

# The Importance of Ethical Investing

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Ethical investment can be seen as falling into the 'nice-to-have' but non-essential category, 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. Insight can be gained by exploring the relationship between sustainability and finance, also setting the background for ethical investing.



Unsustainable human activities have generated threats including climate change (associated with rising sea levels, extreme weather and flooding, for example) with damage, loss of life, and disruption to food and fresh water supplies. Lengthening life-span means demographics will have an impact on healthcare and pension costs. More of a growing world population will demand improved living standards as less developed countries modernise. Responsible investors argue that behaving unsustainably will cease to be an option.

Personally, aspects of my interest in this area can be traced back to my DPhil while at St Hugh's, in the Department of Atmospheric, Oceanic and Planetary Physics, with an understanding of climate change, and the role of carbon and other greenhouse gas emissions. In the financial sector, ethical investing is one way of promoting beneficial corporate changes addressing this.

Climate change might be regarded as the 'grandfather' of all environmental issues. While other environmental and social issues are of undoubted importance, few show the same potential to pose an existential threat to human society, multiple species, or with malign consequences for individual countries and cultures.

In the charitable sector, dedicated individuals work to address many such challenges directly. Charity trustees and others may not appreciate that even while not being expended to achieve objectives, sums of money raised can be supporting worthwhile goals while being invested pending future use.

## The Role of Companies

Corporations are ubiquitous and powerful, with a truly international presence. Humanity needs them to end harmful behaviours and tackle future challenges. These may include environmental, climactic and social issues. Regrettably, part of industry's dynamism comprises the externalisation of costs onto the environment, communities, employees or future generations. Financial markets help support and control corporate behaviour. Markets reward ingenuity, efficiency, talent and productivity through the ability to raise funds and by share pricing. Companies making far-sighted investments tackling problems will benefit in either the short or longer-term, making them valuable investments.

Since corporations form an essential part of human activity and development, sustainable investment also requires that companies generate economically sustainable returns. This counters short-termism, in which immediate profits are made at the expense of damaging profitability at a later date.

## The Modern Business Environment

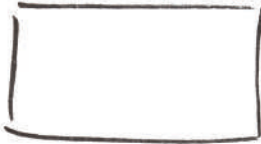
In today's business environment, there is appreciation that:

- Companies taking environmental risks have caused disasters (e.g. oil spills, deforestation, mining pollution).
- Social costs of business practices cannot be ignored, as in previous eras. Public tolerance of unacceptable worker conditions has diminished (e.g., mining and child labour).
- Companies require effective governance to develop confidently, meet legal and ethical requirements, and be accountable to stakeholders. Corruption facilitates losses and sub-optimal decision-making. Poor oversight encourages high-risk behaviours and damaging scandals; potentially undermining reputations of entire industry sectors. For example, the banking and finance LIBOR scandal.



In the modern technologically-enabled world, corporate environmental, social and governance failures are readily exposed, rapidly achieving global media coverage. Failures can result in financial losses, adverse litigation, reputational damage and clients taking business elsewhere. This can cause enormous damage to companies' values, share prices and ultimately even long-term survival.

Thus ethically and sustainably-orientated companies can target higher long-term profits by addressing necessary challenges while avoiding failures. At the same time they accumulate marketing advantages and loyal customers as a result of their ethical behaviour.



### Why this Matters

Many individuals, including charity trustees, are motivated by recognising the challenges of climate change and social issues. Global awareness of corruption raises appreciation of the value of good governance.

Individuals understand the importance of ethical issues, and extend these considerations into ever-increasing aspects of their lives. Beyond retail consumer decisions, more people are using ethical considerations to guide their investments as well. In May 2017, according to the Investment Management Association, £13.8 billion was invested in the UK ethical funds sector, an annual increase of £3.0 billion.

Ethical investors select companies that help tackle the challenges of environmental, social and other problems, while avoiding companies that engage in unsustainable or harmful behaviours. They use the influence of financial markets to reward companies with positive behaviours, whilst reducing capital available to those engaging in unacceptable activities. Selection of individual companies to support can be targeted in-line with specific ethical objectives. Individuals can direct their savings into ethical investment funds, and can often make decisions regarding pension savings, so that these are also invested ethically.

Clearly, individuals, including charity trustees and others, will want to be able to better support their aims by making the monies they have invested work in support of their objectives. This can be in addition to on-going daily commitments, making ethical investment an important way to influence society for the better.