Make Ethical Investment Real

A St George’s House Consultation –
Tuesday, 6th – Wednesday, 7th June 2023

REPORT
Participants from a wide range of backgrounds joined for a twenty-four hour consultation about the benefits and barriers to ethical investment. The focus of most of the discussion was ethical investment in relation to climate change. The first section of this report explores whether the purpose of ethical investment centres on climate sustainability or other ethical issues. As the report continues, the term ethical investment is used mostly to mean investment focused towards mitigating climate change as that did become the focus of the consultation. The second section of the report examines who are the targets for making choices that are more ethical in investment – individuals, charities, the financial sector, or government. The third section looks in detail at some strategies of investment that aim to be ethical and the extent to which they are fit for purpose. Finally, the motivations and mindset needed for increasing ethical investment are explored with potential actions and solutions in the conclusion.

This report documents a range of views expressed by various participants in the course of the consultation, including deliberately provocative views intended to inspire meaningful discussion. The contents of the report therefore do not represent the considered opinion of any individual attendee or group, or indeed the consultation members as a whole.

**Definitions**

Consultation participants faced some challenges with the language used to discuss ethical investing. This was due to the wide range of backgrounds of participants, with some very comfortable with the language of the financial sector and others well versed in sustainability terminology or charity sector jargon.

Some participants suggested that the term 'ethical investment' should be avoided. This was partly because it is difficult to communicate to investors from different sectors as 'ethical' means different things to different people. For example, in the charity sector, it can be considered as investment in line with a charity's principles, but there is a vast variety of charities with very different guiding principles. This also makes it open to legal challenge and opposition, as has been seen recently in the USA. Ethical investment also has a reputation for being less able to produce returns, which can dissuade investors. This is further explored in Section 3. However, participants also argued that the term 'ethical investment' distracts from the fact that investment that considers long term impact and risk to society and the planet should be considered 'good' investment by all investors. Long-term returns on investment relies on not investing in products that will create a world in which no one can profit. This report continues to use the term 'ethical investment' as it was the title of the consultation.

**Section 1: Purpose**

An initial provocation set the scene for framing ethical investment around mitigating climate change, and this was the general focus throughout the consultation and especially on the second day. However, a number of provocations on the first day also considered other ethical concerns that could be impacted by investment such as social housing and health innovation.

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Climate change

An initial provocation expressed the extreme urgency for action on climate change. Over the last decades, many warnings have been ignored and nowhere near has enough action been taken. In fact, the amount of fossil fuels being burnt has increased dramatically over the last twenty years. Temperatures are rising and ice is now melting at both poles, with Antarctic sea ice only beginning to melt in the last ten years. The poles are warming three times more quickly than the rest of Earth’s surface. The Gulf Stream is likely to collapse by the middle of this century and the Jet Stream is becoming less stable.

More extreme weather results from the extra energy added into the atmosphere and we are now beginning to see positive feedback loops where wildfires caused by increasing temperatures and extreme weather emit more greenhouse gases into the atmosphere, resulting in further temperature rises. Rainforests are now net emitters of carbon dioxide due to forest fires.

To avoid catastrophic climate change, emissions need to fall by 8% per year and we need to draw down previously emitted carbon dioxide from the atmosphere.

Investors can make a difference where politicians cannot by actively choosing to invest their money in green technology, including upgrading the energy grid to support sustainable energy sources, rather than fossil fuel companies. Investors can also make a difference to our unsustainable food system by avoiding companies that are having a poor impact on the environment or demanding change from them. Building services and transport are other areas of investment leading to pollution where ethical investors could create change. Investment in innovative solutions for products that are very hard to decarbonise, such as concrete and steel production, is needed. Equally, investors need to remember to invest in all aspects of an innovation. It is no good investing in innovative seaweed technology without investing in increased capacity of seaweed farms. There are now enough green projects available for investment, where lack of options was a problem a few years ago. Now it is just about moving the money into projects that make a genuine impact. Capital markets are therefore critical to addressing climate change.

There is some good news in this space. The IEA World Energy Investment Report shows growth in clean energy investment. This includes investment in renewable energy, energy efficiency, and upgrades to energy grids. The biggest investment has been in China, the EU and the USA. However, some countries show a negative change such as Russia and Indonesia. There is still too much money going into fossil fuels and evidence shows that energy companies are not investing as much as they should in green energy. Concerns about energy security following Russia’s invasion of Ukraine have resulted in new gas plants being built across Europe. The Lancet Countdown on health and climate change indicates that the published intentions of the fifteen largest oil and gas companies in the world will exceed their share of emissions compatible with a 1.5°C increase in world temperature stipulated by the Paris Agreement goals. Thus, we are moving in the right direction but much too slowly. In this context, extreme concern was expressed about the perceived detrimental conflicts of interest inherent in the structure of the presidency of COP28.

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2 https://www.iea.org/reports/world-energy-investment-2023/overview-and-key-findings
The Financial Conduct Authority’s Consumer Duty 2023 focuses on outcomes for consumers, demanding that financial services consider the outcome for consumers of investing in a financial product. Arguably, actors in the finance sector should consider the outcome of catastrophic climate change to be a significantly negative outcome for consumers and mitigate this through the products they offer. The energy ombudsman Ofgem is also committed to protecting current and future consumers, meaning that they must consider the potential that energy companies are hastening climate disaster. The finance sector should do this too.

Individual companies can also help combat climate change through their day-to-day operational and procurement choices, for example by investing in energy efficient technologies, such as voltage optimisation, within a company’s own buildings. Developing circular operations in procurement chains can also help identify, test and bring to scale new, sustainable solutions and reduce waste output. One example given was a start-up which uses used coffee beans to make logs for home fires, and a company turning old uniforms into insulation in the automotive sector. Agreeing social and environmental goals with procurement partners can help drive change along the supply chain.

**Other ethical considerations**

Although the urgency for action on climate change was emphasised, some participants mentioned the risk of making the wrong decisions due to being in a state of eco-anxiety. The fear of climate change is not good for mental health or effective decision-making. Investment into other aspects of society as detailed below could help to mitigate the impact of climate change on mental and physical health.

In addition, some investment into renewable resources may be ethically unpalatable in other areas. For example, wind turbines use many rare metals which are produced in mines with very poor working conditions, as well as being destructive of natural environments and ecosystems. The mining sector also needs to be reformed to produce a society that benefits all, and investment in new solutions is crucial here. Communities with mining economies are asking for a fair energy transition including job creation for coal miners.

Thus, participants argued that ethical investment is not only about climate change. People care about social factors as well as the climate. Therefore, investors should look at a broader framework for investment choices. That may involve considering the mission of the organisation or fund and aligning investment strategy with that.

Investment in social issues is a growing phenomenon in the UK. It has grown about ten-fold in the last ten years. The sector is worth about £8 billion. However, Crisis, the homelessness charity, estimates there needs to be about £19 billion capital investment in housing. Therefore, there is lots of room for further growth. However, there was concern that rising interest rates in recent times mean that social investment is less viable.

Health is one area where ethical investment can make a big difference. The health of the population is made up of the environments we live in, grow up in, and work in. Commercial actors who are influenced by investors form these spaces. If investors change how they invest in these companies, they can help create a world in which

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commercial actors care about their impact on everyone’s health. In addition, direct investment in healthcare diagnostics and innovation is important.

Social housing is another area of impact for ethical investors. There are a large number of people excluded from the housing market as it functions currently. There are also many people excluded from the financial market and this is a good area for ethical investment. For example, investors can create change in areas of the country where the main banks have stopped investing in small businesses, or underwrite insurance for people who do not have a good enough credit rating. The charity bond market is also growing but is very small in the context of what is needed. Investment in local start-ups is also an option for businesses. It is not just about money, staff time can be invested to support local social projects.

**Section 2: Who needs to take action?**

The consultation identified a number of actors who might be able to make a difference through switching to ethical investing. A model of behaviour change was suggested with three strands:

1. **Downstream**: focused on choices made by individuals
2. **Midstream**: improving costs and visibility of ethical options so that investors are more enabled to make choices
3. **Upstream**: incentives from regulators and government policy.

All strands are needed to produce societal change.

Another model of effective change over time drew together **bottom-up** pressure, resulting from a change in societal norms, which leads to a change in expectations for financial and governmental actors, with top-down change, resulting from political, or business leadership. The question was how to keep these two pressures working in unison.

**Individuals (Downstream)**

Some discussion focused on actions that could be taken by individuals. Anyone can change the bank they use to one that takes a more ethical approach. There are many campaigns about this and it was felt to be one of the most effective actions an individual could take. Potentially more ethical banks suggested included the Cooperative Bank and Triodos. It was emphasised that you should also tell your bank why you are leaving to encourage them to change their investment strategy.

Individuals can also change the day-to-day products they invest in. For example, anyone can change their energy provider to one that invests more in developing renewable energy sources. Octopus Energy was suggested. Increasing energy prices this year have had a remarkably modest effect on consumer investment in renewable energy. There has been a small uptick in installation of solar panels. Individuals can also buy more used, renewable, local, and seasonal products, increasing their personal investment in local and sustainable business. Individuals can travel by environmentally friendly transport, putting their money into public transport and local bicycle repair shops rather than fuel for personal cars and MOT providers.
It was felt that there was a positive appetite for change among individuals in society and that people care about climate action. However, a barrier was suggested in that most people and small businesses find it very hard to understand the finance sector. One suggested solution was to work closely with banks to encourage them to support their clients to choose more ethical financial products. It was felt that many people, especially the youngest, would welcome communication from their banks about the most impactful climate actions they could take. This would take some of the hard work of researching the most ethical options away so that people can take simple actions.

Financial institutions looking at how they can engage better with individuals on ethical financial decisions should consider the intergenerational transfer of wealth. As more wealth moves to that younger demographic there will be more pressure on banks to communicate on these issues. The intergender transfer of wealth was also highlighted. Capital is increasingly transferring into female hands and women have different priorities in the management of their money, including a greater interest in the ethical impact of their financial decisions.

However, there was concern that working with banks to change the behaviour of individuals is a backwards strategy when we really need individuals to put pressure on banks to change their investment strategy. Would banks be so keen to nudge their customers to move to a different bank with a more ethical investment strategy? Participants pointed to large tobacco and oil companies who have worked to push the responsibility for action onto consumers to avoid scrutiny by customers of their own actions. Giving people the impression that their bank can help them to make choices that are more ethical is problematic as it diverts people’s energy from working to change the system. Some participants argued that individual actions are very ineffective in this area and getting people to work hard on making small changes in their own lives can sap their energy to take other, more effective action. Consumers need to be given more power to hold their banks to account rather than more information on how they can change their own lifestyle first.

In addition, nudging and pushing people to take simple actions is a technique based on an assumption of behavioural dysfunction amongst the population. Whereas the barrier to behavioural change may actually be a lack of realistic choices due to the financial situation of an individual. An individual on low income may only have a choice between consuming a product that is ‘unethical’ or not consuming at all. They should not be shamed into going without. Other actions may be blocked simply because of the current system. It is important to help people understand what actions are viable, taking into account their financial and personal circumstance, as well as those choices that require systemic change to be opened up to individuals.

Despite these concerns, some participants emphasised that challenging banks and nudging populations are not mutually exclusive and both are important. It was emphasised that much of the population will not engage directly on financial decisions and therefore may need nudging.

It may be more effective to recognise what individuals are already doing and encourage their interest in making change, rather than presenting climate change, and other ethical problems, as if they are the individual’s fault. However, participants also stressed the importance of creating an emotional connection to the climate crisis.
High impact individuals

A small subset of individuals have a significant pot of money which they can actively invest. These individuals would often like to make investment decisions that align better with their personal values but they are given a portfolio of investments by their fund manager which they cannot understand or investigate easily. It would help these individuals to have more see-through of fund decisions to the end investor. Fund managers could do more to find out and express the voting wishes of their clients, aggregating their clients' opinions and using this data to make decisions on funds. Clients should then be able to hold the fund manager to account if their wish is not respected. However, there was concern that this could give votes to people who do not understand the complexity of the issues at stake.

It is important to remember that the leaders of financial institutions are also individuals. Reaching these people or those close to them like their children, can have a significant impact on changing the way their institution invests. Approaching these people as individuals could be a way to get them to engage in conversations about ethical investment when in their professional role they may not think it is their job to worry about climate change or other societal problems.

Participants wondered how the small proportion of individuals with vast wealth could be reached. There was discussion of attempting to produce a rich list tied to carbon footprint.

Charities (Downstream)

Ethical investment for charities can be seen as investment in line with the charity’s guiding principles. A high court ruling in 2022 suggested that charities have the right to screen their investments both negatively (to divest from financial products that conflict with their aims) and positively (to invest to further their mission). According to Cazenove’s Endowment Investment Survey 2023, the number of charitable organisations with sustainable investment plans has grown. Most universities are ahead of the curve. Spending patterns of charities are also more varied than they were ten years ago as more charities have moved away from aiming at perpetuity, although most charities still aim for long-term existence. However, as with individuals, there is a big gap with intention to invest ethically and actually having an ethical investment policy.

Pressure from trustees is a big driver for charities. Many trustees would like to make a difference to the way their charity invests and some trustees can be radical in suggesting change. However, it can be difficult for them to know what to do. There is education for trustees available on this issue.

Trustees can also be a barrier. It can be difficult to get trustees to agree to an approach to investment based on impact rather than financial returns. However, some participants felt this challenge was overstated. When introducing the possibility of an ethical investment strategy it is important to get the trustees to agree on an action and an end point so that you can work backward from the goal.

It is important that all trustees take some responsibility for investments rather than just the investment specialist. This will ensure that alternative perspectives based on the

5 https://blogs.law.ox.ac.uk/property-law-blog/blog-post/2022/07/butler-sloss-v-charity-commission-pursuit-charitable-purposes
charity’s mission will be suggested. Improving diversity on the board and innovation in board governance is also essential to increase the number of perspectives.

Reputational risk is another driver. Integrity is important for a charity’s credibility since it should be seen to act as it advises others to act. Supporters of charities are turned off by hypocrisy. For example, some supporters may stop donating if they realise that a charity’s investments are acting against their mission. Endowed grant-making charities that may use only a small proportion of their assets in each year for grant making, can significantly increase their impact by also considering how they can use their capital to advance their mission. Charities sometimes assume that a grant is more effective than an investment which is not necessarily true. There should be more of an expectation of capitalised charities to check that their whole corpus is supporting their mission and they are not counteracting the work of their grants with their investments.

Pressure from the charity commission is also important for registered charities. However, within the charity sector there are different agendas on what the guidance and law should say about investment and this creates further confusion. It is easy to overcomplicate what the law says about charity responsibilities in investment and very challenging to produce guidance on investment that suits very different kinds of charities, large and small charities with very different missions and principles. It is very straightforward to say that a charity focused on climate ought not to invest in fossil fuels but not so clear cut to align this with other missions, although there is a significant amount of evidence linking climate change with a variety of other missions such as public health, migration, disaster relief, and more. Regulation must be loose enough to allow charities to decide where to effectively focus their attention, especially for those which may lack the time and expertise to address every wider issue connected to their mission. Regulation needs to be loose enough to encourage innovation and creativity in a new and growing area of consideration for charities, and this is a challenge. For those who are already moving faster in this space, regulation will be an inhibitor as it catches up. Best practice examples may be more effective than guidance and regulation. These examples will give charities the confidence that they are allowed to take action on their investments and it is possible.

However, more could possibly be done in regulation. The Charity Commission looks in detail at how charities spend their money in some situations. Should the same scrutiny not be given to how they invest their money? Harm to beneficiaries and loss to a charity is extremely relevant in their investment strategy as well as their spending. In fact, the law for non-charitable organisations might be moving ahead of charity regulation here as companies must protect the systems on which their portfolio rests in order to ensure they retain the value of their portfolio.

As with individuals, there are only a small number of charities with the funds to be able to invest at all. This is therefore perhaps not the best focus for charity regulation. The large amount of money held in investments by this relatively small number of charities remains important due to the potential impact it could have if invested ethically. However, regulation applied across the board may not be the most efficient way to reach those charities who hold the means to make a difference.

That said, the charity sector is ahead of other sectors on ethical investment. Charities have a currency which the finance sector lacks which is mission and purpose. This can guide their ethical investment policy. If financial organisations work with charitable organisations this can both help the finance sector align their action with a mission and help the charity sector to competently align their investments with their purpose.
Charities, which adopt an ethical investment strategy, can also provide evidence for profit-focused sectors of how effectively to invest in ethical markets. The concept of effective altruism in the charity sector could also be useful for the climate sector.

**Financial and commercial actors (Midstream)**

Financial organisations have an important part to play in kick starting the transition to renewable energy. Banks need to remove investment in fossil fuels from their portfolios. Asset managers and investment bankers have a huge responsibility for providing the funds that allow climate-damaging practices to continue.

The Global Finance Alliance for Net Zero (GFANZ) is the largest collaborative effort that allows the finance sector to mobilise markets to tackle climate change. It was praised for giving courage to bankers who would not have been able to take action alone. However, a concern for companies is that membership of GFANZ increases their visibility making them vulnerable to opposition. Currently a number of companies, particularly including insurers, are leaving GFANZ due to lobbying from oil and gas companies in the USA which may reduce its impact and is a concern.

Insurers can have a big impact if they take a more proactive role in thinking about what they are underwriting. No one can build an oil refinery without insurance so if insurers make the production of fossil fuels uninsurable by taking into account the risk of catastrophic climate change that would be a big blow to the carbon-based energy sector. Insurers should also be aware that in the case of catastrophic climate change many assets will start to be uninsurable. This will put them out of business so they should work to guard against this. On the other side, there is currently no insurance for some green initiatives such as carbon offsetting which makes it very difficult to make these projects functional.

Pension funds should be looking at climate impact by default since they are by nature long term investments. There is no point investing in a pension if there will be no functioning world to live out your retirement in. Shifting defaults for certain types of funds could be a very good way to get movement on this.

With regard to commercial actors there was some debate about whether it is helpful for energy companies to be investing in renewable energy. Some participants pointed to how oil giants investing in renewable energy have increased the price of renewable energy projects, thereby reducing profits for smaller green companies.

**Government and policy (Upstream)**

Some participants felt that getting changes in policy was the most important aim. Government is very important for creating incentive for change. Participants wanted legislation introducing carbon taxes and carbon limits. At the moment companies do not believe the government will do what they have said they will do – otherwise they would know that any money invested in fossil fuels would be a certain loss in the near future. Government action is needed in order to ensure that low carbon markets are more profitable when considered on risk-related returns than fossil fuel markets.

The government could also guarantee infrastructure for green initiatives as well as initiatives like social housing that are attractive to ethical investors. This would reduce the costs associated with these projects. Policy action is also needed to encourage use of public transport and the introduction of frequent flyer levies was suggested.
Currently the government subsidises agriculture and fossil fuel related industries, both of which are driving climate change. Instead, the government could buy oil and gas companies and nationalise them in order to pivot them to green energy. In addition, the subsidies that are provided for green initiatives are not stable and tend to come into being and then be switched off a few years later. This does not encourage long-term investment, which is what is needed to make ethical investment profitable and effective.

Some participants suggested that this is a good political moment to create change. The fact that there is currently political pushback against divestment and environmentally focused investment, particularly in the USA shows that it has become a big enough issue for the government to worry about.

Some participants emphasised that legislation is not enough on its own and there needs to be a strong plan for change to go with it. Others felt that it was more important to target individuals than the government directly as the government is heavily influenced by the attitude of the populace. If the government thinks there is a mood for change they will pick that up and bring in legislation. Individuals should vote based on this issue and tell candidates this is what they will be doing prior to elections.

Other participants felt that governments go more rapidly to where the money is than where the people are so a shift in finance and business was most important. These participants emphasised that there is enough money available so that if it was managed correctly government intervention would not even be needed. However, currently there is still far too much money going into fossil fuels.

It was felt that the evidence for ethical investment was not yet good enough to encourage the government to move their own capital. However, participants wondered whether some of the work local governments are doing in this area could be aggregated into green bonds for investors.

Beyond our own borders, energy is always going to be a political issue and participants were keen that the geopolitical aspect should not be ignored. It is not possible to keep green energy and climate action politically neutral. This is discussed further in the section on inequality.

Section 3: Investment Strategies

Divest or engage

A big debate that came up repeatedly during the consultation was whether to divest or engage with companies you hold shares in.

Ethical investment strategies can be based simply on exclusions, listing sectors you do not wish to invest in at all, but it was argued that it is more effective to have a mix of positive and exclusionary methods, thus ensuring that you are investing in companies that will have a positive impact on an issue you are concerned about as well as excluding and divesting from companies that will have a negative impact.

When you already hold a share in a company that is having a negative impact, there is a choice between divesting from them or holding the share so that you can influence that company with your shareholder vote. Some participants argued that unless you have a big name divesting has very little impact. The company will simply sell the shares onto another investor who is less responsible. We do not want all the dirty assets in dirty hands. If you retain your share and engage as a shareholder you may be able to create a
shift in action within that company. You can use your voice as an asset to create change. Some small investors have even had to reinvest after divesting because they realised they needed their shareholder voice in that company.

However, other participants argued that if you are a small shareholder there is no point retaining shares for engagement if you do not have capacity to engage effectively. One way around this is to join coalitions of shareholders investing in the same companies and pushing for change together. To make the best use of your capacity you should choose your battles, focusing on the companies where your mission would be most furthered by making a change. Smaller concerns can fit around these. However, if you are a lone voice in a company, it is better to divest unless you have a lot of capacity to build relationships and influence other shareholders. Education is needed to ensure that those who do retain shares know how to engage most effectively and know what they should be asking companies to do.

Some participants pointed out that there must be a point at which you acknowledge that nothing will change in this company’s actions. Otherwise, companies simply move as slowly as they possibly can to encourage shareholders to believe they are making a difference and therefore continue to invest, while actually nothing is changing. Meanwhile projects that are directly working on changing the situation, such as renewable energy projects, desperately need that investment.

Some argued that if you divest specifically to take funds from a negative organisation and move them to a positive organisation, like moving funds directly from a fossil fuel company to a renewable energy company, divesting makes sense. However, often investors simply move money from one negative organisation to a marginally less negative organisation, such as moving funds from a fossil fuel company into a big tech company that relies on fossil fuels and environmentally damaging mining.

Some participants were concerned that the debate about ethical investing quickly becomes a simplistic debate about divesting or engaging. In fact, the dichotomy between the two may be unhelpful as it is so much more effective to combine the two. For example, engagement with a company can be more effective if you are able credibly to threaten to divest if your demands are not met or if certain lines are crossed. It could also be possible to divest from bonds, where you do not have a vote, while retaining shares for engagement. A fossil free bond index is in development. Investors should consider whose debt they hold and whether they are comfortable with receiving fixed income from these companies, as well as what they are directly investing in.

Setting up Golden Shares when green companies are sold or merged was encouraged to ensure that there are shareholders who can make sure the company remains focused on the environment. This can also encourage the bigger company who buys it out to align the rest of its practices with proven good practice demonstrated by that section of its operations.

Net zero and carbon offset

Aiming for net zero was considered by some participants to be an unachievable goal that distracts from actual action on reducing climate change. Real zero was presented as being the true goal – to stop using fossil fuels altogether. Net zero procedures rely in part on being able to draw down residual carbon dioxide that has been released into the atmosphere in the day-to-day function of a business, after reductions in line with a 1.5 degree trajectory. That is to say, companies will need to buy carbon offsets or removals.
to ‘net out’ at zero from the year they have committed to achieve this goal. However, the definitions for offsets/removals are not well defined and we have not developed reliable methods of removing carbon from the atmosphere. Currently, carbon offset companies are overselling and there is a risk of newly planted forests burning down and releasing the carbon they have claimed to remove from the atmosphere. Participants considered that very few ethical investors would buy carbon offsets until the definitional issues have been resolved.

However, some participants argued that carbon offsetting could be positive when carbon credits are used to finance climate focused innovation where these startups would be an unattractive investment for investors looking to profit not just offset carbon emissions. However, it was suggested that these investments should be called carbon removals so that it is not suggested that they give the investor credit to create more emissions. We need to remove what has already been emitted not offset more emissions.

Another problem is that measuring carbon emissions only gets you so far in considering the climate impact of a company. However, it is important for raising awareness and creating engagement in taking some sort of action. The carbon footprint of a company is a starting point to build understanding of the company’s climate impact.

Nevertheless, investors should go beyond looking for net zero companies and instead be a regenerative investor concentrating on the concrete climate impact of their investments. The focus on aiming for net zero can become myopic. In searching for a net zero world, we risk becoming focused only on targets to become net zero as an individual organisation, rather than making impact in the world.

**Risk adjusted investment and impact investment**

ESG (Environmental, Social, and Governance) investment is about risk adjusted returns. Investment funds in this area consider the risk the companies they are investing pose to the environment, to the communities they operate in, and through their governance practices. This is the least an investor can do to show interest in investing ethically with goals other than financial returns. These funds are important because investors need to find any viable action to take to get started with ethical investing.

However, the next stage in asset management should be investment returns adjusted for both risk and impact, with the impact on all stakeholders considered, not just shareholders. This follows the theory of universal ownership which suggests that it is in an investor’s interest to consider the impact an investment will have on the environment and society it operates in. The investor will also be affected by any environmental or societal changes for better or worse. In particular pension funds, as mentioned earlier, should focus on ethical investment as the people who receive the pension at the end of the line are likely to have had their lives deeply affected by some of the companies their money has been invested in.

Impact also means thinking about how investment contributes to solutions rather than just avoiding investments that risk making the problem worse. In this way, investment can have a positive impact rather than simply avoiding a negative outcome. Ultimately, all investment has an impact and considering this impact may be the same as adjusting for risk because if no action is taken on issues like climate change, eventually returns will drop for everyone. Thus, some participants felt that investors could simply extend the risk matrix so that impact had to be considered as part of risk. Some participants
considered that over time all investment would become impact investment, so that there
would not be a dichotomy between investment focused on returns and (ethical)
investment focused on impact.

Active or Tracker Funds

Active fund investing is more likely to have sustainable and ethical outcomes than using
a tracker ESG fund because qualitative assessment is more effective than quantitative
assessment of ethical impact. It is very difficult to create reliable quantitative measures
of transformation and impact on ethical issues. However, the current financial crisis is
encouraging the investment market to move to tracker funds rather than active funds for
more security.

Scaling

There has been a huge flow of assets into impact investment over recent years,
suggesting that this is an exciting area of growth at this time. However, it is still a very
small proportion of investment and it is concerning to think about how far there is to go.
Ethical investment is a small community in a much bigger pond; this area of investment
needs to become the focus of the whole pond.

One opportunity for scaling is reaching the large financial institutions. Banks have
millions of users in their customer base and if they are engaged they will be able to scale
change. Some models of investment are working and starting to scale. However, ethical
investment is often focused on the local, for example, buying local to avoid transport
emissions. Ethical investors may be too focused on the hyper-local when local could
mean the whole of the UK. There is not enough scope to capitalise on super local
investment and for scaling investors will need to look beyond this. Some positives come
from unanticipated events. For example, the energy crisis has made investing in
renewable energy more attractive.

However, some participants argued that there might not be as far to go in scaling as it
seems. Rather than reach all markets, we simply need to get investment levels to a
tipping point where the price of ethical investment will drop and returns rise making it
an attractive option for everyone. For example, renewable energy has come down in cost
much faster than anyone expected recently, encouraging growing investment. Costs will
continue to fall in this area as when renewable generation becomes cheap enough it
becomes economically viable to use more inefficient forms of storage to overcome issues
about season and time of day when renewables will be effective. Although climate-
tipping points are terrifying, as when we pass them we cannot pull back from disaster,
we can counter them with positive tipping points for engagement and investment in
solutions. One action from this consultation could be for participants to work on
identifying levers around particular tipping points that could be pulled to get us there
more quickly.

Section 4: Motivation and mindset

In order for ethical investment to become a mainstream strategy, investors’ motivation
and mindset need to be transformed. This section lays out a few areas that need to
change in order for more people and organisations to choose to invest ethically.
**Mindset**

We need to change what people care about, what they think is acceptable behaviour, and what they think good looks like. Many people think that nature is a permanent resource, however there needs to be more focus on the risk of that resource being gone. At the moment the system is designed to destroy nature and cause climate change.

In order to change the culture and mindset of an organisation some ingredients were suggested.

1. Get somebody in your organisation who is an activist involved.
   a. It is important to look for the unreasonable people as these will push you to take action even when barriers arise or people want to move slowly.
2. Time and consistent effort will be required.
3. Be held to account by your values.
   a. It may be important to make a public commitment before you have all the answers. This gives you the motivation to carry on when things get harder.
   b. Climate change is very scary which creates the risk of people making poor decisions. Purpose and mission helps to guard against this and decisions need to be secured by what the organisation aims to achieve.
4. Have a mindset of wanting to collaborate and be open to engage with other views.
   a. When changing company strategy it is important to speak to everyone in the business, listen to all their ideas, and distil it into a plan, including some ideas for the future where you indicate that you are not going to do that yet.
5. Multi-professional input is good.
   a. It is helpful to work with others who are doing similar things in other organisations or branches of your organisation. This encourages bravery.

Some participants suggested the importance of getting younger people involved in decision making. Future Chair – Tomorrow Starts Today is an initiative about placing an empty chair at meetings to pretend there is a young person there. Those at the meeting then imagine what they might say until they can actually fill the chair with a young person.

Other participants pointed out that it can be very challenging to be the youngest person on a board as you may feel you lack experience and can be pushed around more. Boards need to prepare to manage that dynamic, not just take on a young person who might be ignored. They need to create a space where a young person will feel comfortable.

**Gap between intention and action**

There is a gap between intention and action for many people and organisations. For example, many people working for charities believe that they should make a commitment on climate change, but not many charities have made commitments. There is a dissonance between people’s individual concern about climate change and what they can do professionally.
When decisions are made that ethical investment is important it can still take a while for an organisation to take action. It can be difficult to move from a conceptual discussion into actually doing something. Partly this can be because it is easy to overcomplicate what it means to use an asset responsibly. You can start with identifying the investments that will actually look very similar to current decisions but make them more intentionally. You also might start with a small percentage, e.g. 10% of funds, being invested with impact and then move towards the whole fund being invested with impact.

Many people simply do not know where to start, but there may also be a tendency in this sector to over speak the willingness for people to make changes. People may say they want to change but it often does not take much, perhaps realising the price or complexity of the decision, to make them stick with the status quo.

**Focus on returns**

Investors are very concerned about the differentials in performance between ethical and traditional investment strategies. According to the 2022 Global Investor Survey by Schroders the majority of investors would prefer to invest in a fund that focuses on returns while considering sustainability factors. The focus on returns limits how far these investors will go to achieve change with their investments. In the charity sector, many organisations want to get the best possible returns on investments so that they can spend more on delivering charitable activities, without considering that the high-profit investments conflict with their mission.

Overall, there is a belief that ethical investment produces poorer returns than traditional investment strategies. However, participants suggested that this tendency is more pronounced among beginner investors than expert investors, who are more likely to consider that ethical investments will give higher returns in the long term.

There is enough data to show that sustainable investment can outperform non-sustainable investors, although there is not much evidence on where the positive returns come from, meaning it is hard to encourage people to move capital. There is very little data in the marketplace about impact. Some participants argued that this evidence needs to be improved as a priority because people are motivated by greed and need to be convinced that ethical investment will be worth it. Others disagreed and suggested that many wealth holders want to align their investments with their values but just lack information and the opportunity to do so. Transparency, clarity and personalisation from fund managers is important to encourage these investors to invest in line with their values.

Some participants suggested that a continued focus on proving that ethical investment can produce the returns people expect from traditional investment will just mean that we fall into the same traps again because the system is based on profit not ethics. There needs to be a fundamental change to this. It is terrible that investors even consider the trade off between profit and sustainability. They should simply choose sustainability because the planet needs it. Instead, people are looking at a ridiculously short-term view. Sustainable investment will do much better over the long term just by preventing destruction. When we have enough evidence to show that ethical investment is worth it in the shorter term it will be too late.

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It is very challenging to get people to focus on the long term when there is so much short-term data placed in front of them. Asset managers are in competition and this makes it impossible not to talk about short-term gains. There is high staff turnover at the highest levels, for example, the average CEO tenure is only five years, and this drives short-term views. Short-term investment discourages innovation, which is needed to solve climate change and other ethical concerns, because such innovation takes too long.

Financial measures that focus on the long term rather than the 5-year return on fund must be developed. Participants pointed out that we do not know what a sustainable financial services system looks like. The entire system may need to be transformed and there will be different challenges for each sector.

**Inequality**

Inequality is a big barrier. Finance is geopolitical and so is climate change. Some areas of the world face higher challenges from climate change but may also not have the ability to invest in sustainable solutions. For example, there is a lack of investment in clean energy research and infrastructure in Africa. This is partly because Africa faces a much higher cost of capital compared to other continents and this has a huge impact on access to renewable energy as the infrastructure has a very large upfront cost. We need to prioritise getting that cost of capital down to get investment into developing countries.

Reasons for the high cost of capital include problems with governance and corruption as well as lack of experience with business and technology. Solutions are needed to stabilise these factors. There is a proposition from Norway to use their windfall profits from the Ukraine war to guarantee African nations for capital loans. Blended finance options might also unlock capital for African nations. The UK has a problem with thinking outside the grant box and looking creatively at solutions to the problem such as guarantees. The EU struggles to work on this because there are so many different interests involved.

The increasing prices of fuel in the Western world also encourages developing nations to go into fossil fuels to export into this market. So increasing fuel tariffs can be counterproductive. For example, although smoking has dropped in the UK in recent years, cigarette companies have simply pumped cigarettes into Africa. Oil and gas follow the same model. Richer nations need to offer financially attractive alternatives so that these countries can reject fossil fuel offers and leapfrog to sustainable energy.

Within the UK, inequality is also a barrier. Half of people believe that a sustainable lifestyle is expensive. Although people are more motivated by carbon savings than financial savings alone, if they do not have the budget to make this decision, they are locked out of being able to make ethical choices.

We need to ensure banks do not abandon the financially unstable people who need the bank’s help and that they work with a large cross section of the population.

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Reporting and communication

About investment

Beyond mindset, ignorance was a barrier. People know there are opportunities to invest in line with their values but they do not know how to do it. Participants were concerned that many investors are not aware of the carbon output of their equity portfolio. Some felt that it should be a requirement for investment managers always to provide carbon data on their portfolios. Other participants felt that the carbon footprint of investments makes very little impact and it was a waste of resources and time to report on this. They argued that more effort needs to be expended on contributing to solutions and suggested that when effort is spent on measuring things, little effort is actually made to improve them. Complicated reporting matrices may also be used to conceal the fact that nothing is being done to improve. However, being able to show trends and report is important to show people how to invest. Reporting is also important to help people persuade others in their organisation to agree as it can encourage the naysayers. Finally, reporting can encourage people actually to ask what is being done about something.

It is very challenging to report effectively on social impact. Aggregated data on this stops making sense very quickly. As a result, there may be information on sustainability and other ethical concerns but it may not be provided in a helpful format. Sustainable investment has quickly become very technical and even among consultation participants there was difficulty understanding technical terms among people from different backgrounds. A lot of work needs to be done to understand both sustainability and investment languages. Even investment companies need specialists to advise on sustainable options and companies that don’t have these specialists don’t feel confident advising clients on ethical investment. They will signpost clients to professional advice, which may not be affordable. This means there is a lack of advice available for individual investors and charity boards in this area. Many advisors also directly advise against ethical investment due to the expectation of lower returns.

Even when there is advice available, many investors do not access it. Many businesses do not have the money available to invest in advice or statistics on their investments and there is a low level of awareness, particularly in small businesses of the support that is out there. How do you educate people who are not getting discretionary advice on their investments and not putting themselves in a position to get advice? There is no education in schools about investment. There needs to be more public education on this and supportive and collaborative media to reach people where they are.

Participants from financial backgrounds emphasised that listening to clients is important for growing ethical investment. Fund managers need to ask their clients more questions about aligning their values with their investments and listen to the answers. Clients should also ask their investment managers specifically to report on issues that matter to them. Universities are good at doing this because they have a wealth of research available to them. However, smaller charities may not have trustees with time to devote to this research, and similarly with small businesses. These need investment advisors who are focused on this issue.

However, other participants pointed out that there is a mindset in financial services which does not realise that the majority of people are not interested in thinking about money. Thus, waiting for clients to tell you what they want from their money is not going to result in much change. Asset managers know much more than their clients about investing and they should not just rely on investors asking for what they want to see.
They need to push clients to make changes. Clients would also like this as it is frustrating when they are trying to make a decision but are simply given a wealth of information on different options and told to make their own decision from that. Advisors will often not point clients directly to a fund which creates obscurity for the investor. However, investment managers will want to avoid conflict with their clients so again will prefer to refer them to independent advisors.

In the area of shareholder engagement, ignorance and lack of communication is also a barrier. For many shareholder voters, active participation is simply ticking a box to ratify decisions at an AGM. Middle managers and ambassadors to shareholders should have a vote on packages offered. There needs to be more education for asset owners on how to make an impact. Communication between shareholders also needs to be improved so that there is space to form coalitions and partner with people who can really change things. At the moment most companies do not know what the priorities of stakeholders in a similar area to them are.

It is a good idea to share stories of investment changes and who you have invested in. Everything has been done by someone before and we need to get better at sharing those stories. Sharing the questions that should be asked of investment companies will also be helpful. There also needs to be space for people to say there are things they do not know and ask for help.

Investors and investment advisors also need to be more aware of who is making investment decisions and on whose behalf. Those most affected by investment decisions are often furthest from the decision-making. Decisions therefore need to be stakeholder not shareholder aligned. Smaller businesses may also face a lot of pressure from further up the supply chain which will dictate their decisions rather than allowing them time and space to make their own decisions.

About climate change

Communication about climate change is also important. There needs to be public awareness about the challenges faced. Participants felt it was important to increase carbon literacy, but do so in a personalised way. It is important to meet people where they are and recognise the efforts they are already making. Carbon literacy will then create the desire to know more about other things impacting climate change. There was mention of carbon spectrums as a new way to show carbon use.

In this area, it is important to think about how you say things. The phrases you use can make certain realities more likely. Language focused on individual agency pushes people towards individualism. Speaking about a climate crisis makes people feel it is too late to do anything. We need to focus not on what we cannot do but what we can do, even though we really want to focus on what we are not doing enough of. We need a simple message without jargon and it needs to be matched with an effective messenger or messengers. There also needs to be more visibility of actions to back this up.

Immersion in real world experiences, such as boat trips to show plastic pollution, can change the way people engage on the issue. This may increase emotional awareness which can encourage activism.
Against Opposition

There is also active opposition to sustainable and ethical investment, especially in the USA, where many states do not believe in climate change. Work must be done to improve communications against this opposition. It is very political and this makes it dangerous in terms of progress.

This kind of pressure can be unhelpful to coalitions too. GFANZ is being challenged and finding that in the US political context membership makes organisations very visible and vulnerable to media and legal attack. It is being challenged by vested political interests and fossil fuel lobbying which are representing member firms to be colluding and acting in anti-competitive ways by excluding a single sector, such as coal production, from access to finance. While there is no evidence that their case has any foundation, it is having a chilling impact on membership.

We need to build a strong language for debate in this area before COP28.

Conclusion

The consultation highlighted a range of barriers to increasing ethical investment, from decisions about who to target, to developing a shared language that can cross sector barriers, to challenging mind-sets and motivations of investors and the finance sector.

Some participants felt that work needed to be done on the whole complexity of the finance sector, ensuring that every aspect of finance could move towards encouraging rather than discouraging ethical investment. Others felt that we should start with one more simple area such as the investment chain where changes could be made more quickly and then influence the whole system. Another route suggested was to map out the key individuals that need to be influenced to drive change across the sector and act as a lever to get us to the tipping point where ethical investment becomes a mainstream option and the default in many areas.

Other participants felt that the focus should be on lobbying the government to create changes in incentivisation for investors to invest ethically.

A five-point plan was laid out as a suggestion for how these aims could be achieved:

1. Educate
   a. Ourselves and leadership in the area we work
2. Inspire
   a. Be part of positive narrative with solutions for exponential change
3. Act
   a. Use influencing power to get money to shift to ethical investment and change the motivations and mindset of the sector
4. Advocate
   a. Advocate for step change
   b. Join coalitions and campaigns or create them as the actions together will be more impactful than individually
5. Agitate
   a. Be unreasonable
   b. Demand what is necessary
Throughout the consultation a range of resources and concrete actions that could be taken by members of the group and shared with others were suggested:

**Actions**

Participants were encouraged to sign and advise others to sign the Fossil Fuel Non-Proliferation Treaty: [https://fossilfueltreaty.org/](https://fossilfueltreaty.org/)

Participants were keen to use the connections made in the consultation to set up a forum for best practice. Many participants felt that sharing case studies and experience from different businesses was the best way to get traction on this issue, show that ethical investment can work and is a sound financial decision.

Participants were asked to support Norway’s plans to offer guarantees for developing countries seeking loans for development of renewable energy and suggest that other rich countries, including the UK, follow suit: [https://www.regieringen.no/en/aktuelt/new-guarantee-initiative-to-generate-investments/id2884650/](https://www.regieringen.no/en/aktuelt/new-guarantee-initiative-to-generate-investments/id2884650/)

It was suggested that St George’s House could do more convening work in this area, to pull together key individuals and get them thinking about ethical investment.

**Resources**

WWF and SilverBack films have created a series of four films for the business, finance, and food and farming sectors explaining why these sectors need to consider their impact on nature, and including case studies of solutions: [https://www.saveourwildisles.org.uk/business](https://www.saveourwildisles.org.uk/business)

Information about GFANZ with papers about transitioning globally to a net zero world: [https://www.gfanzero.com/](https://www.gfanzero.com/)

Chapter Zero is a free group for Non-Executive directors to build their skills in acting for the climate: [https://chapterzero.org.uk/](https://chapterzero.org.uk/)

The Impact Investing Institute Website was suggested as a useful place to find out more: [https://www.impactinvest.org.uk/](https://www.impactinvest.org.uk/). Their paper *Investing with Impact in the Endowment* is especially useful for foundations looking to move into investing in line with their mission: [https://www.impactinvest.org.uk/publications/investing-for-impact-in-the-endowment/](https://www.impactinvest.org.uk/publications/investing-for-impact-in-the-endowment/).

There are also a series of case studies available: [https://www.impactinvest.org.uk/our-case-studies/endowments/](https://www.impactinvest.org.uk/our-case-studies/endowments/).

PwC has published case studies on how they transformed their operations to ensure that the day-to-day services they invest in to run their company are having a positive impact on the environment: [http://www.pwc.co.uk/actingoncarbon](http://www.pwc.co.uk/actingoncarbon), [http://www.pwc.co.uk/goingcircular](http://www.pwc.co.uk/goingcircular).

The UNFCCC Marrakesh Partnership Climate Action Pathways lays out roadmaps by sector to decarbonise all major sectors at a global level: [https://unfccc.int/climate-action/marrakech-partnership/reporting-and-tracking/climate_action_pathways](https://unfccc.int/climate-action/marrakech-partnership/reporting-and-tracking/climate_action_pathways)

A list of questions to help determine how to plan an ethical investment strategy and choose the best ethical investment asset manager:

The Funder Commitment on Climate Change (FCCC) which provides a holistic framework to support funders in tackling the causes and impacts of climate change: https://fundercommitmentclimatechange.org/. See their recent report, Stepping Up to the Climate Crisis here:

Future Chair: Tomorrow Starts Today is an initiative to take account of a young person’s perspective in board meetings: https://philea.eu/opinions/future-chair-tomorrow-starts-today/. 
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