

# A Short History of Ethical Investing

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## Biography

Quintin has worked for actuarial and investment consultancy firms and a multi-national European bank, including wide experience in quantitative fund and risk analysis. He is a Fellow of the Institute of Physics, a Chartered Fellow of the CISI and a Chartered Wealth Manager. Quintin has applied skills gained from his Oxford University Physics Doctorate and while working in engineering to finance. He is the second UK graduate from the Sustainable Investment Professional Certification (SIPC) programme and joined [PI Investment Management](#) in January 2017, founding their ethical and sustainable investing proposition.



## Introduction

Early ethical investing was based on religious teaching [1]. Jewish law dating to Biblical times includes the responsibility of owners to prevent immediate and potential harm, while Islamic teaching (609-632CE) has become the source for modern Shariah-compliant investment standards [2]. Several religions, either historically or currently, have included bans on usury, the practice of lending money for interest. This is usually prohibited in Islamic finance but was also banned in medieval Christian tradition [1].

The Western ethical investing tradition was founded on religious roots, notably among the Methodists and Quakers. More recent developments have been in response to the Vietnam War (the 1960s), concerns about nuclear environmental damage (Three Mile Island 1979 and Chernobyl 1986), South African apartheid 1985-1993 [2] and more recently global warming, biodiversity and plastic pollution [3].

While it is an extensive topic, this article attempts to outline some of the background leading to the modern conception of ethical or sustainable investing.

## Western roots

Malthus's 1798 'Essay on the principles of population' warned of population growth outpacing the planet's ability to support human needs [4]. Including social aspects to business activity dates from the 1700s, with mutual societies and Quaker philanthropists such as Cadbury's. In the 1800s the Quakers prohibited members from participating in the slave trade.

Ethical investing also traces thinking from Methodism. John Wesley's sermon on the 'Use of Money', published in 1872, sets out principles of social investing [5]. He invited fellow worshippers and investors not to harm their neighbour through their business practices and to avoid specific industries. Investors were asked to avoid companies encouraging 'sin'. Association with pawn-broking and the sale of anything which tends to impair health (including guns, liquor and tobacco) were to be avoided.

## More recent developments

Typical business activities excluded cover the so-called "sextet of sin": alcohol, arms, gambling, nuclear, pornography and tobacco; more recently being extended to include areas such as animal testing (both medical and for cosmetics) [6].

Gradually, the list of excluded business widened to include social and environmental problems [7]. The 1972 Stockholm Conference on the Human Environment named the environmental assessment component of its action plan 'Earthwatch', recommending environmental assessment as an operational area of the UN Environment Programme (UNEP).

Business pioneers such as The Body Shop (1976), Ben & Jerry's ice cream (1978) [8] and Patagonia (1973) placed ethical and social considerations deep within their offering. The Stockholm recommendations were elaborated in the 1980 World Conservation Strategy – a collaboration between the International Union for the Conservation of Nature, the World Wildlife Fund and UNEP.

## Environment and climate

In 1983, growing realisation in national governments and multilateral institutions of linkage between economic development and

environmental issues led to the establishment of the World Commission on Environment and Development by the UN General Assembly. Depletion of the atmospheric ozone layer by chlorofluorocarbons resulted in the 1989 Montreal Protocol ban. In 1992, leaders set out sustainable development principles at the UN Conference on Environment and Development in Rio de Janeiro, Brazil. Three instruments of environmental governance were established: the UN Framework Convention on Climate Change (UNFCCC) [9], the Convention on Biological Diversity (CBD) and the non-legally binding Statement of Forest Principles.

Later in 1992, the UN General Assembly officially created the Commission on Sustainable Development. The 2006 Stern report [10] concluded that the benefits of decisive early action on climate change outweighed the costs. In 2007, the International Panel on Climate Change declared: "it is no longer a question of whether climate change policy should be understood in the context of sustainable development goals; it is a question of how". Carbon emissions play a significant role in climate change, and current efforts may prove to be insufficient to meet the 2015 UN FCCC intended aims of holding the increase in global average temperatures to well below 2°C above pre-industrial levels while pursuing efforts to limit increases to 1.5°C above pre-industrial levels [11]. In 2018 scientists reiterated the need to contain global warming within 1.5°C [12].

### **The development of the Faith in Finance movement**

In 2017, faith leaders held a conference at Zug in Switzerland [13] to launch an international faith-consistent investment movement to address challenges and opportunities of sustainable development presented by the UN Sustainable Development Goals (UN SDGs) [14].

Delegates represented more than 30 different faiths, with trillions of dollars in assets, United Nations figures and leading impact investment funds. The organisers believed it should enable faith groups to share information and resources to put their investments into initiatives to help create a better world for all, promoting a proactive policy, ensuring that faith investments have a positive "faith-consistent" impact and aiming to make money work for good, while still generating the returns they need to fund activities.

### **Different approaches**

The diverse history of ethical investing means that several approaches have evolved. The range of techniques used is extensive. Earlier approaches tended to focus on avoiding companies doing harm, while more recent developments often select firms providing solutions and taking beneficial 'impact' into account [6]. More sophisticated approaches have also evolved attempting to judge firms' relative merits under various criteria, allocating additional risk to undesirable activities and adjusting stock valuations accordingly. However, experience with investors suggests that many prefer the transparency that more straightforward approaches offer.

Sustainable and ESG investment may be useful developments [15]: by emphasising the need for sustainability, ethical investment can be placed on a more scientific basis, without the need to lean upon its religious origin. A religious basis for ethical investing could create disagreements about what can be regarded as ethical. For example, Islamic finance may prohibit payment of interest, meaning that conventional interest-paying bonds would be unacceptable, although acceptable to some other religions. The value of ESG factors is that they give clarity of focus and provide structure.

### **How this helps investors**

With improved understanding of ethical investing's origins, individuals who wish to invest ethically should be better placed to appreciate the motivations behind the many techniques offered, helping them select an approach best suited to their needs.

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## The future of audit – More light reading

by Peter Parry

The debate on the future of audit still rumbles on. UKSA and ShareSoc recently submitted a joint response to Sir Donald Brydon's review of the Quality and Effectiveness of Audit. The results of the review are due to be published later this year. The Competition and Markets Authority (CMA) published its interim review of the statutory audit market in December 2018 and requested feedback on its recommendations. UKSA and ShareSoc submitted a response. The government is now calling for comment and feedback on the CMA's final report and recommendations which were published in April 2019. Members can access the consultation document by going to:

<https://www.gov.uk/government/consultations/statutory-audit-services-initial-consultation-on-the-competition-and-markets-authority-recommendations>

The document is worth reading. It builds on recommendations from Sir John Kingman's review of the FRC. UKSA and ShareSoc will submit a response to the consultation.

The BEIS Select Committee also published its report on the Future of Audit in April 2019. This is another good report that makes interesting reading – as does the government response to the Committee's recommendations published in June 2019. Both documents can be downloaded from the BEIS website:

<https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/inquiries/parliament-2017/future-of-audit-17-19/publications/>

Finally, PwC has just released a report on the 'The Future of Audit' which summarises the feedback from a series of roundtable discussions which it held around the country in late 2018 and early 2019. There is a summary version of the report and a full version. Members can access the full version by going to: <https://www.pwc.co.uk/who-we-are/future-of-audit/pwc-future-of-audit-report-july-2019.pdf> or the summary at <https://www.pwc.co.uk/who-we-are/future-of-audit/pwc-future-of-audit-summary-report-july-2019.pdf>. The full report requires a little more effort but it is worth it.

If you are tired of reading about audit and the future of audit, don't worry. Following a recent very successful event which PwC ran for us on **Environmental Reporting**, a follow-up event is planned for the afternoon of Wednesday, 27 November. The venue is likely to be at PwC's More London offices near London Bridge. A number of those who attended the event in May said they would welcome something that involved greater direct input from them. The plan is that the next event will be highly participative. Make a note of the date and watch this space for more details!