ETHICAL AND SUSTAINABLE INVESTING WITH TILNEY

PLANNING | ADVISING | INVESTING

TILNEY

About Tilney

Tilney is an award-winning financial planning and investment company that builds on a heritage of more than 180 years.

Our clients include private individuals, families, charities and professionals, and we look after more than £24 billion on their behalf.

We employ more than 1,000 staff and through our extensive network of offices are proud that we can provide expert advice in person wherever a client lives in the UK.

All of our services are underpinned by a disciplined, rigorous investment process and we have amongst the most experienced and qualified professionals.

The foundation for Tilney's success is our focus on providing a high-quality, personal service to each of our clients, and we are proud of the recommendations of Tilney's service that our clients make to others.

At Tilney, your personal wealth is our personal responsibility.

Important information

The value of an investment may go down as well as up and you may get back less than you invested. Please note that ethical funds may, by definition, have a limited investment universe; this may affect performance.

Tilney's ethical and sustainable investment philosophy

At Tilney we believe that the key themes associated with sustainability are now the mainstream for businesses and consumers. They provide an attractive investment opportunity as the global economy becomes more focused on sustainability.

The United Nations' 17 Sustainable Development Goals for 2030, which cover a wide range of issues such as the climate, environment and global poverty, set a clear blueprint for how we achieve a better and more sustainable future for all. They also provide a helpful framework for investors when trying to navigate the green maze of acronyms and buzzwords in the sector and allow for greater reporting of how impactful investments are beyond the standard financial return calculations.

Closer to home we have also witnessed historic commitments from businesses and governments alike, largely focusing on environmental issues such as carbon emissions, climate change and single-use plastic. Consumer behaviours have also notably changed, which adds to the clear tailwinds behind sustainably focused companies, as the global population continues to grow and resources become scarcer.

Sector definitions and evolution

Despite the positive momentum behind the wider sector, investing in this area of the market still presents investors with a green maze of investment approaches and buzzwords. Here we highlight some of the common phrases and approaches associated with being green with your money.

Ethical

Ethical is the oldest form of investing in the sector and focuses on negative screening of 'sin' sectors. Subjective investor preferences and fund definitions of 'ethical' differ widely as a result.

Socially responsible investing

Socially responsible investing started in the late 2000s. It focuses on 'best in class' investments via Corporate Social Responsibility reporting and positive screening. This style of investing tends to result in fund performance more aligned with mainstream benchmarks.

Sustainable and impact

This style of investing involves integrated Environmental Social and Governance (ESG) risk analysis, where a company's actions are reviewed alongside their measurable environmental and social outcomes – 'the triple bottom line'. Accurately measuring the impact of these from a quantitative perspective is an ongoing evolution that requires an improvement in data quality.

However, institutional investors have worked hard to improve environmental disclosures in areas such as carbon and water usage. Social impact in areas such as healthcare is harder to measure and investor focus is more on case-by-case examples. A number of fund groups in the 'sustainable' arena have been working hard to measure their investment impact relative to the UN's 17 Sustainable Development Goals.

How ethical and sustainable funds work

Despite the positive momentum behind the sector, it is not always easy to choose ethical and sustainable investments. Therefore, it is important as an investor to understand how the investment processes differ from conventional funds and how they can vary on a fund-by-fund basis.

The crucial point is that the approach to ethical and sustainable investing, which is chosen for each individual fund, works alongside the standard fund management techniques to form the overall investment strategy. Here are the most commonly used approaches.

Screening

Arguably the most common and traditional process used by ethical and sustainable funds is screening, which can come in both positive and negative forms. Typically, a fund manager will take a benchmark such as the FTSE All-Share or MSCI World and screen out all the companies that are deemed unethical or unsustainable.

The industries and companies that are screened out can vary, but most tend to be related to health (alcohol or tobacco), the environment (oil and gas or mining), and companies with poor employment practices. Positive screening is when companies are included because they make a positive contribution to society or the environment, such as renewable energy. Many funds use both forms of screening when selecting companies.

Best in class

The best in class approach is when a fund selects a company that has better ethical and sustainable policies than industry peers. For example, if the ethical criteria in an investment strategy allow a fund manager to invest in the banking sector or the oil and gas sector, the fund manager would be expected to select the oil and gas company with the best environmental record or the bank with the best ethical policies. This is very much a case of weighing up the pros and cons of each company and its individual corporate responsibility.

Engagement

The basic methodology of engagement is to use shareholder influence to actively pressure companies to employ better policies while trying to enhance shareholder value. It can be an independent thematic process or work alongside both screening and best in class in an investment strategy.

Outside influence

While some fund groups have specialist in-house teams to help select sustainable companies, the majority of funds in the sector use outside resources to help implement the fund's objectives. This can come in the form of independent committees that review the investment decisions of the fund manager. These are often made up of experts from charities, faith-based organisations and non-governmental organisations (NGOs). In addition, a number of funds use independent research from specialist external ESG data agencies to select companies to invest in. Independent research is a key feature in the screening and best in class processes used in stock selection for many funds. Some funds also periodically engage with existing investors by seeking feedback on investment policies via surveys.

Choosing an investment to meet your objectives

When it comes to choosing an ethical or sustainable investment fund it is important that investors think clearly about their motivation. Does a single issue, such as the environment, matter more than anything else? Or are they looking for a broad-based approach to investing ethically and sustainably?

Once clear, the next step is to choose a fund that has investment policies in line with the investor's principles. Arguably, this can be the most difficult part of the process for ethical investors because not all funds have clear guidelines on what an acceptable investment is. Additionally, it is common that investors with strong views on a number of issues may need to compromise to find a fund that matches the majority of their beliefs. Debates around whether an industry or a stock should be included in a fund are fairly common, especially in controversial areas such as animal testing, where opinions can differ greatly. Beware – some funds do not always do what they say on the tin!

The investment policies of funds in this sector are frequently split into three groups to highlight the strength of the ethical criteria they follow. The scale is helpful when trying to compare funds, but more importantly, it helps guide investors with a particular moral stance from inadvertently investing in a company or sector they wish to avoid.

The green scale

Dark green

This is the strictest form of criteria. Typically the fund manager is unable to invest in a substantial part of the market, particularly the alcohol, defence, gambling, mining, oil and gas and tobacco sectors.

Mid-green

As the name suggests, these funds are in the middle when it comes to strictness of ethical criteria. They focus on most of the issues considered by dark green funds, but they may include some exposure to oil and gas, financials and pharmaceuticals.

Light green

The least strict of the ethical criteria. Light green funds tend to focus on best in class ESG and can invest in sectors that ethical investors may be uncomfortable with. They are typically more closely aligned to mainstream funds and indices.

Tilney's approach

At Tilney we manage a range of ethical and sustainable investment portfolios for clients. The majority of investments held in these portfolios are included for positive reasons. However, we also aim to avoid investing in companies with products or services that have negative environmental or social impacts.

When looking at ethical and sustainable investments, the sectors we aim to avoid are:

- Alcohol
- Fossil fuels
- Gambling
- Mining
- Pornography
- Tobacco
- Weapons

The sustainability themes that we seek exposure in are:

- **Life essentials** – affordable housing, healthcare, safety solutions, sustainable food and water management
- **Environment** – alternative energy, biodiversity, climate change solutions, resource efficiency, sustainable transport
- **Economic development and ending poverty** – human rights, infrastructure, financial inclusion, digital divide, education and labour

Active ownership

We believe in active ownership in this sector. ESG data are good indicators of underlying company health, but we believe that if used in isolation, this approach often fails to truly understand the DNA of a company and the intentions of its directors. It is also important to note that the accuracy and usefulness of company ESG data are still evolving.

Similarly, we believe that a best in class approach, where the best mining company or oil and gas company (based on ESG data) can be included in a portfolio, limits the possibility of achieving a real sustainable impact. For example, a tobacco company that is best in class because of good employment practices is still producing an unhealthy product for its customers and society. We therefore try to avoid investing this way where possible.

We expect all of our underlying investments to be actively involved in shareholder engagement – both with us as investors and with the management teams of the companies that they invest in on our behalf. We believe that strong governance plays a key role in delivering good returns over the long term.

Ethical and sustainable investing with Tilney

There are several ways to make ethical and sustainable investments with Tilney.

You can invest through an ethical and sustainable managed portfolio. Our portfolios invest in a diverse range of funds and they are actively managed by our experts.

If you have more specific requirements, we also offer bespoke portfolios that are tailored to your individual needs and circumstances. These portfolios may invest in individual equities as well as funds.

If you would like more information on ethical investing, please speak to your usual Tilney contact or get in touch by calling **020 3131 5203** or emailing **contact@tilney.co.uk**

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