Table of Contents

The Growth of Ethical Investment  
Page 3

21st. Century  
Page 5
Ethics in business and social responsibility naturally appear to be a product of advancements in our modern society but instances of socially responsible investing (SRI) date back over 250 years. In Philadelphia 1758 a religious group by the name of the Quakers stated at a yearly meeting that going forward, all members were prohibited from associating with the slave trade on ethical grounds. In the same century a similar event occurred in the UK when John Wesley (founder of Methodism) held a sermon titled “The Use of Money” where he preached basic business ethics to his followers and encouraged boycotting of industries in which workers were treated poorly.

The beginning of the 20th century saw the Methodist Church follow John Wesley’s ethical legacy as it took a groundbreaking step for a religious institution and decided to invest in the stock market. At this time, the stock market was widely viewed as a form of gambling by religious bodies and was therefore frowned upon but the Methodist Church took a new stance. They invested in the stock market on the condition that companies deemed as “sinful” such as arms dealers and alcohol producers would be avoided giving us the first recorded instance of true ethical investment.
World events have always been heavily influential in bringing discussion over ethical issues to the forefront of society. In the 1970s, towards the end of the Vietnam War, shocking images sparked large scale activism and protests. These were primarily aimed at Dow Chemical who manufactured napalm and Agent Orange (sprayed from helicopters to destroy agriculture). As news of these events spread so too did the demand for SRI, with social investors increasingly seeking alternatives to unethical companies like Dow Chemical. This development also began to address other social issues of the time, such as equality for women, civil rights and labour-management. The Vietnam War also inspired the creation of the first publicly available, socially responsible mutual fund in the U.S in 1971. Known as the Pax World Fund, its founders, Luther Tyson and Jack Corbett, had one goal in mind and that was to make it possible for investors to align their investments with their values bringing SRI to the public.

A decade later, during the apartheid regime in South Africa, a similar pattern can be observed. Large scale anti-apartheid disinvestment campaigns were launched by several countries, forcing the issue of ethics and SRI further into the public eye. Retirement funds, mutual funds and investment institutions across the country sold off the stocks of companies that did business in South Africa. Widespread media coverage of these events made them a significant catalyst for the emergence of other ethical funds and in 1983 EIRIS was established as the UK’s first independent research service for ethical investors. In 1984, Friends Provident, a firm originally founded on Quaker principals, launched the Stewardship Fund, the first retail ethical investment fund in the UK. Later, in 1989 the Ceres organization was formed as a network of investors, environmental organizations and other public interest groups interested in working with companies to address environmental concerns.

The establishment of these groups were some of many factors that drove further development of ethical and sustainable investments to the point where by the end of the 90s roughly £3.3 billion had been invested in over 50 ethical funds. This period also saw the formation of the UK Social Investment Forum to represent the growing ethical finance sector as well as the Ethical Investment Association, formed by ethical focussed financial advisers.
Moving into the 21st century, socially responsible investments continued to gain popularity. This reflected the growth of the ethical consumerism, leading to expanding choice in everything from ethical chocolate to pensions.

These developments began to be reflected in policy. The Financial Conduct Authority requires advisers to consider clients, social, religious and ethical concerns when giving advice and UK government has gone as far as embedding certain requirements in statute. In 2000 the law was changed to require occupational pension schemes to declare in their Statements of Investment Principles (SIP’s), whether they account for any social, environmental or ethical factors when deciding what stocks to invest in. Unfortunately, this potentially powerful tool is underutilised and many pension scheme members are unaware of it.

The total value of the ethical market has been soaring since this time and these trends still remain today.

As we can see from the graph the combined value of the ethical market has exceeded £80billion and continues to rise year after year. From its humble beginnings in religious based groups ethical investment has now evolved to the point that anyone can seek out a product that reflects their values.

This increased visibility and choice has led to groundbreaking trends that have positively impacted our world. In 2010 it was found that 20% of the UK population is now actively boycotting specific products or retail outlets as a result of their ethical concerns. Over 50% of people have either recommended, or followed a recommendation based on a company’s responsible reputation and over 40% of consumers have bought a product primarily for ethical reasons.

---

In 2013 total ethical spending was £54 billion, an amount greater than that spent on both cigarettes and alcohol and demand for ethical consumer goods and services grew by over 12% despite recessionary pressures and eclipsing the mainstream UK economy growth of 0.2%\(^2\). Additionally, almost 3 million consumers are now actively boycotting companies over their tax avoidance and other unethical policies whilst demand for sustainable fish has shown large gains in the last few years.\(^2\) These are just some examples of how the heightened awareness of the consumer has forced business to take notice.

Though commercial ethical spending has seen these advances over the last decade, ethical money is still the largest contributor to the total value of the ethical market. In 2014 ethical money was calculated as having a £42bn share of the £80bn ethical market in the UK.\(^3\) Then in 2015 a Morgan Stanley’s Institute of Sustainable Investing report studied data over 7 years from over 12,000 open-end mutual funds and separately managed accounts to gage performance against traditional investments. Conclusions drawn from the report were that socially responsible investments “usually met, and often exceeded, the performance of comparable traditional investments.”\(^4\)

The ethical investment market now extends way beyond its faith based origins, to incorporate approaches focussed environmentalism, social justice, corporate governance, sustainability and social impact.

In the last two years European Sustainability themed assets have increased by 11% per year to reach €59bn, with growth in the last two years European Sustainability themed assets have increased by 11% per year to reach €59bn, with growth since 2005 years averaging 30.7% per annum; [3]

Eurofir produced a report in 2014 comprising an extensive review of sustainable and responsible investment in Europe, covering 14 EU Member States. Its principal findings are: That European Impact investing market has grown to an estimated €20 billion market. Netherlands remains the biggest market, but the UK has now surpassed Switzerland to become the second largest market for sustainability themed investments [3]

---

1 Co-op Ethical Consumerism Report 2013.
3 Ethical consumer; Triodos bank consumer market research.
4 Ethical consumer; Triodos bank consumer market research.
Thank you

Contact
Address
Ethical Futures
9 Mansfield Place
Edinburgh
EH3 6NB

Phone
+44 (0)131 557 6677

Online
Email: invest@ethicalfutures.co.uk
Website: www.ethicalfutures.co.uk

Ethical Futures LLP is a limited liability partnership registered in Scotland no: S0300638
and is authorised and regulated by the Financial Conduct Authority.