Ethical Investors

Ethical Managed Investment Service

Introduction

Historically the act of buying, selling or switching between ethical funds has always involved layers of costs and charges which we have always tried to minimise for our clients. In most instances this meant finding the broadest range of ethical funds which met a client's ethical values and then to spread investments amongst as many of these funds as we could. By spreading the investments in this way we accepted that different funds would perform differently at different times but over the medium to long term the approach would produce a steady averaged return.

To avoid the costs associated with buying and selling funds, the broad range of ethical funds were left untouched unless a fund changed its ethical values or performance was very poor against its peers. When there are costs associated with switching investments, making any changes needs to take this into account. If we can't be certain that a new investment will be better than a fund already held, then the only certainty is that it would cost clients extra fees to find out. We were never that comfortable in asking clients to pay extra fees in the hope of a better return, so the funds were generally left where they were.

In 2013 the regulatory changes imposed on the industry lead to a raft of changes for investment companies, platform providers and advisers. One of the most important changes phased in between 2013 and 2016 was the ability for clients to buy and sell funds at nil cost (in 99% of cases) and to switch between funds at nil cost (in 99% of cases). By removing the costs associated with buying and switching funds, there is no longer any need to buy as many funds as possible and just sit tight for the long term. It becomes much easier to fine tune the holdings and to change between ethical funds regularly, when there are no fees or charges levied to make the change.

Taking advantage of the new rules, cleaner-charge funds and increased flexibility

We are delighted to be able to offer clients access to our Ethical Managed Investment Service (EMIS). Since 2013 we have been trialling our EMS, trying different service levels, support systems and, importantly, fee levels. After 4 years we are now very confident in what we are offering to our clients and that we have set the fees at a fair and reasonable level for all concerned (they are now lower compared to our 2013 starting point).

At Ethical Investors, we have never claimed to be investment managers; this is a highly specialised function and quite separate from investment and financial planning advice. We do claim to be experts on the design, implementation and screening of ethical funds and would like to believe that we do this better than any other firm of advisers.

Whilst investment diversification will always be critical, it is now equally accepted that focussed diversification can produce better returns over the long term, compared to maximising diversification to the nth degree (the old approach). So what is 'focussed diversification'? Let's look at an example for a typical ethical investor: -

After a review of a client's ethical values, it is established that there are 11 ethical funds which meet the client's values and risk profile. To keep the investment allocation even, 10 of the 11 funds are chosen and held on a Wrap Platform. These funds are held long term and over the years it will be obvious which of the 10 funds were the best performers and which of them were not quite as good. The total return is a composite of the return from all of the funds – good and bad.

Focussed diversification would take the original 11 acceptable funds and reduce the investment spread to around 7 funds. The funds are selected based on past performance and the prevailing investment climate. The funds which are not held are still good, but perhaps the investment performance isn't quite as good as the selected funds.

Over the years, instead of holding the same 7 funds without making any changes, it is likely that the underlying funds will change regularly as market conditions dictate. The client still has a broad investment spread of 7 funds, but on a rolling basis these funds represent the ones providing the best overall performance and investment return at any point in time. Our analysis of the 'set and forget' approach and the 'focussed diversification' approach indicates that the latter has produced an overall better return.

Investment Review Committee

We have an internal Investment Review Committee (IRC) to oversee the fund selection and asset allocation exercise, using our extensive knowledge of the ethical funds as well as using external professional investment sources, Attitude to Risk analysis etc. The IRC will review the investment needs of each client based on their personal attitude to investment risk and capacity for loss, via our new Risk Profiling Assessment process.

The IRC uses sophisticated investment monitoring software in partnership with good old fashioned conversation and review; in addition to the regular meetings we have with the fund managers of the ethical funds, the IRC consults with and draws investment views from a range of different organisations such as Rathbone Greenbank and Vestra Wealth.

The IRC meets on a quarterly basis to look at the performance of the funds held by our clients, checking these against other equally ethical funds to make sure that our clients are holding the best performing ones. The Committee will report to clients after each quarterly meeting, provide a copy of the Minutes and, where appropriate, make recommendations to clients to make changes in the funds held.

If the Committee decide that Fund A should be disposed of and replaced by Fund B, clients will be contacted (ideally via email) with information on the reasons behind the suggested change. We only require a return email to confirm you are happy with the recommended change and we can go ahead and make the fund switch for you. We do not charge to make the switch and neither will the platform provider or investment fund manager (in 99% of cases). Whilst we can never guarantee that moving from Fund A to Fund B will produce a better return, we will only recommend a switch when we feel a currently held fund is not doing as well and clients can rest assured that there is no cost for making the move.

What does it cost?

Our Ethical Managed Investment Service has an annual fee of **0.6%** of the value of your portfolio**,** subject to a minimum annual fee of £600. Our fee income is based completely on the long term performance of our clients' money – we believe this is the best way to build a reliable and professional long term relationship.

For this fee, clients will receive the support described above in the IRC section, ensuring that on an ongoing basis your money is invested in the best performing ethical funds that continue to meet your personal values. In addition, you have access to ongoing financial advice (telephone, email, Skype, face-to-face), a detailed annual performance and market review plus an annual rebalance of your investments to ensure they continue to meet your Attitude to Risk and Capacity for Loss. There will be no additional fees or charges levied for the rebalancing or for fund switches based on our recommendations, irrespective of the number of fund switches recommended and actioned.

Head Office: Third Floor, Formal House, 60 St George's Place, Cheltenham GL50 3PN.
Tel: (01242) 539848 Email: info@ethicalinvestors.co.uk
www.ethiclinvestors.co.uk www.ethicalgiving.co.uk

Ethical Investors

Specialists in ethical financial management and clear, transparent advice