

2010 Newsletter

Welcome

So, we enter the second decade of the new Millennium, and what a decade the last one was. In the last moments of 2009 we witnessed the near collapse of the Copenhagen meeting and the emergence of a political compromise that, at best, was better than nothing and, at worst, continues the momentum towards environmental catastrophe. The eyes of the World will be on politicians in 2010 to see whether or not the Copenhagen agreement can be firmed up, made legally binding and start to make a positive difference to the long term outlook for planet earth. Even if some of the science is still untested, respect for the environment and reducing our impact must guide our actions in the future.

On the good news front, the ethical investment movement is going from strength to strength. The recent near collapse of global economies has proved that all out greed benefits a tiny minority whilst damaging the interests of the majority. All those investing ethically are now charged with a simple task for the next decade; continue to invest ethically and spread the word as widely as possible. We hope more and more people, having been damaged by the stupidity and greed of the last 10 years, will be more inclined to invest ethically and responsibly.

For our part, we will continue to monitor the individual investment decisions of the ethical fund managers to ensure that they continue to follow their stated objectives. Unfortunately not all companies, including some of the biggest names, see their published criteria as something they need to stick to! On top of this, we will be looking at the overall social and environmental policies of the companies themselves; for example looking into issues such as corporate travel policies (flying large teams on 'fact finding' missions abroad) and energy efficiency schemes.

2012 – All change for Financial Advice

In a recent Hollywood blockbuster movie, the World came to an end in 2012. If Government plans go ahead, the end of financial advice as we currently know it will come to an end. Now, this is nowhere near as apocalyptic as the end of the Earth, but everyone will have to get used to a brave new world post 2012.

The core aim of the changes is to separate the act of buying a financial product from the act of providing advice. Logically, the two are completely separate, but historically financial advice and the product bought have all been lumped together. The Government's aim (and supported by the opposition), is to make sure that the public once and for all separate the link between advice and products. The changes are under the Financial Services Authority's remit as part of their "Retail Distribution Review".

A key part of this is that initial commission payments to advisers from products will cease, which will result in the need for a different relationship between client and adviser. Whilst fees may not always need to be charged they will become a more common part of the advice process. It is worthwhile pointing out that some of the ongoing 'commission' payments that are paid to us now, will be treated as 'fees' under the new regime. So, the move to a formal fee basis for advice may not be as disruptive as it may first appear.

What this means in practice is that the public will be divided into 3 main groups: those that recognise the need for and will pay for financial advice; those that will go it alone and cut out the cost of financial advice;

and those that deal with Banks/Building Societies and will be sold a plan from the list available. Clearly, post 2012, Ethical Investors will be keen to maintain relationships with those clients who value what we do.

Whilst most clients have an understanding of some of what we do, we are sure that many will not fully understand the breadth of 'behind the scenes' work that we undertake on their behalf. As we near 2012, we will be developing a more comprehensive client proposition; this will detail what each client can expect from us, and will include a menu of advice and services available for different levels of fees. There will be no getting away from it, as these new rules will apply to every Independent Financial Adviser in the country, and we hope that it will become part of the normal discussion between you and your Ethical Investors adviser.

Tax Year End

The current tax year ends on 5 April and it is important that if you have unused allowances that these are not lost. Most importantly, if you have money available on deposit that is not in a Cash ISA, do it now! For those over 50, the maximum investment is £5,100 – for everyone else the maximum is £3,600. From 6 April 2010, everyone benefits from the higher investment limit of £5,100.

If you would like to invest more than your Cash ISA limit, then a Stocks and Shares ISA is a sound longer term (5-10 years) investment. Being subject to the vagaries of the stock market, these are not for everyone. However, held for the long term they can offer higher returns. If you are interested in a Stocks and Shares ISA for this tax year, or the next, please read about the Environmental Solutions Fund in this newsletter – we think this is an excellent fund to hold in an ISA.

For advice on both Cash and Stocks & Shares ISAs, please contact your usual Ethical Investors financial adviser. As the end of the current tax year falls on a Bank Holiday, we would need your application/cheque to reach us no later than the end of March to ensure you beat the deadline.

Newsletters by email.

Every year Ethical Investors sends its clients a newsletter (such as this one) covering issues relating to ethical investment, finance, taxation and other matters of interest. These newsletters are far easier to write than they are to disseminate, with a full mailing running to approximately 4500 copies.

After 20 years we feel it is time to modernise the way that we communicate with clients. To this end, we have decided to issue all future newsletters in electronic form (an emailed PDF) where we have an email address for a client. We are conscious of the fact that this may not be suitable for everyone, so a printed copy will continue to be sent to those for whom we have no email address. If you are happy to receive newsletters via email, please make sure you keep us up to date with any changes in your email address.

Producing the majority of our newsletters at less cost in PDF format enables us to increase the amount of money we donate to charity each year. In addition, we would like to issue newsletters more often, and doing this electronically is extremely efficient. Add to this the reduction on Ethical Investors' environmental impact by reducing the use of electricity (printing) and paper, and overall we feel that this is the best way forward.

New Environmental Fund

Ethical Investors has recently been involved in the creation of a new Environmental Fund of Funds, launched at the beginning of February this year. It is called the *Environmental Solutions Fund*, and is managed by Vestra Wealth. The fund will invest in other investment funds that specialise in all aspects of environmental technology and protection.

Over the last year or two an increasing number of new specialised funds have been launched with a proactive environmental focus. These have not come from the usual large investment providers, but from small, boutique firms seeking to offer a new exposure to new markets and developing technologies. For advisers the tricky part is knowing which fund to recommend from the available range and then how to incorporate new funds as they reach the market.

A fund of funds approach offers two key benefits; firstly, a manager selects the individual funds that make up the holdings within the overall pool of money, actively trading to include the best performing funds. Secondly, as new funds are launched, they can be included within the fund if their financial and ecological credentials are deemed appropriate. This strategy provides a more dynamic investment than can be achieved by holding a range of funds individually; this approach is sensible and wise with large, well established funds, but for a vibrant, new arena it strikes us as beneficial to utilise this approach.

At launch the fund investments include well known funds such as Jupiter Ecology and Impax Environmental Markets, alongside more specialised clean energy, sustainable timber, low carbon and water treatment investments.

Ethical Giving (www.ethical-giving.org)

In our Short Update of October 2009 we confirmed that Ethical Investors has established its own Charitable Foundation – *Ethical Giving*. We are very excited by this move, as it represents something very new in the charitable giving sector. *Ethical Giving* will receive the annual profit distribution from Ethical Investors, and will make donations to charities and good causes in accordance with the preferences indicated by our clients through the normal Ethical Investors voting system. But that's not all – by a long way!

Ethical Giving has been set up to receive donations from individuals, using the Gift Aid system, and can also receive legacies from individuals. Let's look at why you should be using Ethical Giving for both of these areas: -

- Annual or one-off donations – if you want to make a donation to a single charity, it is more efficient to give the money directly. If, however, you want to make multiple donations to a range of charities, it may be more efficient for you to use Ethical Giving; make a single donation to *Ethical Giving*, complete one Gift Aid form and then make multiple donations to different groups and charities just by providing the details to us. It's that simple. Unlike other similar charities that will charge you or the receiving charity up to 5% of the donation (yes, there is money to be made in the area – at the expense of charities), the only charge for using Ethical Giving is 1% of the gross donation. Using *Ethical Giving* also benefits from the 'ethical filter' that we apply – see later.
- Legacies – a number of our clients leave money to charities and good causes in their Wills. The problem with making donations to multiple groups is that this increases administration at the time of Probate, for example, making sure they are still in existence and they haven't changed their names. Every time you want to make a change, you will have to amend your Will. By nominating *Ethical Giving* as the single beneficiary, you will never need to change your Will over the years. Instead, you simply complete one of our 'Expression of Wishes' forms (free of charge) indicating how you would like the money distributed on your death. At the time your Will is administered, the Executors make a single donation to *Ethical Giving*, and once the money has cleared we can distribute the funds in accordance with your wishes. You can name specific groups and charities to benefit or you can nominate a 'theme', leaving the decision to the *Ethical Giving* Trustees to find the most appropriate groups to benefit. Please remember that at Ethical Investors we have a record of your ethical criteria/preferences and can use this to forward your money to groups operating in ways closest to your personal ethical values.

Ethical Filter – this is probably the most unique aspect of *Ethical Giving*. As part of the donation process, we will make tools available to donors to investigate the ethical credentials of the charities that they want

to support. Whilst Ethical Giving has no fixed ethical policy when it comes to making donations, individuals will have their own values and these can be applied to the donations they make. In our 2008 Newsletter we highlighted the fact that many charities do not necessarily apply ethical values to their own activities, nor link their investment and pension policies to their mission statement. If this 'disconnect' is important to you, Ethical Giving will be able to provide appropriate questionnaires (download from the website) that you can send to your chosen charities. The information provided will help you decide on whether to continue with your donation, or perhaps engage with your preferred charity if their internal operations do not meet your values. Choosing to donate via *Ethical Giving* ensures that your charitable donations are fully inline with your ethical principles.

Wills

As a key part of financial planning, Ethical Investors recommends that all our clients seriously consider having a Will professionally drafted, to ensure their wishes and intentions are adhered to in full after their death, and all suitable planning strategies have been considered. If you die without a valid Will, (Intestate), then a number of issues may arise which can be avoided by simple advanced planning.

These can include: your estate may not be distributed to the people you would wish to receive it (your partner or children may lose out); any dependant children may be placed into care if you have not stated your preferred guardians in a Will; bank accounts and other financial accounts would be frozen for a significant period of time; and you may leave your estate facing a large tax bill due to inheritance tax liabilities. Additional problems may arise if the capacity is lost to manage your affairs due to illness.

So, what's the solution? Well, if you have a good relationship with a solicitor expert in drafting tax efficient Wills, go to see them as soon as possible. If you do not have such a relationship, then Ethical Investors can provide flexible highly personalised solutions at a competitive cost. We have formed an alliance with AssureWills, who specialise in writing Wills and helping individuals with specific planning strategies, including Will Reviews, Lasting Powers of Attorney, Inheritance Tax Planning, Trusts and Long-Term Care Planning.

AssureWills can assist our clients to produce the most effective Will for their needs; this will include the most basic aspects of a Will (who gets what), but also includes issues such as guardianship of children, planning for care home fees, inheritance tax planning etc.

To discuss your Wills please contact Ethical Investors, or go directly to AssureWills by calling Michael Clarkson on 01223 967477 or email – mwc@assurewills.co.uk. For more information see www.assurewills.co.uk

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