

# MORE THAN A NEGATIVE SCREEN

As the popularity of the IFA Magazine summer focus on matters of sustainable investing has proved, matters of environmental, social and governance as well as impact investing are becoming mainstream considerations for advisers and investment managers as well as investors. But what's in a name? King & Shaxson is a leader in ethical investing and argues here that now is the time to get to grips with the issues and opportunities that this dynamic sector presents

Over the years we have seen ethical investing move from the fringe to being a mainstay offering, with ESG (Environmental, social and governance), SRI (socially responsible investing) and Impact now being on the tip of most investors' tongues.

Different phrases have been coined over the years, and we endeavour to briefly cover them below, but arguably they focus on the same underlying principles, and it is these underlying principles that have formed the basis of our investment screening since 2002.

Screening is as important to us as the investment process. It matters to our clients and their advisers that we get this right, abiding by the mandate with a rigorous process in place. In the case of our model portfolios, the areas of avoidance and inclusion is in the documentation. In the case of the tailored, bespoke portfolios, this is taken from the values-based questionnaire.

Meeting the clients' ethical expectations is more than just ticking the boxes. Focussing on what companies actually do, and how they do it, is essential. A good SRI profile is important to any company, and can lead to green washing if care is not taken.

## HOW THE MARKET HAS EVOLVED

Ethical investing was arguably the first building block in what is now the responsible investment universe. As time evolved, ESG and SRI followed, integrating analysis of a company's environmental, social and governance factors as well as scrutinising business activity to ascertain what social outcome it is producing. More recently, impact investing has become the talk of the town, and it is here where we have seen a noticeable number of new launches. Impact investing focuses on companies that seek solutions to the social and environmental issues we face, where the positive outcomes can be quantified. The United Nation's Sustainable Development Goals (SDGs) have provided a graphical framework of 17 specific areas that impact investors focus on.

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Although ethical is in our name, here at King & Shaxson there has always been much more to the investment process than the negative exclusion. Whilst screening out the 'evils', such as tobacco, armaments, pornography and fossil fuels to name but a few, we were early adopters of positive inclusion such as forestry and microfinance, which by its very nature finances solutions to social and environmental issues.

## THE PROCESS

As mentioned, our screening process aims to identify investments along the spectrum of capital. Our method has two parts: a process-driven quantitative screen and a more values based qualitative screen.

We examine investments from an ESG perspective provided by third party screeners (currently MSCI). This include a quantum of hard data, a screen on activities, a comparison to peers and information on an controversies that have arisen and whether these issues have been addressed in a manner we would expect from a company our investors would want to own.

Beyond this, the qualitative screen is where we look to truly understand what a company or fund does; we like to call this 'going under the bonnet' and this takes a more human approach. We seek to identify areas of positive impact to ensure portfolios are contributing to solutions to the social and environmental issues that we face today. We also flag any areas of ethical concern.

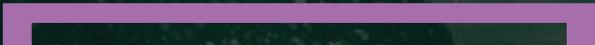
## MORE HUMAN IS GOOD

Our clients have traditionally been on the darker side of spectrum, meaning we know how important it is to get the investment decisions correct; one size does not fit all. Whilst all advisers will know of KYC (know your client), we like KYEC (know your ethical client).

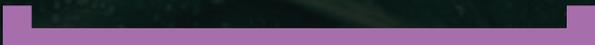
Over time, our client base has evolved to include those who are looking for a light screen, but this doesn't take away the importance of getting it right. Having a bespoke ethical proposition will ensure investment opportunities are available in areas such as social housing, microfinance, off grid renewables, African farm leasing, renewable energy, and public transport to name but a few.

We therefore aim to meet the vast majority of investors' concerns by selecting a broad range of funds and/or direct

equities that are specific in their goal, whether this is Ethical, Sustainable, ESG or Impact focused. Past experience shows that these specialist types of investment can have different underlying requirements to fit with the specific values that each client has. Our adviser support materials ensure that advisers can articulate and engage with clients to ensure these requirements are made possible.



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We have constructed values-based questionnaires for advisers and wealth managers to use to help with that engagement and conversation with clients. We also offer a screening service for any existing client portfolios that might require a review based on the completed questionnaire. This can be invaluable when it comes to further cementing the adviser/client relationship and can also lead to increased assets under management for advisers. 

**About King & Shaxson**

Founded in 1866, King & Shaxson has evolved into a specialist investment firm focussed on securities dealing and custody, asset management and treasury consultancy. King & Shaxson is a leader in ethical investments, having run an ethical discretionary management business since 2002. Catering for individual, corporate and charity investors this service blends classical investment discipline with a focus on meeting the ethical requirements of the investor, from small negative screens to full impact investing.

**Interested in ESG? Come and join us at the IFA Magazine ESG roundtable event on 18 October 2019**

On October 18 2019, we're delighted to be bringing together a series of experts on ESG to consider different approaches to and the importance of having effective strategies for managing ESG issues. The IFA Magazine round table will take place at the offices of M&G Investments, 10 Fenchurch Street, London EC3M 5AG where we will be joined by renowned expert Julia Dreblow of SRI Services as well as ESG experts from Triple Point and King and Shaxson. If you're an adviser with a particular interest in this dynamic sector, then we'd love to welcome you to join the discussion and help influence the future. To find out more please email Kim Wonnacott - [kim.wonnacott@ifamagazine.com](mailto:kim.wonnacott@ifamagazine.com).