Q&A
Ethical Investing

The Adviser
Mark Carnevale, Independent Financial Adviser, Lawrence Miller & Co

Mark has worked in the financial services industry for 30 years undertaking various roles, most of which have involved offering financial advice. Working for Lawrence Miller & Co in Newport, Wales, Mark future-proofs client's lives by helping them to achieve their short, medium and long-term objectives. Mark has aspirations to make Lawrence Miller & Co a beacon for ethical investing in South Wales. In his spare time, he is Chair of Malpas Cricket Club in Newport and he coaches the youth team.

The DFM
Wayne Bishop, CEO, King & Shaxson Investing

With over 27 years' City experience in both London and Frankfurt, Wayne started the Ethical Asset Management service in 2002. He is the lead manager on the personal discretionary and model portfolio services. Having studied both Business and later Theology at University, he has a clear understanding of the need for successful businesses that contribute to the wellbeing of our planet and its entire population. Like the rest of the team, his personal investments match that of the King & Shaxson philosophy.

Asking the Adviser

Q As an adviser, do you think the financial industry is doing enough to reflect clients' individual ethics and values in their investments?

A The financial industry is moving, albeit slowly in my view, towards a time where a client's individual ethical and social values are clearly reflected within the investment options available to them. King & Shaxson (K&S), though, offers me and my clients something quite unique. Their initial client engagement research process engages clients to think differently about what is important to them. The result is a portfolio perfectly matched to both their ethical and social value requirements and their attitude towards investment risk.

During our due diligence process to decide which ethical providers of investment services we felt we should recommend, we found there was a distinct difference between K&S and the rest. They are an ethical investment company investing ethically!! This is different in so many ways to those non-ethical firms that offer ethical investments. We found these will essentially have two types of broker desks within the same company contradicting each other by choosing non-ethical investments for those clients that do not wish to invest ethically. And vice versa.

Q Does your company's fact find have the Ethical question, and has your company had to adjust the business to take this into account?

A Our fact find does ask the client in a very broad manner. This is more than adequate though as I always engage a client in conversation around their ethical requirements. Mr Attenborough has made these initial conversations very easy and topical. I also invest this way, which helps when engaging clients in conversation.

Q Following on from the above question, are you confident that the MPS solutions you use can reflect these client views?

A I'm not a huge fan of model portfolio service (MPS) offerings. There is very little between them all. However, K&S has an ethical offering, that certainly does reflect my clients views. This helps them invest in a way that essentially helps them sleep well at night, as they understand their investments are positively contributing to society and the environment while also providing competitive returns.

Q We often hear that inter-generational planning is increasing the drive to invest monies responsibly, are you seeing/discussing this?

A Younger people are very aware now that the world we live in needs protecting. The Attenborough effect again! The way they invest and who they invest with is very important to them.

This new awareness is influencing the older generation, the generation with the capital to invest essentially, to reconsider their investment decisions as they will be passing down their wealth no doubt to their family. I discuss this often with clients and I find it engages them on a different level now. They do not see our conversations as those driven merely by good anticipated returns, but by how their money can be invested to benefit both them and their younger family members' aspirations. The result of which, is they have a portfolio that matches theirs, and if required, their families ethical and social values.

Asking the DFM

Q How has the market changed since you launched your MPS service 10 years ago?

A Over the last 10 years, we have seen the market grow substantially in terms of available platforms to which our models can be accessed through, but more importantly, the number of funds that sufficiently pass our vigorous screen. Back in 2010, an MPS was still a relatively new concept, especially one with a sole focus on responsible investing. Our fund universe at inception could have been no greater than 20 or so funds, whereas now we have hundreds on our watch list, all of which require ‘under the bonnet’ screening. This has inevitably led to greenwash becoming more commonplace, but experience means we can easily sift this out and assist in the education of advisers regarding this malpractice. Our vigorous screening and education, alongside active asset allocation, is where we add our value as a specialist Discretionary Fund Manager.

I believe the demand from underlying clients brought about by the so-called ‘Attenborough effect’ and more recently, the ‘Thunberg effect’, has driven assets down the spectrum of capital, while intergenerational planning has further boosted this shift. On top of this, over the last five years we’ve seen ethical models generally outperforming conventional portfolios, and with lower volatility too. You only need to look to the correction we saw in the last week of February 2020 to prove this point. This has certainly assisted in winning over advisers and clients who had once been sceptical of this way of investing.

Finally, as competition has increased, we see a shift towards quantifying the investment process and the outcomes, which although brings some standardisation, sometimes it does rather miss the real heart of the matter when it comes to individual clients ethics.

Q How do you research assets for this product range?

A We manage portfolios to two instead of one criteria, where risk management is achieved primarily through asset allocation, while we meet our ethical objective through our thorough screening process. Well before the screening process begins, we will meet with the fund house and the fund management team to ensure they share the passion and are simply not joining the cause to capitalise on the growth in the sector. We feel this is a key part of the process to avoid greenwash at inception, but also moving forward. Any changes in a fund’s stock selection team will see the fund immediately sit on an amber watch list.

Well before a fund reaches our buy list, and regardless if the fund management team excel in their own screening process, we will go under the bonnet and screen the underlying holdings. After all, those holdings tell the truth and in turn the reality of the portfolio. Our process has two parts: a process-driven quantitative screen and a more values-based qualitative screen, and this is ongoing on a monthly basis. It is worth noting that this also assists in our financial analysis to ensure we have a diversified portfolio of stocks and bonds.

We pride ourselves on the level of scrutiny we apply to funds on our watch list. We will and have done in the recent past, sell out of funds if certain holdings do not meet our client’s ethical objectives. Solely focused on responsible investing, we have no conflict of interest over what is considered ‘right’ or ‘wrong’, and we will always err on the side of caution to ensure we well and truly meet our mandate.

Q You must come across some grey areas that split opinion, do you have any examples and how you look to address them?

A Our model portfolios appeal to the vast majority of investors’ concerns, achieved by selecting a broad range of ethical, sustainable, ESG (environmental, social and governance) or impact-focused funds. However, we understand that certain ethical concerns such as animal testing will split opinion, which is why we provide support material so they can ascertain if there are any areas of conflict.

When required for medical reasons, animal testing will be permitted in our model portfolios, as we understand the regulatory requirement for life-changing medicines and treatment, especially in the United States. Nuclear energy is another area that tends to split onion, so we therefore screen this out of our models to avoid any conflict.

We have been offering bespoke portfolios since 2002, which offers advisers a suitable alternative for those more ethically minded clients. Here we directly invest in assets (not collectives), so we have full control over the portfolio holdings. Back in 2002, our initial focus was around Quaker values, with a number of Quaker clients remaining with us today, testament to our screening process, which has evolved over time to include a positive screen. On top of this, we continue to grow our ‘bespoke lite’ business through selected platforms, which combine direct equities with collectives that would be able to accommodate some of the ‘grey areas’ that advisers come across.

Q What support can you provide to those looking to start their ethical journey?

A The additionality of understanding a client’s ethics is a new concept for some, so we’ve constructed a values-based questionnaire for advisers and wealth managers to use to help with client engagement. We’d suggest avoiding the move towards a fully quantified investment stance, as ethics are personal to each person and require a more human approach than conventional investing. As a result of this, it is pivotal to avoid shoehorning into products that do not fully match on ethics, we have seen advisers lose clients in the past as they have not stayed engaged and updated. We provide advisers and their clients with regular updates on core ethical issues within our monthly email “Everything Ethical”. Ethical issues and values are constantly evolving, and explaining how investments react to changes is essential for advisers and clients.