



Fisher Funds

Investor Education Centre

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Ethical Investing - Can you do well and do good?

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We have all noticed the growing global awareness of environmental, social and ethical issues. Even if we don't hold strong views on social responsibility, each of us is probably more aware now of the choices that we have in terms of the household products we use, the food we eat, and how we travel to work. Increasingly, investors are showing an interest in reflecting their ethics and beliefs in their investments.

Ethical investing is not new. For example religious organisations have long used morals to help make investment decisions, aiming to avoid involvement with companies whose products were perceived to be 'bad' such as alcohol and gambling.

The concept of socially responsible investing has evolved and has become increasingly complicated. It is a challenging area because we all have different standards. What is ethical and responsible for me may not be ethical and responsible to you. While I might be comfortable investing in a wine company, you might want to avoid all businesses vaguely associated with alcohol. A lot of investors would like to 'do well' while at the same time 'doing good', however it is not always that simple.

Finding investments consistent with your own ethics is probably quite easy, but if you are using a fund manager, you need to check out their policies and goals because each will be quite different. I have been frequently asked over the years whether our funds are socially responsible – I think they are, but others might have different definitions.

Fund managers can use a number of 'ethical strategies' to help select stocks for their portfolios. They can look for 'best in class' companies within an industry which stacks up well against a set of environmental or social criteria. Or they can be more proactive by focusing on industries which have the potential to influence the world in a positive way.

Ethical screening is probably the most common approach among fund managers, where companies are included or excluded for their ethical policies and behaviour. The fund manager then selects their preferred investments from the short list of companies which meet high social or environmental standards.

Another strategy is known as *engagement* where companies that are believed to be able to 'do better' are targeted by fund managers. Once purchased, the fund manager uses their influence as a significant shareholder at board and management level to try and get the company to change its policies and behave in a more responsible manner.

Socially responsible investing is complex and will likely further evolve. Ideally we would all like to 'do good' at the same time as maximising returns, but it can be a balancing act ensuring good ethical decisions are not made at the expense of investment returns.

For me as a fund manager, the 'do well' objective must always be the main focus, although as I said earlier I believe our funds are also socially responsible. From my experience, good companies become good companies because they understand the needs of all their stakeholders – including staff, customers, community, environment and shareholders – and as a result, they become good investments.

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