

Our Ethical Proposition

Welcome

“What you see is what you get” is an epithet that doesn’t sit well as a description of Ethical Investors. We genuinely believe that our financial planning service is completely different to anything you will experience with any other financial adviser. This document explains the range of services that clients can expect from us, as well as clarifying our approach to fees and commissions, as referred to in our Key Facts ‘Menu’ document.

Ethical Investors was founded in 1989, to provide a holistic financial planning service to all those who wished to place their personal values alongside their financial arrangements. The ethos of the company is ethical, but this is not solely restricted to ethical investment advice or our unique profit distribution (see later). It extends to the way in which we are remunerated and our relationship with clients, staff, product providers and Regulators. We feel it is vital that our method of doing business is as ethical as the standards we expect of those companies held in ethical funds.

Coming back to the opening line “what you see is what you get”, it is important that clients understand what services we provide, and what activities are undertaken on their behalf. Below is a summary of what marketing people would nowadays call our Unique Selling Points (USPs).

➤ Profit Distribution

You will have noticed from our other literature that Ethical Investors makes a pledge each year to distribute at least 50% of its net profit to charities and socially responsible groups. Via Ethical Investors’ own Charitable Trust, we select groups and projects that are working to improve the lives of people and animals, or improving the environment for all of us. Our clients, using a system of one financial transaction to one vote, choose the distribution of money between human-based, animal-based and environmental-based projects. Each client is sent an individual nomination form (per transaction) to select which of these three areas you would like us to support. When our Charitable Trusts comes to allocate its funds, we will allocate the money in accordance with the overall weighting between the three areas, as chosen by our clients.

Each year, we write to clients advising them of the projects supported, updating them on how much money has been donated by us. We feel it is important that our clients not only get the opportunity to vote for the projects they want to support, but to also be kept up to date with how the projects are progressing. More up to date information is available via the Client Only section of our web site.

Since 1989, the total amount distributed has **exceeded £425,000**. We know that no other adviser in the UK operates such a system and is another reason that new clients choose us as their adviser and why existing clients come back to us again and again over the years for further advice.

➤ Manager Meetings

On behalf of our clients we meet with the ethical fund managers on a regular basis. During such meetings, some of them running to several hours, we look at their investment strategies and the way in which the published ethical values are applied to the funds.

It is occasionally the case, but thankfully not too often, that we need to challenge fund managers on the way in which they are interpreting their criteria. At such meetings we represent the views of clients at all times, ensuring that the fund managers understand the needs of their investors; something easy to forget when one's life is managing an ethical fund from the City.

Since 1989 there have been a number of occasions where we have acted to stop significant watering down of ethical policies by fund managers. Such activities do not simply involve a quick letter to the fund manager and all is well. It is often the case that such activities involve many hours of work, research and meetings with the management before agreement is reached. All of this is undertaken on behalf of EVERY client in the fund.

We believe that it is incumbent upon us to spend whatever time is necessary to ensure that the funds in which our clients invest remain the funds that were bought. From a purely commercial point of view, such work costs Ethical Investors tens of thousands of pounds every year, and we do not ask clients to pay for this directly. Instead, we believe that the ongoing annual commissions and fees built into ethical investment products cover our costs to allow us to do this work (see later section on remuneration). Whilst some advisers do very little for the ongoing commissions paid to them, we feel that keeping the ethical funds ethical more than justifies the ongoing payments to us.

➤ **Commitment to promoting ethical investment**

Probably the easiest way to run Ethical Investors would be to isolate ourselves from the wider industry and just get on with the job of advising our clients. This will not, however, move the ethical agenda forward in the City, nor would it be doing anything to bring about real change in the boardrooms of companies. Therefore, whilst it doesn't make immediate commercial sense for Ethical Investors, our staff are involved in a wide range of projects and groups that are promoting the whole concept of socially responsible investment. For example: -

UK Social Investment Forum

A representative of Ethical Investors was elected to the Board of UKSIF in 2003. UKSIF is the UK's membership network for socially responsible investment (SRI). UKSIF's primary purpose is to promote and encourage the development and positive impact of SRI amongst UK based investors. UKSIF believes that all material social, environmental and ethical (SEE) issues should be integrated into standard investment practice and that individual investors should be able to reflect their values in their investments. Election to the Board requires a commitment to provide time and support to UKSIF, but there is no remuneration of Board members. Ethical Investors therefore financially supports any member of staff elected to the Board, for the benefit of Ethical Investors' clients and the wider SRI community (www.uksif.org).

Ecumenical Council for Corporate Responsibility

A member of senior management of Ethical Investors has been an elected Board member of ECCR for a number of years. ECCR is an ecumenical organisation and it includes within its membership representatives of many mainstream Christian denominations, corporate agencies of the churches, religious communities and orders, and many interested individuals. As with UKSIF Board membership, the position carries no remuneration, so needs to be supported financially by Ethical Investors. We believe that the Faith community has a major role to play in moving the ethical investment agenda forward. (www.eccr.org.uk)

Ethical Investment Association

The Director of Ethical Investors is a member of the Steering Group of the EIA, responsible for organising quarterly training days and for membership services. The EIA is an association of financial advisers from around the UK, dedicated to the promotion of ethical and socially responsible investment. Members are committed to increasing access to advice in all areas of ethical and socially responsible investment, and to increasing and improving their own professional knowledge. The EIA Steering Group are all volunteers and are not remunerated. (www.ethicalinvestment.org.uk)

➤ Ethical Research

Uniquely amongst financial advisers in the UK, Ethical Investors has a sister company – *Ethical Screening*. This company undertakes research into the activities of UK and overseas companies, on behalf of individual clients, charities and investment companies. Whilst *Ethical Screening* is a completely independent company, Ethical Investors has access to the research undertaken by *Ethical Screening*.

This access is invaluable in our work of ensuring that the ethical funds stick to their stated criteria. Without access to such research, it would not be possible for a financial adviser to vet the processes and stock selections of the ethical fund managers. We feel that this is an invaluable benefit to clients of Ethical Investors, and something that is provided to our clients at no additional cost.

In Summary

- We do not sell, we advise. Potential investors should be aware of the distinction. The former involves selling products. The latter, our approach, involves balanced financial plans which may or may not involve products. Many of our ethical financial planning solutions involve no insurance, pension or investment products at all.
- We will only deal with those seeking socially responsible investment.
- We will strive, at all times, to maintain the highest standards of service, training and qualifications relevant to the provision of independent financial advice.
- At least **50% of our annual trading profits** (from fees and commissions) will be donated to the groups and charities chosen and supported by our clients.
- We will continue to push down barriers within the City and work to increase the amount of money that is managed in an ethical way.

Our Remuneration

Our Stance

The introduction of the menu approach for all new financial advice transactions has forced us at Ethical Investors to address an issue that has been a source of concern for many years, namely the charging of fees. We have been selectively providing a fee based service for many years and are happily embracing all aspects of the new regime. Our concern with regard to fees revolves around access: where a fee is required only those that can afford to pay can access fee-based services. It is for this reason that we have never offered solely a fee service.

Our intention at this stage is to offer advice with each client choosing whether they prefer to pay us by a fee or commission (we will clearly outline the benefit of these options). With our commitment to offering advice to all, we will continue to offer free advice (known as pro bono) for those individuals or groups for whom we feel this is the most appropriate option. This pro bono service will be based upon the ability to pay and not the willingness.

Our intention is to offer advice through a number of channels (all totally independent) that will enable clients to access a top quality, bespoke, morally driven financial advice service regardless of financial circumstances. This will shortly evolve into web-based financial planning for those that would like this method of delivery plus the existing option of either a meeting plus report or the telephone/e-mail/letter route.

As the Key Facts Menu explains, we are happy to receive our remuneration from any of the sources that are available. We have adopted this stance as it offers clients the greatest choice and allows access to our advisory services for all. As will be shown below, although for some products we operate a fee-only system, the fee is directly linked to the amount invested, rather than a fixed sum only affordable by a few.

What We Charge

We agonized for many weeks over the level of fee that we should charge; our initial frame of reference was other financial advisers as we wished to be in line with our competitors. Unlike a number of advisers we have chosen to proceed with just two fee levels, one for advisers and one for administrators. Some IFAs have varying fee levels for their advisers but this seemed to smack of tailoring the fee to the wealth of the client and the ability of the adviser to increase their earnings accordingly.

For advisory services our fee is £125 per hour and for administrators it is £40 per hour. In comparison with other IFA firms this appears to be at the lower level for both categories but we feel this is both reasonable and realistic. We do not charge potential clients for initial consultations and we have always carried out a great deal of pro-bono work for groups and individuals that are unable to afford advice (either from us or from elsewhere). It is important that all clients and potential clients understand that the fee route is an option and not the only one that is available. It would take too much paper to cover all options but everyone should be assured that we will offer an option that suits their requirements.

In addition to the fixed fee option, we have a transaction fee for lump sum investments. This fee is expressed as a percentage of the amount invested (see the Key Facts Menu for further information). By linking the fee to the amount invested, every client pays a fee in proportion to the amount they have to invest. Larger investors pay the same proportion as smaller investors, but generate greater income for Ethical Investors. We have always offered a rather simplistic Robin Hood approach where our most wealthy clients subsidise our advice to the less financially well off. We would never describe this as “robbing the rich” as this is not the case: the fees and commissions that we charge or earn in advising our wealthy clients are not higher than they would be with any other advisers (oftentimes quite the reverse) due to discounts and capping of earnings.

Ongoing remuneration – the majority of lump sum investment products pay either a small percentage of the ongoing premium, or a small percentage of the value of the fund to the adviser each year. This ongoing income is critical to Ethical Investors, to enable us to provide the wide range of services outlined earlier in this document. Without this income, we would not be able to meet with fund managers, scrutinize the investments made by ethical funds and bring errant fund managers to task. If we make an explicit charge for this work it would inevitably be the wealthier clients that could afford to pay. As every client benefits from our work, we feel a contribution to the work based as a percentage of the ongoing payments or the value of the fund ensures that everyone pays in relation to their ability to pay. This is by far the fairest system as far as we can see.

There is also the matter of pro bono work which is part of our ethos; the majority of financial advisers will not offer any advice if the client is not sufficiently wealthy. We find this distasteful in the extreme and are clearly concerned by the moral position that it reflects.

Our attitude towards income and the positioning of the firm on this issue has always been central: from the day that the firm was established there was a profit distribution system in place that re-distributed excess profits to charities and causes selected by our clients. How many other advisers have given away £425,000 in the last 15 years voluntarily? We would not suggest that Ethical Investors is not a commercial venture, and after over 15 years we are financially strong. Our core ethos continues to be to offer ethical and environmental advice that matches the moral wishes of our clients and earns the firm and its staff an acceptable level of income. We are not motivated by (nor do we desire to own) expensive cars, flash suits or lavish offices. We try to make a good living for all employees of the firm whilst ensuring that we provide honest, holistic advice and share any surpluses with the wider community. This stance seems to reflect the views and attitudes of our clients and this synergy is a source of comfort to both parties. We don't want to get rich (and certainly not quick!); our motivations lie elsewhere.

We hope that you have found this information helpful and that you feel confident in our ability to provide you with the best service and advice at all times.

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Regulated by the Financial Services Authority

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