

# Ethical Investing

We believe that ethical investing matters. Humanity needs to harness the power of companies to end harmful behaviours and to tackle challenges, which may relate to the environment, climate change and social issues.



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# Introduction to Ethical Investing

Ethical investment can seem 'nice-to-have' but non-essential, although it is actually crucially important. It permits anyone with savings, including in pensions, to contribute to the betterment of society or to help with environmental issues including global warming.

Many individuals appreciate the importance of ethical issues, often supporting their values with changes to their lifestyles. Beyond retail consumer decisions, more people are using ethical investing as another means of expressing their beliefs about the issues that matter in today's world.

Individuals may feel powerless in the face of actions taken by large national and multi-national companies. Ethical investing can be used to help nudge companies towards better behaviours on many issues including around climate change, pollution and plastics, social and employment concerns and excessive corporate greed.



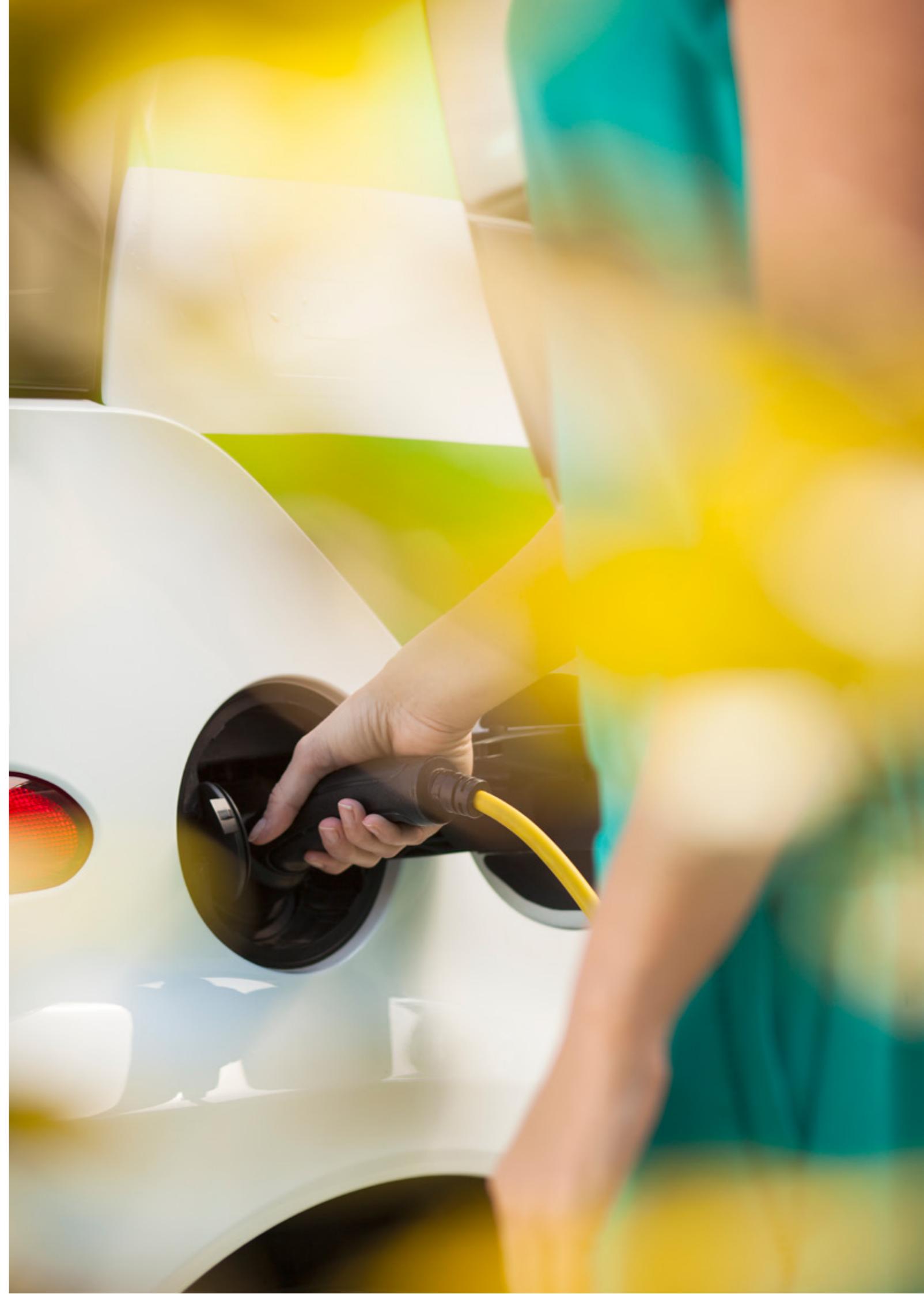
# Why Ethical Investing matters

Corporations are powerful, with a truly international presence. Humanity needs them to end harmful behaviours and tackle future challenges. These may include environmental, climatic and social issues. Regrettably, part of industry's dynamism includes its ability to push costs onto the environment, communities, employees or future generations.

Financial markets help support and control corporate behaviour.  
Markets reward business ingenuity, efficiency, talent and productivity through the ability to raise funds and by share pricing.

By investing with ethical considerations in mind, individuals can use financial markets to help supply capital and resources to companies providing solutions, whilst reducing funds available to firms causing problems. Selective investment in firms solving problems supports them, while refusal to buy shares in those companies with destructive behaviours can make it harder for them to raise capital.

Even small investors' accumulated views matter, just as individuals should believe that recycling their plastic bottle or casting their democratic vote makes a difference.



# Approaches to Ethical Investing

There are many approaches to ethical investing and a great deal of jargon has developed. However, the underlying core remains the same – ethical investors want to use financial markets to encourage companies towards better, more sustainable, more ethical, behaviours.



## The main approaches include:

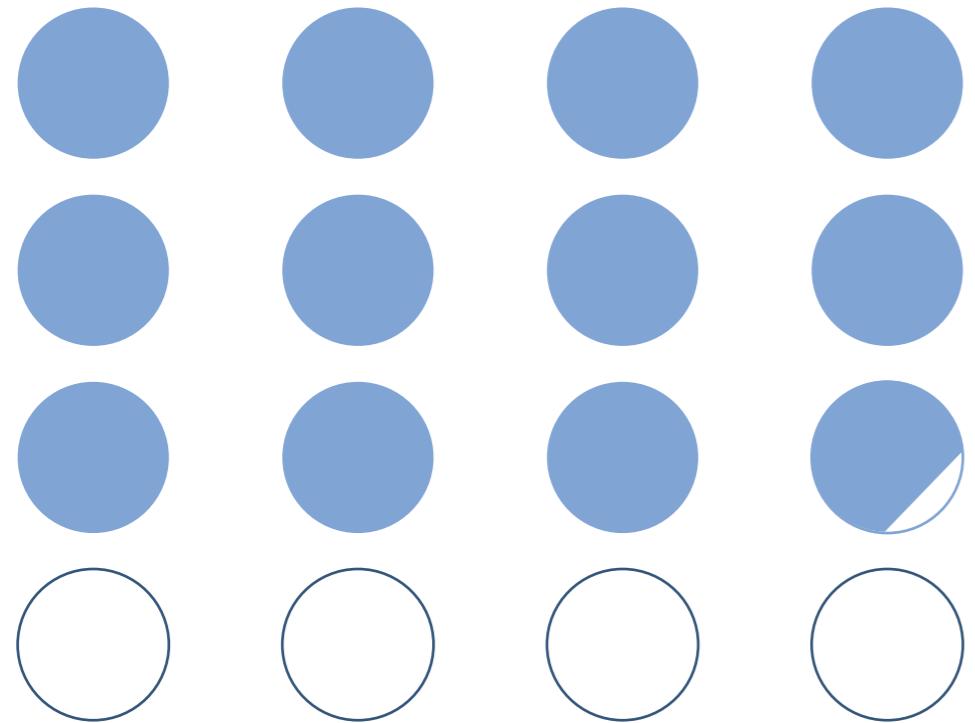
**Exclusions** avoid investment in companies causing problems. Typically, not investing in firms associated with alcohol, animal testing (cosmetics and/or medical), armaments, excessive interest rate lending, gambling, nuclear power, pornography, and tobacco.

**Positive selection** of companies providing solutions. These can include renewable energy, and new technologies that help solve problems. In impact investing the financial return may be weighed against the beneficial impact expected from a product.

**In sustainable investing**, funds are directed into companies with business practices capable of being continued indefinitely without causing harm to current or future generations, or exhausting natural resources. This is often associated with ESG investing with its focus on the three key areas of environment, social issues and corporate governance.

**Best-in-class investing** accepts that some companies may be involved in undesirable activities but selects the best of the firms available. For example, 'best-in-class' investment in oil companies might select those putting the most resources into developing renewable energy.

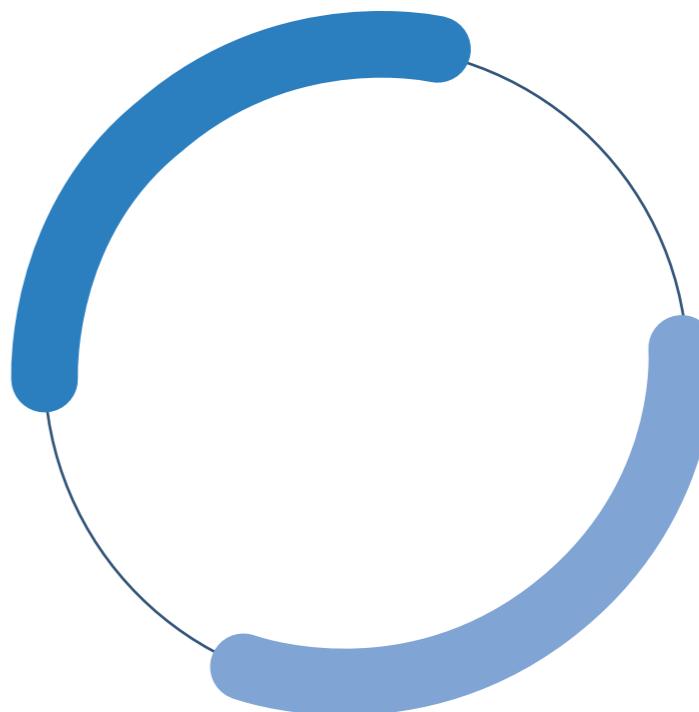
**Engagement** involves working with companies to make improvements in matters of concern. Firms are encouraged to consider their responsibilities to the environment, their stakeholders and wider society.



**73% of UK investors have never been offered ethical investment opportunities.**

Source: Tridos Annual Impact Investing Survey 2016.

**28% of people feel like they don't know how their pensions are being invested,**



**with 30% thinking they don't have a say in how their pensions are invested.**

Source: Good Money Week YouGov 2017 Report.

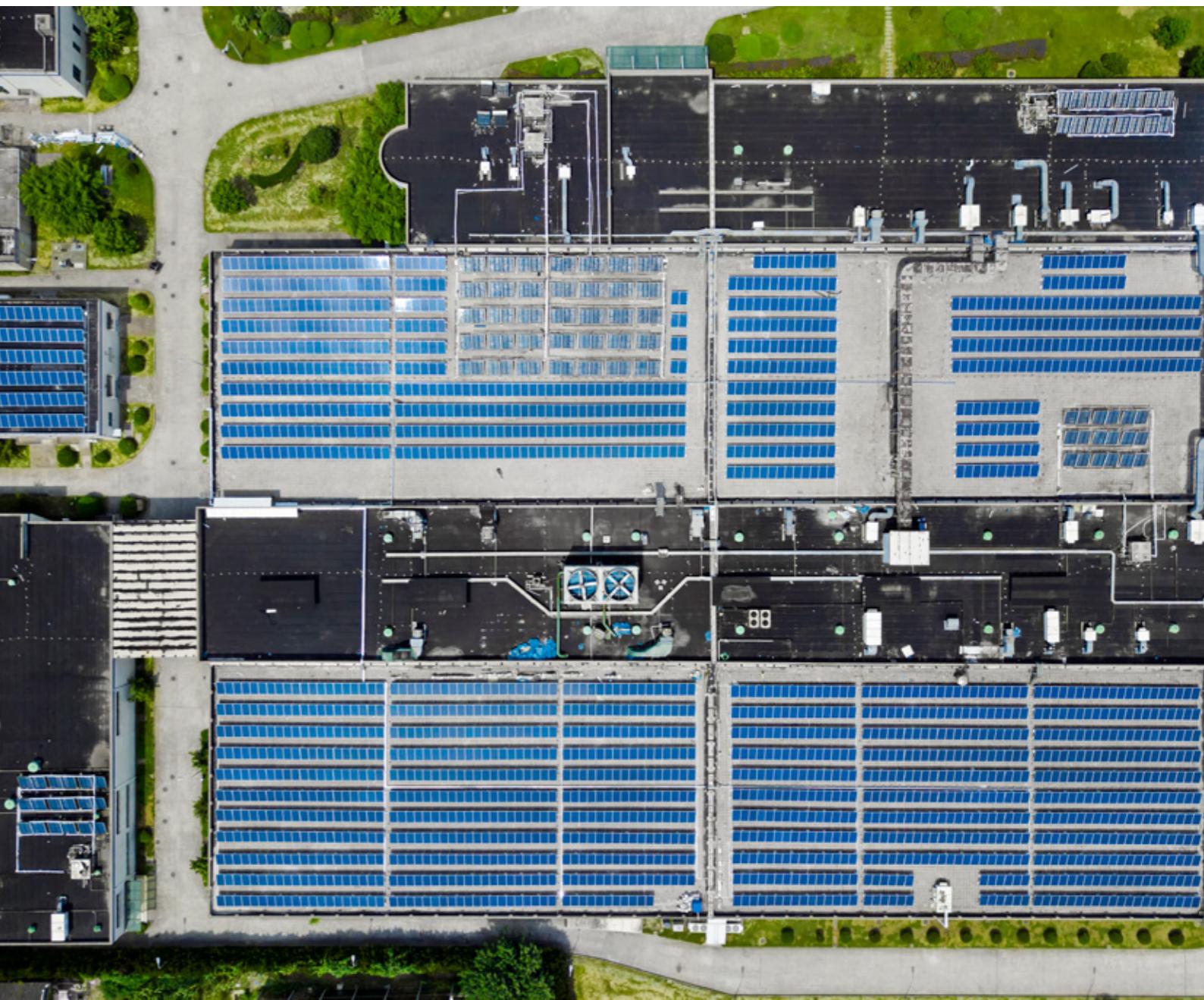
# Banishing the underperformance myth

Corporations form an essential part of human activity, and sustainable investment requires that companies generate economically sustainable returns.

There are reasons why ethical investment can out-perform. Harmful corporate behaviours often lead to negative consequences, harming growth and share price. These can include community opposition to projects, increased insurance premiums, decreased access to capital markets, damage to reputation, and litigation. Avoiding these companies gives an investment advantage. On the other hand, ethical companies have a good reputation, attracting customers, enhancing business opportunities, attracting the best staff and accessing capital markets on better terms.

Despite some investors' fears that ethical investing might under-perform, academic studies suggest out-performance by portfolios of more ethical companies. Studies covering periods from eight to twenty seven years between 1984 and 2011 using a variety of ethical strategies demonstrated out-performance of between 1.3% to 5.2% per year, even after allowing for market risk, company size, style biases and momentum effects.

Of course, these historical analyses offer no guarantee of future performance and market conditions may be different looking forwards. However, they suggest that it is by no means obvious that ethical investing under-performs and may even suggest the opposite.



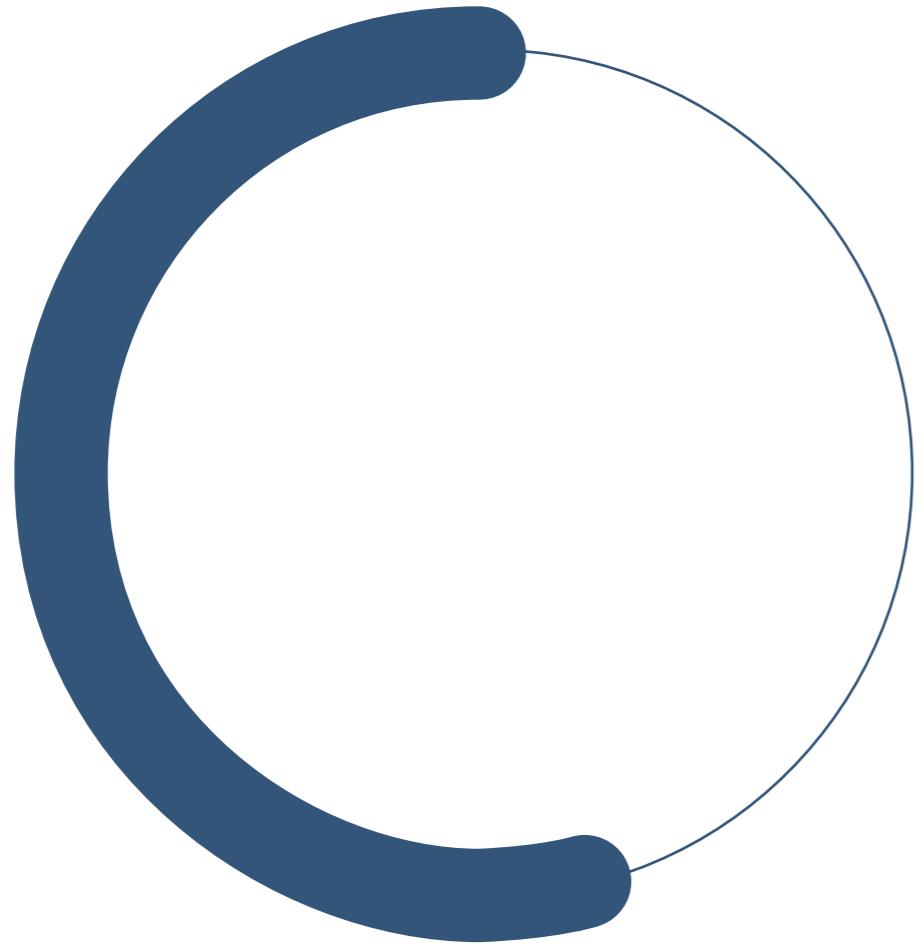
# Why you should be thinking about Ethical Investing

Unsustainable human activities have generated threats including climate change (associated with rising sea levels, extreme weather and flooding, for example) resulting in damage, loss of life, and disruption to food and fresh water supplies. Human life-span is increasing, impacting healthcare and pension costs. As less developed countries modernise more people will demand improved living standards. Ethical investors believe that behaving in an unsustainable manner will cease to be an option.

You can invest in companies that help tackle environmental, social and other challenges, while avoiding companies that engage in harmful behaviours. You can use the influence of financial markets to reward companies with positive behaviours, whilst reducing capital available to those engaging in unacceptable activities.

You can direct your savings into ethical investment funds, and perhaps make decisions regarding pension savings, so that these are also invested ethically. This allows you to better support your personal values by investing your money to support them and helping you to influence society for the better.





**54% of UK Consumers believe brands have a responsibility to the society they act in.**

Source: The social voice of brands YouGov 11/10/2018.

**53% of investors think sustainable investing is about investing in companies that are likely to be more profitable because they are proactive in preparing for environmental and social changes, 23% view it as avoiding controversial companies.**

Source: Schroders Global Investors Study 2017.

# What to do next

If you would like to try ethical investing, but are a little unsure, you could consider an ethical 'tilt' to your portfolio. Perhaps you might invest 20% of your assets ethically, whilst the remaining 80% remains invested conventionally. This lets you explore ethical investing without too great a commitment. When (or if) you become more comfortable with the concept, you can then increase the proportion of your portfolio invested ethically.

If you would like to know more, you can find more background on ethical investing on our website at:

[p1-im.co.uk/research/](http://p1-im.co.uk/research/)

Details of P1's ethical models can be found at:

[p1-im.co.uk/managed-portfolio-service/ethical-and-sustainable-investing/](http://p1-im.co.uk/managed-portfolio-service/ethical-and-sustainable-investing/)

A sense to P1's ethos and values can be seen at:

[p1-im.co.uk/our-values/](http://p1-im.co.uk/our-values/)





Environmental management standard. Demonstrating P1's commitment to improving resource efficiency and reducing waste. It provides assurance to external parties that environmental impact is being measured and improved.



UK Sustainable Investment  
and Finance Association

P1 is a member of UKSIF, a membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK. It promotes a fair, inclusive and sustainable financial system that works for the benefit of society and the environment.



P1 supports CDP (formerly the Carbon Disclosure Project) which is an international, not-for-profit organization providing a globally recognized system for companies to measure, disclose, manage and report vital environmental information. CDP holds the largest collection of primary carbon, water and deforestation information.



The PSIA aims to engage publicly traded companies on the threat posed by plastic pollution. As a signatory to the Investor Declaration on Plastic Pollution, P1 is a member of a community of socially and environmentally concerned investors working to have a positive impact on plastic pollution.

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