

Investing In a Better Future - Your Money and the Global Environment

Introduction

People buy financial products such as pensions and insurance policies to provide security for themselves or their family. They can provide income for later in life or cover for unforeseen crises. There is a problem however, our personal security and that of our families is being threatened by global insecurity. Companies with poor environmental and ethical policies are contributing to environmental damage and human rights abuses and it is our money that is often providing the financial means for them to do so.

Firms like Exxon, ICI, Rio Tinto, Monsanto and Shell see shareholders as their key if not the most important business stakeholders. They claim that to meet their shareholder expectations they must maximise their ability to compete in the global market place. This often means inadequate investment in environmental protection or strategic investment for the future. Minimising costs and maximising profits is a priority that has the support of the institutional investors that manage investment and pension funds, whose bonuses and salaries reflect short-term

financial performance measures. These are the people that are paid to manage your money and look after your future. The fate of the global environment is in large part under their control, and yours too - because it is your money and you are their client.

Far from simply providing financial security, our investments can help protect the environment, prevent toxic pollution and put an end to dangerous climate change, extinction of species and loss of sensitive eco-systems. Our pensions and other investments can also help to ensure that the world becomes a fairer and better place for all to live, not one where the majority of people are excluded from the benefits of development. Modern financial planning therefore means much more than just securing a good financial deal. Our pensions and other investments will directly affect the future quality of our lives and what kind of world we will be leaving for our children.

The good news is that today it is much easier to address our environmental and ethical concerns at the same time as looking after personal finances. This briefing sets out

how you can use your money to help achieve not only the financial security you want for yourself and your family, but also for the world you live in.

Is your money being put to good use?

Many of us don't think about what happens to the money we give to others to invest on our behalf. And yet your money might be working against the very things you value and care about. It might be funding companies that pollute illegally, contribute on a major scale to climate change, destroy primeval forests or commit human rights abuses. If you have not carefully chosen to invest in a special ethical financial product, it is very likely that this is exactly what some of your money is being used for. Friends of the Earth (FOE)'s recent investigation into the shares held by the UK's major insurance companies showed that all of them invest in companies which Friends of the Earth has actively campaigned against because of their bad environmental performance.

Much of the money invested in companies like Exxon, ICI, Glaxo Wellcome, Monsanto and Rio Tinto, ultimately belongs to ordinary members of the public. Unfortunately, most people have little idea what these companies are up to.

If you have purchased a financial product such as a personal pension scheme, belong to an occupational pension or have other money invested on your behalf, or intend to in the future, why not use your financial muscle to press for positive change? Whether you are a shareholder or have a pension plan you can make your voice heard and make business more accountable. Read on to find out how.

The time for change?

Major change cannot be expected to occur overnight, but even the Government thinks the time for a shake up has arrived. Pensions Minister Stephen Timms said in 1999 that "ordinary people want to know what is being done with the money invested on their behalf." Because of this view, in July this year new regulations will come into

force requiring occupational pension fund trustees to declare whether or not they take social, environmental and ethical issues into account in their investment policies, and if they do, to say what their policies are.

Similarly, those who are thinking of buying personal financial products, should take note of a recent *Which?* guide. *Which? Way to Invest and Save* points out that "personal pensions, mortgage endowments, unit trusts, life insurance, critical illness protection and general insurance can all be set up through funds that pursue ethical policies." The popularity of ethical finance is seen in a recent huge increase in demand and the establishment of a range of new funds. Indeed, even though most of the major insurance companies do not operate effective environmental policies for most of their products, they do now offer ethical products, thus reflecting a huge recent shift in consumer views on what individuals want from their finances. There is every reason to believe that placing your money in a scheme with an ethical policy will not lead to financial penalties. Indeed, given the direction in which the values of society are changing, those companies who are doing well on environmental and ethical issues now are likely to be the business winners in the future.

Those who hold your money have clout and because of that, so do you...

- The occupational pension schemes for British Coal, British Telecom, the Electricity Supply Industry, the Universities Superannuation Scheme, the Post Office, BG, Railways, Lloyds, Barclays, BP Amoco all manage £10 billion plus.
- The Prudential Assurance has over £1.2 billion funds under management and CGU £1 billion.
- Standard Life could buy British Airways, Tesco, Marks & Spencer, Boots and Cadbury Schweppes with the funds it has under management.

Your purchasing power is huge...

- Direct and indirect pension investments account for nearly half of the London stock market.
- Occupational pension schemes have financial assets of £640 billion.
- Personal pension plans have financial assets of £190 billion.

Make the adverts mean something...

- CGU "Your money is in safe hands"
- Axa Sun Life "worthy of your trust"
- Norwich Union "no-one protects more"

If investments made on your behalf are in companies driving dangerous climate change, deforestation or toxic pollution, then these and other slogans about safety, protection and trust must surely be challenged.

How can your money contribute to a better world?

Whether you are investing in the stock market directly yourself or others are doing so on your behalf through your pension or insurance, you can use your financial clout to influence the behaviour of companies for the better. You can do this through:

- positive engagement through writing letters to encourage best practice.
- not investing in companies who are the worst offenders in terms of climate change or toxic pollution for example
- selling your stocks in companies who refuse to set targets for improvement or continue with bad behaviour, such as supporting industry campaigns against environmental laws.
- As a shareholder you can attend Annual General Meetings (AGMs), propose resolutions (if you

can get enough support from other shareholders to do so) and vote on the appointment of directors. All shareholders can attend AGMs, no matter how small their shareholding and so can ask questions and make their ethical and environmental views known - directly to the people who run the company.

- If your money is invested by others (through your pension fund for example), you can ask them to press companies to improve on your behalf.
- Proposals can be introduced to companies by representatives of pension funds and insurance companies regarding particular projects the company is supporting, for example oil exploration in indigenous peoples' lands, or can involve discussions about the firm's policies, for example on climate change and whether there is a long term strategy to reduce carbon dioxide emissions from factories. Should these discussions not lead to improvements, you can ask that the sanction of selling the company's shares is exercised. Most ethical funds set out more or less clearly what their policy is and how it will be implemented through influence on the companies in whom they own shares. Many such funds routinely engage with the managers of companies to discuss ethical issues.

But what is an ethical or environmentally sound company?

Although it is often clear what constitutes unethical or environmentally-damaging behaviour, it is often not so easy to define the good or best practice companies that should be encouraged. Having said that, Friends of the Earth believes that it is possible to conceive investment strategies that move companies in the right direction through the considerable leverage exercised by financial institutions.

Such investment strategies should include criteria that examine the political activities of companies, the environmental and social impacts of their business and how firms relate to society. These criteria would for

example highlight a company's involvement in industry campaigns against environmental laws (Exxon for example supports efforts to block the implementation of the Kyoto climate change protocol) and instead look for positive sustainable development policies. For those companies producing fossil fuels, toxic chemicals or forest products, the criteria would respectively seek targets for renewable power generation, elimination of toxic wastes and sustainable forest management. As far as the firm's relationship with society is concerned, investment criteria would examine the basis of any public opposition to the company's activities, assess the quality of its environmental and social reporting and look at how it treated disclosure of information to parties affected by its operations.

Take Action on Your Investments!

Occupational Pension Plans

If you are a member of an occupational pension scheme, write to your pension fund trustees now and tell them-

- You believe it is important to take social, environmental and ethical issues into account, remind them about the new regulations (see above).
- You want social, environmental and ethical issues to be explicitly addressed in the Statement of Investment Policy.
- About the issues you care about most, for example reducing pollution, preventing dangerous climate change, protecting the rainforests, promoting human rights or phasing out the release of cancer-causing chemicals.
- That even if the funds are not actively managed and instead just track an index, there are ethical indices they can track.
- You would like them to exercise influence on your behalf to persuade the companies in which

they invest to improve their environmental and ethical performance.

- That in some cases it might be appropriate to withdraw investments from those companies causing the worst problems or those who refuse to improve.
- You would like regular disclosure of investment decisions (how much is invested in each company by your fund managers). Point out that this information can be conveniently reported via the internet.
- Ask them if their current fund managers understand how environmental issues can impact on the financial performance of companies and how they can demonstrate their understanding of such impacts.
- Ask for assurances that the environmental and financial risks posed by climate change are being minimised through investment decisions (the bigger and more frequent floods, storms and other extreme weather events that are expected to accompany climate change will pose serious risks to financial assets, through larger insurance payouts for example.)

You can find out how to contact your pension fund trustees either from your annual pension report or by asking your employer.

Personal Pension Plans

If you own shares through personal pension plans, PEPs, ISAs, Unit Trusts, Investment Trusts, Open-ended Investment Companies (OIECs), life insurance or mortgage endowments then contact your provider and ask them:

- Whether they have an ethical or environmental policy covering your investments and if not, when will they have one.
- To sign up to the internationally recognised United Nations Environment Programme's

initiatives for either the banking or insurance sectors, which make a commitment to promoting environmental improvement.

- To provide information on shareholdings, point out that this can be easily updated and communicated via their website.

Then tell them:

- What environmental and ethical issues particularly concern you
- That you would like them to exercise their power as shareholders on your behalf to influence the companies in which they invest to improve their environmental and ethical performance and as an ultimate sanction, to withdraw investment.

Responsible Shareholding

If you directly hold shares or intend to buy shares:

- Decide on your own environmental shareholder strategy, for example by avoiding those companies that do not have a clear target-driven ethical and environmental policy or fail to clearly report on their progress towards achieving their targets.
- Contact voluntary organisations such as Ethical Consumer to see what information they can provide about the ethical or environmental performance of companies you invest in or plan to invest in.
- Use your shareholder influence to press companies to improve their ethical or environmental performance.
- If a company refuses to engage positively with environmental or ethical challenges, sell your shares and let them know why.

Fiduciary responsibility

Financial managers sometimes say that they cannot look

at ethical or environmental questions in their investment decisions because they have a legal responsibility to look after the financial interests of their customers. This is true, but their legal (fiduciary) responsibilities in this respect should not limit their ability to invest ethically.

For a start, many ethical funds perform as well or better than non-ethical ones. Indeed, there is mounting evidence that companies who best manage their environmental responsibilities are better managed companies more generally and as a result perform better in the long term financially. One recent study carried out on behalf of seven international companies concluded that sustainability strategies can boost the stock market value of companies by up to 15 per cent. By investing in these more profitable companies, investment managers are meeting their legal fiduciary responsibilities. It could be argued that they have a financial responsibility to avoid those companies who do not meet such standards.

That the fiduciary responsibilities of fund managers can quite legally embrace ethical and environmental issues has recently been confirmed in Government regulations which will in July require occupational pension fund managers to say what, if any, are their ethical and environmental policies.

In the final analysis, the strength of the economy relies on the maintenance of a sound environment. Climate change threatens insurance firms whilst toxic pollution not only costs lives but expensive healthcare too. Forests are home to biodiversity which is the raw material for new drugs and industrial processes and therefore the wealth of future generations. Liquidating such assets now for the sake of a quick return does not make economic sense.

FOE's Campaign for Sustainable Business

Companies have a vital but unfulfilled role to play in resolving key ethical and environmental challenges. Although Friends of the Earth campaigns to persuade individual companies to improve their ethical and environmental performance, it is clear that real progress will be made only when the signals that shape company behaviour and policy change. To this end, Friends of the Earth is engaged in a wide range of campaigns to improve

UK environmental laws (thus giving firms new legal benchmarks), to make the case for ecological tax reforms (thereby providing new price signals that will encourage firms to shift track) and working to strengthen international agreements (so that a level playing field of higher standards exists between countries).

The main source of influence over companies however rests with their large shareholders. To date, their main preoccupation has been to maximise the financial return from their investments. Although it is recognised that good environmental performance in companies is often a proxy for good management more generally, and while there has been some attention to the rather narrow issue of the financial liabilities companies arising from the environmental impact of their business, it is generally the case that the pension funds and insurance companies have not been attentive to wider environmental issues in their investment decisions.

It is only the relatively small ethical funds that have paid attention to matters of company impacts on the environment. If shareholders are to be influential in shaping company activities to accommodate wider issues, then much larger blocks of finance must be mobilised. This is why Friends of the Earth is seeking to convince the large City institutions to adopt ethical and environmental criteria for all their investment decisions, not just those related to the management of ethical funds. Ethical funds play a vital role in shaping the debate on corporate environmental performance. This role must be urgently expanded such that environmental and ethical concerns are reflected in all investment decisions. If that were to happen, then company ethics and behaviour really would begin to shift.

If you want to make the world a better place, and do it sitting down, then mobilise your money today.

General advice

When making a long-term financial decision it is best to seek some professional advice. Any authorised Independent Financial Adviser can give advice on ethical investments, although you may wish to approach a firm that specialises in this area. Do not alter your present financial arrangements without first seeking professional guidance.

Financial Advice

For a list of Independent Financial Advisors who should be able to help.

EIRIS (Ethical Investment Research & Information Service)

80-84 Bondway
LONDON
SW8 1SF
Tel: 020 7840 5700

Ethical Investment Association

Web: www.ethicalinvestment.org.uk/

For free guide to Ethical Investments.

Ethical Investment services
61a Friargate
Freepost NWW6682
PRESTON
PR1 3XS
0800 0188557
Web: www.ethicalservices.co.uk

Information on Companies

Ethical Consumer Research Association

Unit 21
41 Old Birley Street
MANCHESTER
M15 5RF
Tel: 0161 226 2929
Web: www.ethicalconsumer.org
E-mail: ethicon@mcr1.poptel.org.uk
Produces Ethical Consumer Magazine and Corporate Critic Online Database- an essential tool for checking the ethical and environmental performance of companies.

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Publishes DIY Guide on How to Research Companies.

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The Multinational Monitor tracks corporate activity, especially in the Third World, focussing on the export of hazardous substances, worker health and safety, labour union issues and the environment.

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