



# Ethical Investment



## Ethical Investment

An investment approach that:

- Follows a moral-based process which excludes industries such as tobacco, gambling and armaments;
- Seeks to invest in companies / organisations that contribute positively to the environment and society: -
  - **Sustainable and Responsible** – manage the effect on the environment, community and for the good of society;
  - **Value Based** – invest in businesses that are aligned with an organisations core values;
  - **Impact** – achieve a measurable positive, social or environmental impact, in addition to a financial return;
  - **Green** – improving the environment.



## Extent of current ethical investment

- The number of organisations who invest “ethically” is still quite small, but growing. Examples include:
  - Some finance & banking organisations;
  - Professional investment funds with clients who place ethical principles ahead of yields;
  - Socially minded businesses
  - Some charities
  - Individuals



## What are Sefton's criteria for selecting investments?

Local authorities are required to comply statutory guidance incorporated into our Treasury Management Policy and Strategy:

- **CIPFA Treasury Management Code of Practice (2017)**
- **Secretary of State Statutory Guidance on Local Authority Investments (2018)**

**Ethical principles are not part of statutory guidance for investment policy**

The Council must therefore apply the principles of:

**SECURITY**

THEN

**LIQUIDITY**

THEN

**YIELD**

We manage the risk of default by only investing in institutions that are A Rated, by limiting our maximum exposure to any one bank or fund and by following the recommendations of our Treasury Management Advisors (Link Asset Services).



## Where does Sefton Invest - Institutions?

Short Term Liquidity (less than one year) – “A” rated Banks, Building Societies

We have placed deposits with the following institutions over the past 3 years:

### UK

- Bank of Scotland
- Barclays Bank
- Goldman Sachs International
- Lloyds Bank
- Santander UK
- Nationwide Building Society
- NatWest

### Germany

- Heleba

### Singapore

- DBS

### Sweden

- Svenska Handelsbanken

### Australia

- Australia & New Zealand Banking Group
- Commonwealth Bank of Australia

For long term Investments (1 year+) – **CCLA Property Fund** that invests in the UK property market, primarily in the south of England.



## Alternatives permitted by the TMSS

- Supra-national bonds
- Investment with registered providers
- Corporate bonds
- Gilts
- Treasury Bills
- Lending to other Local Authorities

Reasons for not using these options:

- Lower Yields
- Lower Liquidity
- Potential for capital loss
- Lack of credit rating



## Difficulties with Ethical Investment for Local Government

### FINANCIAL / ETHICAL DILEMMA

- Ethical Banks tend to be either unrated, or below our acceptable risk level:

<b>Co-operative Bank</b>	Fitch Long Term Rating = B
<b>Charity Bank</b>	Unrated
<b>Triodos Bank</b>	Unrated
<b>Ecology Building Society</b>	Unrated
- Any investment in such banks would contravene statutory guidance – **SECURITY** is the Council's primary consideration
- If an ethical bank had an acceptable rating, the Council could invest in it
- Financial returns are generally lower
- The reduction in income could impact on the level of service provision



## Difficulty in identifying criteria, should the Council be able to invest

- What criteria to use?
  - What is ethical – clear criteria would be required?
  - Ethical vs Social vs Environmental?
  - Internal Ethics vs External Ethics?
- Ethical dilemma - reduced financial returns for councils could lead to reduced ability to provide essential services
- Cost:
  - Information and advice on ethical investments is not part of the Treasury Consultancy Contract
  - Data collection and benchmarking tools
  - Staff Training