

A guide to sustainable investment



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Matching money to morals

There have always been investors keen to match their money with their morals, with sustainable (or responsible) investing being around since the 1980s. Although sustainable investment has remained a somewhat niche area for many years, this is now no longer the case.

As society becomes more conscious of environmental and social issues, such as climate change, human rights and diversity, we are now taking much more interest in how our money is invested. While generating good investment returns is still very important, today we're also increasingly focusing on how companies are generating those profits.

Important information

Please remember that past performance is not necessarily a guide to future performance, the performance of investments is not guaranteed, and the value of your investments can go down as well as up, so you may get back less than you invest. When investments have particular tax features, these will depend on your personal circumstances and tax rules may change in the future. This document does not contain any personal recommendations for a particular course of action, service or product. You should regularly review your investment objectives and choices and, if you are unsure whether an investment is suitable for you, you should contact your financial adviser. Before opening an account, please read 'Doing Business with Fidelity Adviser Solutions' and our Client Terms. Prior to investing into a fund, please read the relevant key information document which contains important information about the fund.

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More choice, less clarity

With a growing emphasis on sustainable returns, there has been a wave of interest in funds focused on sustainable investment. But wider choice potentially brings greater confusion, especially given there are different definitions of what sustainable investment means – not just by investors but by fund managers as well. Should a stock involved in the oil industry, for example, be excluded from a fund even if it is making big strides to clean up its act?

In this guide, we aim to decode the concept of sustainable investment and answer why some investors regard certain companies as sustainable while others do not. We'll also highlight the different approaches taken by sustainably-managed funds. Your financial adviser can also help you learn more about this area of investing. In particular, they can work with you to identify funds that are managed in ways that are consistent with your views and your long-term investment goals and morals.

What does sustainable investment mean?

There are many terms used to describe sustainable investment, such as green, responsible, socially-responsible and impact investing. These are often used interchangeably even though they can signify differences in the way an investment is managed. Traditional ethical investing, for example, typically involves excluding companies from specific 'sin' sectors, such as those involved in the production and distribution of alcohol or tobacco. Impact investing, on the other hand, goes further and actively involves investing to make a positive social and environmental impact.

The E, S and G

Today, the common theme amongst responsible and sustainable investments is that they tend to focus to some degree on environmental and social standards as well as on how individual companies are managed (corporate governance). These areas are generally regarded as the three pillars of responsible investing. This has led to another term to describe this topic – ESG investing. The range of factors that fall under these three pillars are highlighted in the panel below.

Examples of the criteria fund managers commonly consider when investing sustainably



Environmental factors

How a company is addressing issues such as climate change, resource depletion, waste, pollution and deforestation



Social factors

A company's policies and record in relation to human rights, modern slavery, child labour, working conditions and employee relations



Governance factors

A company's record in relation to bribery and corruption, executive pay, board diversity and structure, political lobbying or donations and tax strategy.

When a fund manager meets with a company's board prior to making any investment, they may well quiz them on their ESG credentials. They'll be looking for signs that the firm is doing the right thing by their employees, the industry regulator, the environment and their surrounding communities. For instance, this could mean making sure staff are paid a good wage, there is a sensible approach to corporate risk management so any fines for bad practice are unlikely, and asking what the firm is doing to reduce pollution and support local initiatives.

Once a fund manager takes a stake in a business, they can drive positive change within that company. As a major shareholder, for example, they can encourage the company's management to become more sustainable or socially responsible. They can also use their considerable voting rights at shareholder meetings to either support or oppose plans put forward by the board. In this way, sustainably-managed funds can be a great option for today's conscious investor.



The different approaches to investing more sustainably

Sustainably-managed funds are not all managed in the same way. Some may specifically exclude stocks from certain industries, such as those involved in arms manufacturing or the extraction of fossil fuels. Conversely, another fund manager may invest in companies from these 'sin' sectors on the basis that their ESG credentials are moving in the right direction. In other words, the fund manager will support firms who are making a conscious effort to improve how they operate from a sustainable or responsible perspective.

It is therefore important to know how a sustainably-managed fund is run, particularly if you wish to avoid certain stocks or industry sectors due to ethical, moral or religious considerations. We recommend that you talk to your financial adviser about any specific objections you may have about how your money is invested. This will help them to identify the right fund(s) for you.



In order to make comparisons of sustainably-managed funds easier, SRI Services, an independent and specialist business with over three decades of experience in sustainable investment, has classified every fund as one of seven 'SRI Styles'. Definitions of these styles are shown below:

1 Sustainability focused

An investment approach that focuses on identifying companies that offer products and services that encourage greener lifestyles or show sustainability leadership. Funds adopting this approach typically avoid sectors that don't help raise environmental or social sustainability standards, as well as arms and tobacco companies.

2 Environmentally focused

An investment approach that focuses on environmental opportunities – from single issues like water, resource management or waste, to broader issues such as biodiversity and climate change.

3 Socially focused

An investment approach focused on people issues – from employment and education, to diversity, equality and human rights. Funds adopting this approach invest in companies with positive social practices.

4 Ethically focused

An investment approach that focuses on issues relating to personal values or opinions. Funds adopting this approach typically invest in companies with more positive environmental and social practices and avoid areas that are widely regarded as more negative – like arms, tobacco and gambling.

5 ESG weighted

An investment approach that considers environmental, social and governance (ESG) or sustainability issues, but isn't wholly directed by them. Funds adopting this approach tend to favour companies with higher ESG or sustainability standards. They will typically invest more heavily in those that have higher ESG ratings, standards or scores and less heavily in companies with lower ESG ratings.

6 Limited exclusions

An investment approach that will only limit investment in, or exclude a small number of, companies such as tobacco companies or companies that breach commonly adopted ESG standards. They may aim to encourage companies to improve their standards.

7 Faith based

An investment approach that focuses on faith-based issues (e.g., Sharia Law). Funds adopting this approach tend to use negative ethical screening to invest in assets that align with a recognised religion or faith. Other funds may also be suitable for investors of faith, although their core focus is not religious beliefs.



Sustainable investing standards

Several principles and ideals act as a common reference point for fund managers who invest sustainably. Examples of some high-profile and important industry standards are highlighted below. Ensuring that the manager of a fund has signed up to these codes or principles may be an important factor when choosing a fund for your portfolio. Your adviser will be able to help establish whether or not a fund manager meets these standards.

- The UN-supported **Principles for Responsible Investment (PRI)** is regarded as the world's leading proponent of responsible investment. It has issued a set of voluntary and aspirational investment principles that all signatories must commit to. Signatories are regularly assessed on their progress against targets and peers.
- **The UK Stewardship Code** sets high expectations of those investing money on behalf of UK savers. It consists of 12 principles which encourage the responsible allocation and management of capital.
- **Climate Action 100+** is an initiative taken by the investment industry to ensure the world's largest corporate greenhouse gas emitters take the necessary action on climate change. Signatories engage with companies to curb emissions, improve governance and strengthen climate-related financial disclosures.
- **Net-Zero Asset Manager Initiative** is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.

The UN's Sustainable Development Goals (SDGs)

Launched in September 2015, these 17 high-level goals form a blueprint to achieve a better and more sustainable future for all. The aim is to achieve them all by 2030.

These goals are influencing fund managers in many ways. Firms may take these into account when choosing which businesses to invest in, for instance, and when engaging with the companies as shareholders.



Six points to remember when investing sustainably

- 1 Very few sustainable investing issues are straightforward.** There are almost always ambiguous areas to explore and decipher.
- 2 There is no ideal size of company.** Smaller businesses often lead change but, for our lifestyles to become more sustainable, bigger companies need to be encouraged to change too (and many of them are already doing so).
- 3 Larger companies tend to be more diverse than smaller ones.** They are more likely to do things that you may not necessarily agree with. Try to bear this in mind.
- 4 No one's perfect.** Most companies have positive and negative attributes – no business is entirely ethical or unethical. Companies will probably make mistakes from time to time.
- 5 Sustainable funds are not all the same.** Different fund managers have different policies and may – or may not – exclude companies involved in specific activities.
- 6 Always speak to your financial adviser before making any investment decisions.** Tell them about any ethical, moral or religious factors that are important to you that should be taken into account when investing your money.

Want to know more about investing sustainably?

If you have any questions or simply want more information about sustainable investment, simply speak to your financial adviser. They will be able to discuss the different approaches with you and, if appropriate, recommend funds and other investments that are managed in a way that are consistent with your views and investment objectives.

If you have any questions about the investments or services we provide, please speak to your adviser in the first instance.

Alternatively, call us on **0800 358 4060** or visit **fidelity.co.uk/clients**

