Responsible Investing

...FMB

We're here for all life's journeys...

Contents

Introduction

We are all becoming more aware of world issues such as climate change, particularly since attention has been drawn to these areas by high-profile individuals such as Sir David Attenborough and Greta Thunberg. More people are now wanting their investment to match their personal values; this can be where Responsible Investing comes in.

Responsible or Responsible Investing can be confusing as there are so many names and terminologies: Environmental, Social and Governance (ESG) Investing, Sustainable Investing, Impact Investing and Socially Responsible Investing to name a few. However, one thing we can agree on is that it is becoming a much larger part of how people invest. As awareness around the challenges affecting our planet and population increases, more people are incorporating this into their investment choices.

The investment industry is changing to meet the increasing demand for people's money to do good. Ethical funds were once a niche product whereas now responsible funds are a lot more mainstream.

The evolution of Responsible Investing in a backdrop of rising awareness

7th Century — Islamic Banking prohibits investments in alcohol or pork

18th Century — Quakers and Methodists prohibit certain investments

1928 — Pioneer Fund was the first “socially responsible” mutual fund in the US born in the prohibition era

1950s and 1970s — Trade Unions use capital assets from their pension funds to positively influence society

1997 — Business pushes back against Apartheid in South Africa with the Sullivan Principles for equal pay

1980s — Environmental disasters: Chernobyl and Exxon Valdez oil spill

1984 — First ethical unit trust launched in the UK

1987 — Montreal Protocol to combat ozone depletion

1990 — Domini 400 Social Index one of the first responsible indices launched

1992 — First Earth Summit in Rio

1996 — Nike sweatshop scandal

2004 — Term ESG coined (Environmental, Social and Governance)

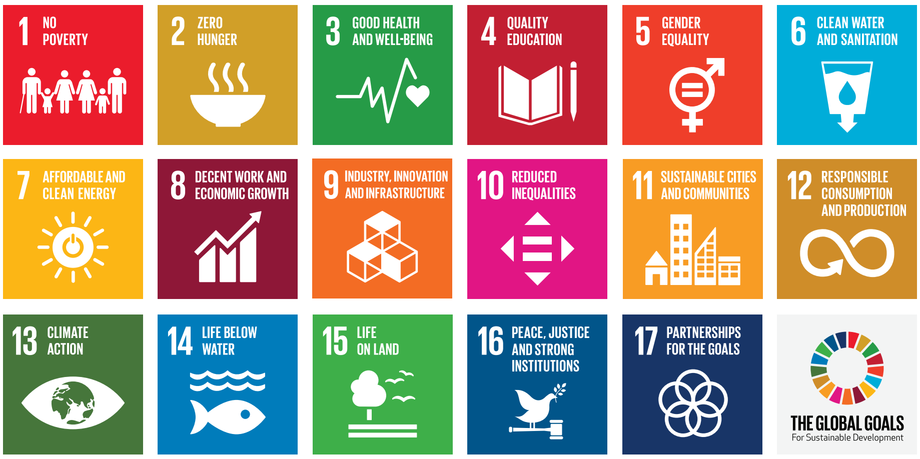
2006 — UN Principles for Responsible Investment launched

2015 — Paris Agreement, launched the Sustainable Development Goals (SDG’s)

2021 — Increased regulatory scrutiny, FCA launches ESG principles for Fund Managers

United Nations Sustainable Development Goals

In 2015, the United Nations set out 17 sustainable development goals to try to tackle some of the biggest issues of our time. Many of the responsible funds try to make improvements in these areas.



The United Nations 17 sustainable development goals.

The Spectrum of Responsible Investing

Investors can choose where they want to be positioned on this spectrum, and the choices available are getting much broader.

Responsible Investing isn't black and white, there is a spectrum of investment approaches. From Traditional Investing, where only returns are considered, through Socially Responsible Investing, where ESG factors are incorporated but returns are also considered, to Social Impact Investing, where the impact of an investment is measured, rather than just the return, to Philanthropy, where the objective is to give back to society rather than generate returns.

Traditional	ESG Integration	Stewardship	Exclusions	Sustainability Focus	Impact Investing	Philanthropy
Solely focused on generating financial returns	Investments consider Environmental, Social and Governance risks	Incorporates ESG factors, has long term focus, and also engages with the funds they are invested in	Certain areas are excluded from an investment portfolio also known as Negative screening	Positive investment choices, look to pursue opportunities	Creating a positive, measurable, social and/or environmental impact	Giving back to society through charitable gifts and donations
Competitive risk-adjusted returns					Below market returns	No requirement for financial return

Why Choose Responsible Investing?

There are a large number of reasons why investors are incorporating Responsible Investing into their decision-making process

Including:

Managing risk: Environmental risks are considered to be top of the risk agenda by many, including the World Economic Forum.

Fiduciary duty: There is a responsibility by those who manage other people's money (e.g. fund managers) to act in their beneficiaries' interests. Responsible Investing factors are now considered to be financially material and therefore should be considered in the investment process.

Demand: As noted above investors are becoming more interested in the environmental and social impacts of the companies that they invest in, and also that these factors influence company value, returns and reputation.

Financial materiality of integrating ESG factors: by incorporating these factors it can lead to reduced costs, risk of fines and state intervention and increased efficiencies and ability to benefit from global trends.

However, there are also some challenges, including:

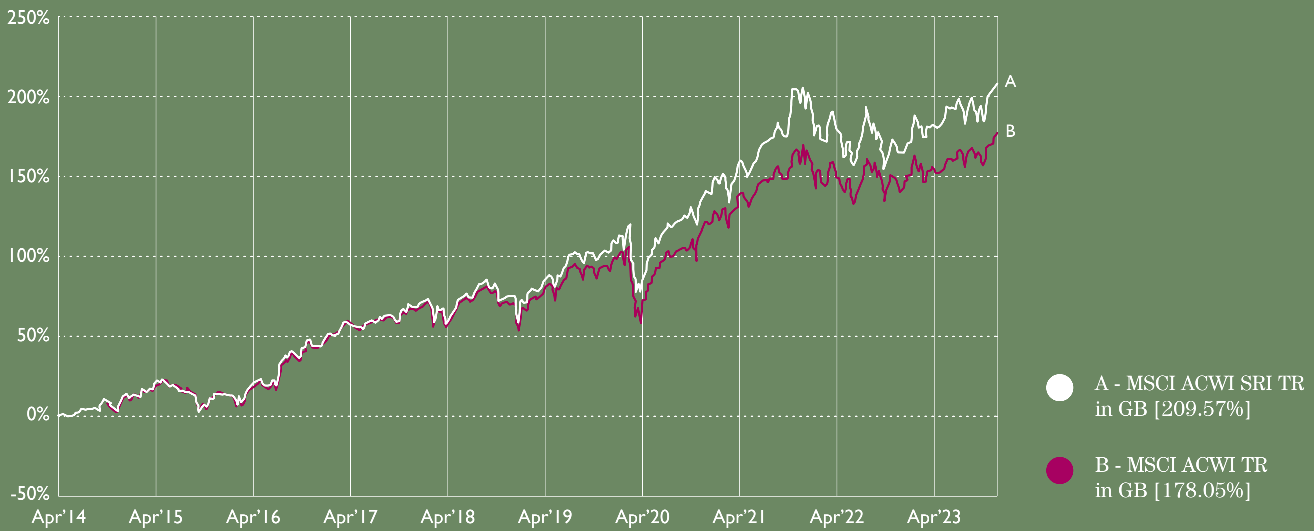
The perception that incorporating a Responsible Investing approach can have a negative impact on performance.

The level of resources required to complete due diligence and research on responsible investment options and the availability of data to support this, along with the consistency of the information.

Investing in responsible funds does not always mean compromising on performance

As you can see from the chart below, responsible investments can outperform traditional investments. Past performance is no guarantee of future returns.

Global Equities v Global Socially Responsible Equities



24/03/2014 = 19/12/2024 Data from FE fundinfo2023

MSCI ACWI stands for MSCI All Country World Index. It is a widely used global equity index that represents the performance of both developed and emerging equity markets around the world.

The MSCI ACWI SRI utilizes a "best in class" selection method to identify the top 25% of companies in each sector based on their MSCI ESG ratings. Additionally, it excludes companies operating in industries deemed harmful, such as tobacco, alcohol, gambling, civilian firearms, military weapons, fossil fuel reserve ownership and extraction, thermal coal power, nuclear power, adult entertainment, and GMOs.

Our Responsible Investment Process

At FMB, we can help you to determine how you would like to invest to align with your values.

Our job is to meet your goals and objectives and to investigate whether we can find investments that match your values within those parameters. Increasingly the fund management companies are becoming more aware of the consumer desire for values-based investment, so there is a wider choice available. We have a questionnaire to help you discover what is important to you.

How we select responsible investments:

1) During our financial planning process if there are investments to be made we will ascertain your attitude to risk. This is our opportunity to ask about any investing preference you might have and whether Responsible Investing is something you would like to consider.

2) Depending on your preferences, and where you fall on the spectrum of Responsible Investing we will suggest ESG-rated funds from our investment panel that match your risk rating. If you have particular personal preferences to exclude or include certain companies or industries we enlist the help of a specialist Discretionary Fund Manager.

3) We will present our recommendations alongside all the information you need about the suggested investment strategy in order to make a final decision.

4) If you subscribe to our ongoing review process, we will monitor the investments as part of your financial plan each year and check if they are still suitable for your needs.

Glossary

Best-in-class investment

Choosing only companies that exceed a set hurdle using defined criteria.

Environmental

A company's impact on the natural world e.g. climate change, biodiversity loss, water pollution, resource scarcity.

ESG Investing

ESG investing refers to a form of investing that considers environmental, social, and governance (ESG) criteria alongside traditional financial factors in the decision-making process.

Exclusions

Or negative screening. Removing certain areas of investment from a fund perhaps by sector, company, jurisdiction or business activity.

Fiduciary duty

Fiduciary duty refers to a legal and ethical obligation that one party has to act in the best interest of another party. The party with the fiduciary duty is known as the "fiduciary".

Governance

The way a company is run and its impact on its stakeholder e.g. bribery and corruption, executive renumeration, board structure and political contributions.

Impact investing

Impact investing is an investment approach that seeks to generate both financial returns and positive, measurable social or environmental impact.

Social

A company's impact on its people and communities e.g. human rights, working conditions, labour standards, data protection.

Stewardship

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society" – Financial Reporting Council in The UK stewardship Code 2020.

Risk warnings

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

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