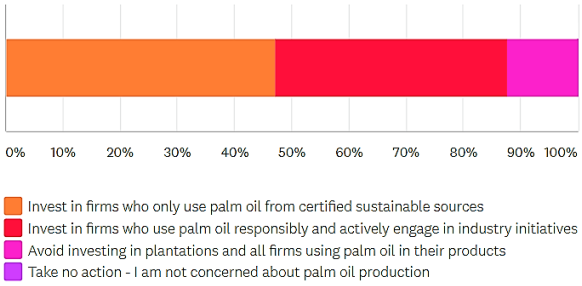


*Figure 6: Attitudes towards investing in palm oil*

Interestingly, it seems that the majority of ethical investors do not wish to entirely avoid palm oil production.

In line with the more pro-active/positive approach highlighted in the choice of screens, 47% of respondents preferred to invest in firms who use palm oil from certified sustainable sources and 41% chose to invest in companies who engage in initiatives such as the Roundtable on Sustainable Palm Oil. Contrary to only 12% who chose to avoid palm oil entirely.

These attitudes also seem to be reflected across the farming industry.

### *Ethical investors are driving change in intensive farming industries*

Our research shows that rather than completely avoiding food and farming industries, investors want their money to facilitate change and improve efficiency in the industry.

When asked how ethical investments should approach intensive farming, 47% of respondents chose to encourage a less intensive farming process whilst continuing to invest in these sectors and 34% of people chose to invest in businesses that help make farming more efficient. This is compared to only 18% who decided to avoid these industries outright.

Similar to attitudes towards palm oil, these statistics show a level of activism and engagement from clients across this industry.

### *Deforestation is a major concern*

There has been a rising concern about products associated with vegan and vegetarian diets which are not necessarily ethical due to their farming and production processes such as soy or avocado. Our research suggests that 87% of our clients would not be willing to invest in these industries due to their links to deforestation.

This trend aligns with recent issues related to deforestation of the Amazon and the increasing presence of these issues in the media.

## SOCIAL ISSUES

### *Embracing new markets*

The cannabis market proposes an ethical dilemma for investors. Several countries have begun to legalise cannabis and in 2018 the UK government approved the use of medicinal cannabis. However, some investors are concerned about links to recreational drug use and legal issues in a number of countries.

Our research suggests that as the market develops, ethical investors would be open to investing in the cannabis industry. Results show that 72% of our sample would be willing to invest in medicinal cannabis, and an additional 21% would also be willing to invest in recreational cannabis. This shows that an overwhelming majority (93%) of individuals are open to this industry.

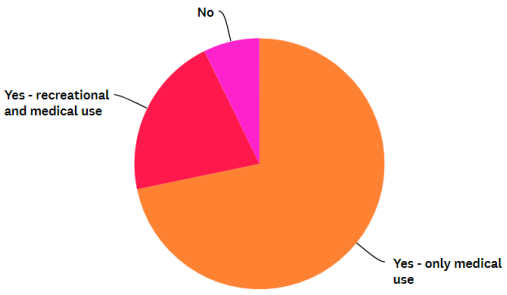


*Figure 7: Attitudes to investing in the cannabis industry*

This trend is somewhat surprising considering that tobacco is widely considered a sin stock, however it shows potential for future investment in the cannabis market, particularly for medical use.

### *Attitudes towards Gilts, Banks and Commercial property*

UK Government bonds, otherwise known as Gilts, are a useful way to diversify your portfolio and can be used to lower or manage risk however, they divide ethical investors because of some of the activities they fund.

Certain investors see Gilts as a useful way to balance their portfolio and feel that the overall allocation of spending is seen to be in the public interest. However, often gilts are screened from ethical investments for their potential involvement with armaments and nuclear projects.

Considering the strong sentiment against armaments in the world of ethical investment, it is somewhat surprising that 50% of clients were willing to invest in Gilts as a way to manage risk in their portfolio and an additional 27% would be willing to invest because they felt that the overall spending was in the public interest.

Of the 23% of clients who decided to avoid Gilts, it arose that the majority would feel differently if the government offered green bonds that only funded environmental structure. Therefore, it may be in the interest of the UK government to issue sovereign green bonds or “green gilts” to address the concerns of ethical investors and it appears that the demand for such bonds would be high.

Banks propose a similar dilemma for ethical investors as they engage in both positive and negative ethical activity. Trends from the data suggest that 71% of ethical investors would be willing to invest in banking sectors so long as they do not directly engage in fossil fuel extraction. In particular, a number of clients

expressed an interest in ethical banking or banks who have clear ethical and environmental policy. However, around 1/3 of the sample stated that they would completely avoid the banking sector.

Commercial property offers a conundrum to ethical investors because, at present, because selection of underlying tenants cannot be ethically screened, therefore there is a risk you may be indirectly supporting unethical industries or that the property may negatively impact the community. However, this is not always the case and commercial property can offer a useful way to create a diversified investment portfolio. Interestingly 69% of our clients would consider investing in commercial property. However, several respondents explained that they would be concerned about transparency and would not want to threaten local businesses or the local community by supporting an unwanted project.

## GOVERNANCE ISSUES

### *Transparency is key*

Unsurprisingly, 97% of our clients said it was important that the companies they invest in are transparent about board members and decision making processes. Particular importance was placed on challenging extreme executive pay rises and campaigning for transparency.

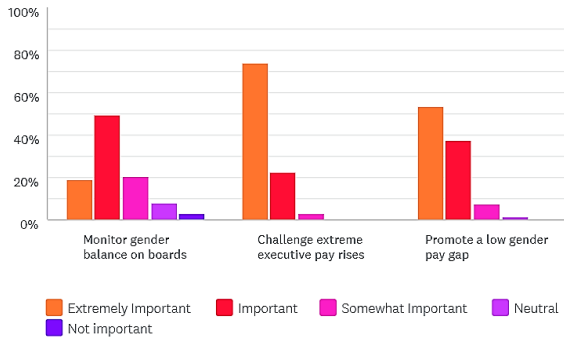


*Figure 8: Attitudes towards governance issues*

Gender issues also received considerable attention however monitoring gender balance on boards received slightly less importance than promoting equal pay.

### *Ethical investors care about companies paying their fair share*

The issue of tax avoidance was highly engaged with in our survey and clients were passionate about companies paying taxes on their British sales. Many clients expressed concerns about tax loopholes, closing the tax gap and offshore tax havens;

*"Closing the tax gap is a massive priority. Investment in environmental concerns would be much more feasible if large publicly traded companies paid their share."*

*"I feel strongly about companies paying taxes on their British sales, but it's increasingly difficult to avoid them. Campaigning for transparency is important."*

We asked clients how they think investment managers should deal with tax avoidance. The results were as follows;

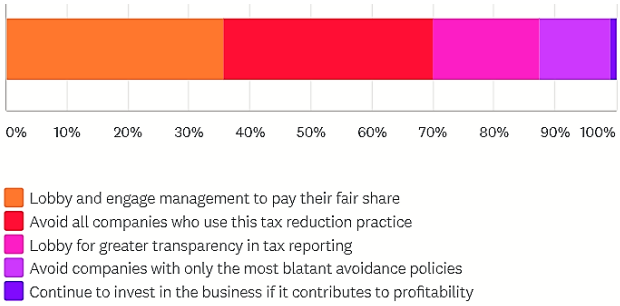


*Figure 9: How ethical investors feel that investment managers should respond to tax evasion.*

We can see from this chart that the most popular response was to "lobby and engage management to pay their fair share" (36%) closely followed by "avoid all companies who use this tax reduction policy" (34%). This shows that ethical investors are keen to eliminate tax avoidance rather than prioritising profitability and investing in these companies. Overall 53% of clients said they would lobby to change this practice and 46% chose to avoid companies engaging in tax avoidance. That represents an overwhelming majority who are concerned.

## New areas of concern

Towards the end of our survey, clients were given the opportunity to raise any additional areas that they were concerned about. This led to the emergence of several new areas which should be noted;

- *Data Protection*
- *Population expansion*
- *Zero Hour contracts*
- *Airlines*
- *Brexit/political stability*
- *Plight of refugees and asylum seekers*
- *Fast fashion/consumerism*

This list is not extensive however it shows the variety of issues that ethical investors are concerned about in our current society and proposes opportunities for further research as issues develop.

As more evidence and research emerges, new ethical issues and debates will continue to arise. It is essential to assess and reassess each client's investment portfolio in light of their concerns in order to best reflect their preferences.

## Summary

This research aimed to identify trends in ethical investors' attitudes towards investing. Several key findings have emerged which offer an initial idea of how clients want to invest their money.

This data suggests that:

- Ethical investors are pro-active in their approach and prefer to encourage change and engage in positive ethical investments rather than avoid all unethical activity
- Environmental concerns are a priority for ethical investors. In particular, climate change is the number one area of importance
- Ethical investors strongly support fossil fuel divestment but remain uncertain about the use of nuclear as a transitional fuel and would rather develop clean energy capacity and invest in renewables
- Ethical investors would be open to investing in medicinal cannabis
- Genetic modification and armaments remain key areas of concern
- Ethical investors are keen to encourage lobbying and campaigning to ensure transparency particularly with respect to tax avoidance
- Clients are extremely concerned about deforestation and therefore would not invest in industries directly contributing to it
- Rather than avoiding food and farming industries, investors seek to encourage change and efficiency in this practice
- Ethical investors are willing to have a small amount of unscreened activity in their portfolio in a 'best practice' approach as a way to manage risk, as long as the positive outweighs the negative e.g. Gilts, Commercial property

Overall there seemed to be an understanding amongst clients that a diversified portfolio may require supporting a range of industries. This data offers an insight into which would be deemed acceptable by ethical investors and which they would like to avoid. Opinions may change as more information becomes available however, at present this data offers an initial idea of our client's preferences.

# Appendices

**Appendix 1: In depth data review**

Prior to the creation of this survey, we carried out a review of existing client's paper ethical profiling forms which gave rise to several initial trends. However, many of the forms were outdated or incomplete and there was not enough data available to successfully draw conclusions.

This prompted the creation of an e-survey through the online platform Survey Monkey which aimed to extend the initially identified trends with more specific and up to date information from active clients and collect a large amount of data in a small amount of time.

We sent our online survey to 533 clients personal email addresses on 13th August 2019. Clients were given 2-weeks to respond and offered an incentive of a £1 charity donation for every complete response received. A reminder email was sent after one week which encouraged a second wave of responses.

In total, we received 146 responses however, 8 responses were incomplete therefore we removed these for the purpose of analysis. Of the 138 responses which remained, engagement with each question was high at around 95%. This offered a substantial amount of data for analysis and represented 26% of the total client base.

A donation of £150 was made to Friends of the Earth Scotland in support of their No Fossil Fuels Campaign in September 2019.

**Appendix 2: Glossary**

***SDG's*** – Sustainable Development Goals. Global goals set by the UN to align member states to achieve peace and prosperity by 2030. Consists of 17 goals covering a range of environmental, social and governance issues.

***Paris Climate agreement*** – signed in 2016, aims to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 °C and to limit the increase to 1.5 °C.

***ESG*** – Environmental, Social, Governance

***IFA*** – Independent Financial Advisor

## Appendix 3: Survey questions

1. Before we get started do you have any specific ethical concerns/interests that you are extremely passionate about?

2. Investment managers increasingly use environmental, social & governance (ESG) factors to assess businesses and opportunities when making investment decisions. Which of the following criteria would be most important to you when choosing to invest?

- E - Environmental criteria look at a company's energy use, waste, pollution, use of natural resources and impact on habitat & climate change
- S - Social criteria look at business roles in society, including working conditions, human rights, health and safety and impact on quality of life
- G - Governance criteria assess firms as corporate citizens, including issues such as taxation, executive pay, accounting, gender diversity, transparent reporting methods
- All of these criteria are equally as important to me
- None of these criteria are important to me

3. Thinking about the approaches taken to screening, would you rather:

- Invest in funds that put the emphasis on screening out a wide range of ethical concerns, leaving a smaller investment universe
- Actively invest in companies who engage in positive ethical activities and themes but apply fewer exclusions
- Select funds that invest in a wide range of 'responsible' business and seek to change corporate behaviour by lobbying and engagement

**Section 2 – Environmental Concerns**

4. Intensive farming is increasingly under scrutiny for its contribution to climate change, reduction of biodiversity & poor animal welfare. Do you think ethical investments should?

- Avoid all investment in meat and fish industries
- Avoid investment in meat industries only
- Seek to encourage a less intensive farming process but continue to invest in these sectors
- Not avoid these sectors
- Invest in businesses that help to make farming more efficient in use of resources

5. A popular alternative to meat and fish is soya products. Soya offers a low carbon alternative to animal products however, investing in soya has been criticised for its role in the deforestation of South America. Considering this would you invest in soya production?

- Yes
- No

6. Rate your attitude to investing in the following; (Answer choices: Avoid/Try to avoid/Indifferent/Potentially invest/Invest)

- Genetically modified seeds & plants
- Genetically modified livestock animals
- Supermarkets

7. If you chose to avoid genetic modification, what is your main concern?

- Health and safety
- Faith based concerns
- Threat to farmer's livelihood
- Reduction of biodiversity
- Animal welfare
- N/A
- Other (please specify)

8. Increased use of palm oil in food and personal care products, has improved the wealth of some developing nations, but is seen as a contributor to climate change, loss of biodiversity and habitat. I think ethical investments should:

- Avoid investing in plantations and all firms using palm oil in their products
- Invest in firms who only use palm oil from certified sustainable sources
- Take no action - I am not concerned about palm oil production
- Invest in businesses who use palm oil responsibly and actively engage in industry initiatives such as the Roundtable on Sustainable Palm Oil

There has been a growing trend calling for fossil fuel divestment. Do you think that the funds you invest in should?

- Avoid thermal coal & tar sand only
- Avoid all fossil fuels
- Avoid ultra-deep water drilling only
- Seek to reduce carbon footprint but still invest in transitional fuel e.g. natural gas (fracking)

Do you think that nuclear has a role in helping the transition to a low carbon economy?

- Yes
- No
- I don't know

If you answered no, what are your main concerns about nuclear energy?

- Concerns about safety
- Connection with arms and nuclear weapon proliferation
- Radioactive nuclear waste
- Uranium mining
- Other (please specify

**Section 3 – Social concerns**

12. Ethical investments have long avoided investing in alcohol or tobacco. However, cannabis is increasingly farmed on a commercial basis and due to its medical benefits is seen as potentially investable. Would you be happy to invest in companies that are involved in this market?

- Yes - only if it was for medical use
- Yes - I would be happy to invest in cannabis for both recreational and medical use
- No

13. Banks help manage the flow of money in the economy but may engage in both positive and negative ethical activity. Would you be willing to invest in banks in your portfolio?

- Yes
- Yes - but not banks who are engaged in funding fossil fuel extraction
- No

14. Investing in UK Government Bonds (Gilts) can be a useful way to lower or manage investment risk in a portfolio. However, because they fund general government spending, of which around 6% is on defence, it is debated whether they are ethical. Over 66% of government expenditure is spent on social services, health and education and you do have the opportunity to vote for your government. Considering this, would you be willing to invest in Gilts?

- No – I do not want to risk any involvement with armaments or nuclear
- Yes – As long it's only a proportion of my overall portfolio and is used to manage and reduce investment risk
- Yes - I feel that the overall spend would be in the public interest
- Yes – I have no issue with investing in national self defence

15. If you answered no, would you feel differently if the government offered 'Green Bonds' that only funded environmental infrastructure?

- Yes
- No

16. Commercial Property is extremely useful in creating a diversified investment portfolio, however these funds are not generally subject to an ethical screen. Investing in well run property funds can be a good way to contribute to managing the social & environmental impacts of the built environment however, it may not be possible to vet the choice of tenants. Considering this, would you be willing to invest in commercial property?

- Yes
- No

7. If you answered no, what is your main concern about commercial property?

- Commercial property may not be beneficial for the local community or local businesses
- Tenants may be engaged in businesses I would deem unethical
- The property may impose on the environment
- Concerns about liquidity of property funds
- Other (please specify)

**Section 4 – Governance concerns**

18. Is it important that the companies you invest in are transparent about their board members and decision making process?

- Yes
- No

How important is it that the funds you invest in: (Answer choices: Extremely Important/Important/Somewhat Important/Neutral/Not important)

- Monitor gender balance on boards
- Challenge extreme executive pay rises
- Promote a low gender pay gap

20. Global firms such as Caffe Nero, Vodafone and Gap have come under fire for policies that avoid tax on their British sales, yet consumers continue to use their services. How do you think investment managers should deal with this issue?

- Continue to invest in the business if it contributes to profitability
- Lobby for greater transparency in tax reporting
- Lobby and engage management to pay their fair share
- Avoid companies with only the most blatant avoidance policies
- Avoid all companies who use this tax reduction practice

21. Do you have anything else to add or any other ethical issues or controversies that you think should be noted?

**Section 5 – Your details**

What is your age?

- <40
- 41-50
- 51-60
- 61-70
- 71-80
- >81

23. What gender do you associate with?

- Female
- Male
- Transgender
- Prefer not to say
- Other (please specify)

24. I consent to Ethical Futures using my responses to analyse client preferences and understand attitudes towards ethical debates

- Yes
- No

# Thank You

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I am the summer intern here at Ethical Futures, and have been taken on for a short term basis to conduct this project. I am extremely grateful for the support received from the Ethical Futures team and for client's engagement with this project.

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