The Ethical Investment Research Service (EIRIS) was one of the first organisations dedicated to helping people invest according to their ethical principles. It was set up in 1983 with the help of a group of churches and charities which had investments and strong convictions about what they thought was right and wrong. They needed a research organisation to help them put their ethical principles into practice when making investments. EIRIS has worked since then to:

- provide information that helps investors apply ethical criteria to investments
- help investors identify and choose between different types of investment on ethical, as distinct from financial, grounds
- promote a wider understanding of, and debate on, corporate responsibility.

Although many ethical concerns have common roots, how they are applied will depend on the individual investor and the prevailing circumstances. Ask any ten people what they think is ethical and you will probably get ten different answers. EIRIS does not make moral judgements about the activities it researches. Its expertise is in researching the issues. It does not give advice on the financial suitability of any investment, nor can it manage investments.

Further information
- For more information about EIRIS and a complimentary copy of its quarterly newsletter, The Ethical Investor, please contact:
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tel: 0171 735 1351
fax: 0171 735 3323
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£2.50
This booklet reports a survey of some existing CIFs according to seven sets of ethical criteria which may be of interest to various groups of charities. As CIFs are analogous to unit trusts, a brief comparison is made for discussion purposes between the ethical characteristics of these CIFs and those of specialist ethical funds. This booklet does not aim to give financial advice and is based on information supplied as at the dates referred to in the publication. It addresses solely the ethicality of various funds. Readers should not enter into any financial commitment as a result of the information contained in the booklet, but should seek independent financial advice, as to the merits of any contemplated investment before proceeding further.

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EIRIS registered office: 504 Bondway Business Centre, 71 Bondway, London SW8 1SQ

All rights reserved. No part of this publication may be reproduced, stored in a referral system, transmitted in any form by any means, electronic, mechanical, photocopy, recording or otherwise, without the prior consent of the copyright holder for which application should be addressed in the first instance to EIRIS.
The background

Could a charity’s investments be undermining the organisation’s social and ethical objectives? This is a question that charity trustees can no longer afford to avoid.

Recent press reports have highlighted cases of cancer charities investing in tobacco companies, medical charities investing in alcoholic drinks companies and animal welfare charities investing in companies that test products on animals. In a number of these cases, the investments held were in direct breach of the charities’ stated investment policies and potentially alienated supporters and beneficiaries alike.

In order to avoid this type of situation arising, charities are in certain circumstances permitted to adopt ethical investment policies. Ethical investment is the practice of choosing investments that reflect the ethical values of an individual or organisation.

It is easier for a charity to ensure that a chosen investment policy is followed where it exercises direct control over its investments. The vast majority of charities, though, do not have sufficient assets to be able to afford to exercise the maximum level of control. Most charities which seek to invest in stock market equities therefore do so via collective funds where investors’ money is pooled, administrative costs are shared and the combined buying power is used to buy a good spread of investments.

An increasing proportion of charity assets are invested in Common Investment Funds (CIFs). CIFs are a form of investment option authorised by the Charity Commission which are specially designed for charities to collectively invest in the stock market.

At the time of writing no CIF that is open to all charities has an ethical investment policy. On 20 August 1996, though, the Charity Commission announced that it would in principle allow CIFs to be set up with permanently restricted investment policies, where the restrictions are justified by the objects of the investing charities. This would allow CIFs to be set up for particular classes of charities with ethical investment policies in line with the legal framework established in the Bishop of Oxford case (see page 21).

This booklet investigates how well some existing CIFs measure up against seven ethical benchmarks relevant to a large number of charities. The survey highlights the lack of CIFs with ethical policies and considers options open to trustees who wish to reflect their charity’s social and ethical objectives in their investment policy.

What is ethical investment?

Ethical investment enables ethical considerations to influence the choice of investments made.

There are two main ways for an organisation to pursue an ethical investment policy. It may seek to avoid investment in Company Groups whose activities compromise its ethical concerns and objectives – a cancer charity might avoid investment in tobacco companies on this basis, for example. Alternatively, it may actively support those that make a positive contribution to society in general or its own
cause in particular - an environmental charity might want to invest in
companies involved in the recycling of waste.

Many successful ethical investment policies combine the two approaches. In
addition, many ethical investors use their influence as shareholders to try and
improve the ethical performance of businesses in which they invest. Others look
beyond the stock market to find alternative investments which better meet their
ethical concerns.

There have always been concerned individuals and organisations who consult
their consciences before investing their money. However, the ethical investment
sector was only formally established in the UK with the launch of the first ethi-

cal unit trust in 1984. Since then, the sector has enjoyed rapid growth in popu-

ularity. By October 1995 (when EIRIS originally carried out this survey), nearly
£1 billion was invested in unit trusts and similar types of dedicated ethical invest-
ment funds. On top of this, much larger amounts of church and local authority
money are believed to be invested with ethical criteria in mind.

The ethical investment sector is predicted to grow faster in the future as it
becomes more common for financial advisers and investment managers to ask
clients about their ethical concerns. Opinion polls already suggest that, where
people are made aware of the possibility, the vast majority of the general public
supports the aims of ethical investment - in theory if not yet in practice.

Although parts of the charity sector have been at the forefront of the ethical
investment movement, the bulk of charities remain outside it. A number of pos-
sible explanations have been put forward for this. It has been suggested, for ex-
ample, that many charities and their advisers are simply unaware of the ethical in-
vestment options available to them. A key stumbling block to the use of ethical in-
vestment is thought to be the lack of ethically screened C/CIs in which to invest.

What is EIRIS?
The Ethical Investment Research Service (EIRIS) was one of the first organisa-
tions dedicated to helping people invest according to their ethical principles. It
was set up in 1983 with the help of a group of churches and charities which had
investments and strong convictions about what they thought was right and wrong.
They needed a research organisation to help them put their ethical principles into
practice when making investments. EIRIS has worked since then to:

• provide information that helps investors apply ethical criteria to investments
• help investors identify and choose between different types of investment on
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pertise is in researching the issues. It does not give advice on the financial suit-
ability of any investment, nor can it manage investments.

The background to charity investments
Trustees have a fundamental duty to further the aims of their charity by acting
reasonably and prudently in managing its affairs. The Charities Acts and relat-
ed legislation regulate the way in which trustees may carry out their duties and
outline the role of the Charity Commission in providing support and supervi-
sion.

A key part of trustees’ duties is to protect all the charity’s property. As well as
ensuring a proper system of financial controls, trustees must make sure that any
funds not immediately required for expenditure are prudently managed. This
means investing them in accordance with the powers outlined in the Charities
Acts and the Trustee Investment Act 1961 (TIA) - and any written policy of the
charity. The restricted powers of investment outlined in the TIA can be varied
by the charity’s governing document or if the charity obtains approval for wider
powers from the Charity Commission or the courts.

The TIA enables trustees to invest in financial products classified either as nar-
rower range investments’ or ‘wider range investments’. Narrower range invest-
ments are very safe investments. They split down into two types; those not requir-
ing expert advice, such as National Savings Bonds, and those requiring advice,
such as deposits in a building society. Wider range investments are riskier invest-
ments; less geared to producing a reliable income, but with the potential to deliv-
er better long term capital growth. Unit trusts are one example of a wider range
investment; a full list is provided in the Charity Commission booklet, Trustee

If trustees wish to invest in wider range investments, the fund must be split
into two parts in a 3:1 ratio. The larger part may be invested in any of the categories
permitted by the TIA - the smaller part which must be managed separately -
must be invested in less risky narrower range investments.

Accordingly, a charity governed by the TIA may not have more than three quar-
ters of its money in unit trust-type investments. In such cases, the way to collective-
ly invest the maximum amount of assets in stocks and shares is to invest in a C/C.

What are Common Investment Funds?
CICs (constituted as charities in their own right) are pooled investment vehicles
- rather like unit trusts - specially set up for charities. They were introduced to
enable more charities to invest in equities (stocks, shares and related products).
Like unit trusts, they give charities access to professional investment manage-
ment and, by pooling investors’ money, achieve a much wider investment spread
than most charities could obtain on their own.

CICs are classed as ‘special range investments’, which means, among other things,
that there is no limit to how much of a charity’s fund can be invested in them. CICs are therefore the only serious option for a TIA-governed charity going
all-out for capital growth. It is perhaps not surprising that around £2 billion of
charity money is invested in CICs nor that investment in CICs is on the increase.

Background to the survey
In view of the increased use of CICs and the increasing interest in ethical invest-
ment, EIRIS decided last year to examine how well CICs cater for charities that
wish to invest with ethics in mind.

This survey analyses the investments made in UK Company Groups by existing
CICs against seven sets of ethical criteria which may be of particular interest to
major groups of charities. The term ‘Company Groups’ covers parent com-
panies whose shares are quoted on the Stock Exchange, together with any sub-
sidiaries or associated companies where the parent company has a holding of at
least 20%. If an associated company has any subsidiaries, these are also covered by the term.

As CIFs have much in common with unit trusts and similar investment funds, a brief comparison has been made between the ethical performance of CIFs and those of ethical unit trusts. The survey does not aim to cover any other types of investment by charities, however, or give financial advice. Trustees requiring guidance on financial matters should obtain appropriate expert advice.

How the survey was conducted

How funds were selected for analysis: The Charity Commission lists the different CIFs in its booklet, Common Investment Funds & Common Deposit Funds. Seven of these are open to specific church-related charities only and so were excluded from the analysis. Also excluded from the survey are funds that invest almost exclusively in Government stocks and fixed interest investments, or whose equity investments are predominantly outside the UK. (Such investments are more difficult to monitor for ethical criteria.) This left nine CIFs for analysis. They are listed in the table opposite. (A further fund, Charifund, was also included in the survey, because though not formally a CIF, it was included in the Charity Commission’s booklet as having similar attributes.)

What was analysed: The analysis dealt only with the UK equity investments of each CIF. Investments in other assets, such as Government stocks or overseas equities, were not analysed. The data on UK Company Groups used to analyse the ethical performance of the CIFs is drawn from that routinely reviewed and updated by EIRIS as part of its core service. At 26 October 1995 (the date of the survey), 970 UK Company Groups were monitored by EIRIS across almost 300 ethical criteria—both positive and negative.

What the following table shows: The first column names the ten funds analysed. (Please note that the Chariguard UK Equity Fund is treated as analogous to the FTSE All Share Index, as it is managed as an index tracking fund.) The FTSE All Share Index was analysed to give a measure of each CIF’s ethical characteristics against the Index itself. The second column lists the figures provided by each CIF to EIRIS, for the overall size of each CIF and the dates at which these valuations were made. The third column shows what proportion of each CIF’s assets were made up by the CIF’s UK portfolio of equity investments (which is the part analysed by EIRIS) and gives the number of Company Groups contained in the portfolio.

The criteria used in the analysis: In the charts that follow, the CIFs are analysed against seven groups of criteria (details are available from EIRIS—see appendix). The criteria have been chosen to give a broad-brush picture of potential ethical issues likely to be of concern to a large number of charities. Individual charities may wish to choose different, more (or less) stringent criteria in order to reflect their particular ethical concerns.

The purpose of this survey was to ascertain the extent to which CIFs invest in Company Groups that may conflict with the ethical concerns of particular groups of charities. For this reason, the analysis concentrates on negative criteria (activities which charities may wish to avoid). For many charities, positive criteria—activities which they want to support—could be just as important.

### Funds analysed in this guide

<table>
<thead>
<tr>
<th>Name of fund</th>
<th>Size of fund and date of valuation</th>
<th>UK portfolio as proportion of fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha Charity Fund</td>
<td>Net assets at 30 May 1995: £60m</td>
<td>43% of net assets made up of 18 UK Company Groups</td>
</tr>
<tr>
<td>Charifund</td>
<td>Trust value at 30 April 1995: £204m</td>
<td>87% of trust value made up of 62 UK Company Groups</td>
</tr>
<tr>
<td>Charisheer Common Investment Fund</td>
<td>Net assets at 31 January 1995: £37m</td>
<td>84% of net assets made up of 41 UK Company Groups</td>
</tr>
<tr>
<td>CAF Balanced Growth Fund</td>
<td>Net assets at 30 April 1995: £292m</td>
<td>87% of net assets made up of 46 UK Company Groups</td>
</tr>
<tr>
<td>Charities Official Investment Fund</td>
<td>Net assets at 31 January 1995: £408m</td>
<td>88% of net assets made up of 75 UK Company Groups</td>
</tr>
<tr>
<td>Charity Equity Fund</td>
<td>Net assets at 31 March 1995: £54m</td>
<td>94% of net assets made up of 92 UK Company Groups</td>
</tr>
<tr>
<td>Common Fund for Growth</td>
<td>Net assets at 30 June 1995: £5m</td>
<td>8% of net assets made up of 93 UK Company Groups</td>
</tr>
<tr>
<td>Fledgling UK Equity Fund</td>
<td>Net assets at 30 June 1995: £21m</td>
<td>83% of net assets made up of 87 UK Company Groups</td>
</tr>
<tr>
<td>UK Growth and Income Fund</td>
<td>Net assets at 20 February 1995: £18m</td>
<td>87% of net assets made up of 75 UK Company Groups</td>
</tr>
<tr>
<td>FTSE All Share Index Average and Chariguard UK Equity Fund</td>
<td>Net assets at 20 February 1995: £18m</td>
<td>756 UK Company Groups analysed (FTSE All Share Index excluding investment trusts)</td>
</tr>
</tbody>
</table>

EIRIS asked each CIF for details of its portfolio on 17 August 1995. The valuations used were the latest publicly available. All the portfolios were then screened by EIRIS on 26 October 1995.

How the findings are reported

How to read the following pages: For each of the seven chosen sets of ethical criteria, a chart illustrates the percentage of each CIF’s UK portfolio and the FTSE All Share Index as a whole, identified by these criteria. The pages opposite the charts summarise the following:

- definition of the criteria considered
- comparison of the analysed CIFs with ethical funds. At the time of the survey, there were 27 ethical funds available for investment. Figures are given for the number of these funds which avoided investment in the Company Groups involved in the activities covered by these charts. Figures are also given for the number of Company Groups on the FTSE All Share Index at the time of the survey that were not involved in the activities covered by the chart. (Please note: of the 27 ethical funds available for investment at the time of the survey, six were funds with either less than 30% of their value held in UK equities or with holdings in fewer than 15 UK Company Groups and so EIRIS was unable to monitor a smaller proportion of these funds than the others.)
- observations on why these criteria may be of interest to groups of charities.
The findings

Alcohol and tobacco

To what extent did CIFs invest in alcohol or tobacco?

<table>
<thead>
<tr>
<th>Percentage of each CIF’s UK portfolio identified by the specified criteria (see opposite)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha Charity Fund</td>
</tr>
<tr>
<td>Charifund</td>
</tr>
<tr>
<td>Charishare Common Investment Fund</td>
</tr>
<tr>
<td>CAF Balanced Growth Fund</td>
</tr>
<tr>
<td>Charities Official Investment Fund</td>
</tr>
<tr>
<td>Charity Equity Fund</td>
</tr>
<tr>
<td>Common Fund for Growth</td>
</tr>
<tr>
<td>Fledgeling UK Equity Fund</td>
</tr>
<tr>
<td>UK Growth and Income Fund</td>
</tr>
<tr>
<td>FTSE All Share Index Average (Chariguard UK Equity Fund)</td>
</tr>
</tbody>
</table>

Criteria

For each fund, the chart shows the proportion of UK equity investment in Company Groups that derived more than 1% of their turnover or more than £1m from the production of one or more of the following:

- alcoholic drinks
- tobacco
- tobacco products, such as cigarette-making machines and the making of cigarette components, including filters and cigarette tow.

At the time the portfolios were screened, all the CIFs had some investment in alcohol and tobacco companies. Although exposure to such companies is generally low, charities could avoid them altogether.

Comparison

- 718 of the 756 Company Groups in FTSE All Share Index are not involved in the activities covered by the chart.
- 23 of the 27 ethical funds available for charity fund investment completely avoid Company Groups involved in the activities covered by the chart. (See ‘How the findings are reported’, page 5)

Observations

This information may be of particular interest to cancer charities, heart disease charities, medical research organisations, NHS Trusts, nursing homes and other organisations concerned about the health implications of smoking and drinking. It will also be an issue for those who oppose smoking and/or drinking on moral or religious grounds - Muslims, Methodists and other teetotallers, for example.

The concerns of such groups may not be completely addressed by the criteria covered in the chart. They may want to avoid investment in Company Groups that sell alcohol and tobacco as well as those that produce it, for example.

Those concerned about alcohol and tobacco for health reasons may also want their investments to support Company Groups that make a positive contribution in this area - nursing homes and manufacturers of safety equipment might fall into this category, for example.

Whatever your organisation’s ethical or social stance, it should be possible to develop an investment strategy that takes those concerns into account.
Animal issues

To what extent did CIFs invest in animal testing and/or intensive farming?

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Alpha Charity Fund</th>
<th>Charifund</th>
<th>Charishare Common Investment Fund</th>
<th>CAF Balanced Growth Fund</th>
<th>Charities Official Investment Fund</th>
<th>Charity Equity Fund</th>
<th>Common Fund for Growth</th>
<th>Fledgeling UK Equity Fund</th>
<th>UK Growth and Income Fund</th>
<th>FTSE All Share Index Average (Chariguard UK Equity Fund)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of each CIF's UK portfolio identified by the specified criteria (see opposite)</td>
<td>0%</td>
<td>13%</td>
<td>7%</td>
<td>8%</td>
<td>10%</td>
<td>8%</td>
<td>13%</td>
<td>12%</td>
<td>9%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Criteria
For each fund, the chart shows the proportion of UK equity investment in Company Groups that were involved in one or more of the following:

- the manufacture of cosmetics or toiletry products (unless Company Groups confirm that neither they, nor their ingredients suppliers, have tested on animals since particular dates)
- the provision of animal testing services
- poultry farming, or pig farming (unless intensive methods are not used)
- the ownership or operation of at least one fish farm, abattoir, poultry slaughterhouse or processing plant
- the manufacture or supply of intensive farming equipment.

At the time the research was conducted, nine of the ten CIFs had 7% or more of their UK equity investments in Company Groups involved in these activities. However it is possible for charities to avoid such investments altogether.

Comparison
- at the time of the research, the Alpha Charity Fund completely avoided investment in the activities covered by the chart
- 724 of the 756 Company Groups in FTSE All Share Index are not involved in the activities covered by the chart
- 9 of the 27 ethical funds suitable for charity fund investment completely avoid Company Groups involved in the activities covered by the chart. (See ‘How the findings are reported’, page 5)

Observations
This information may be of particular interest to vegetarian organisations and animal welfare and wildlife charities.

The concerns of such groups may not be completely addressed by the criteria covered in the chart. They may want to extend their avoidance criteria to cover Company Groups involved in any aspect of the meat trade, for example.

On the other hand, they may wish to make a positive effort to seek out and invest in Company Groups that have a specific policy of not testing products on animals, or those that produce organic foods or freedom foods, for example. (The freedom foods scheme aims to ensure that products have been produced from animals reared to the highest practicable standards. It is based on the five freedoms the RSPCA believes all animals should enjoy – namely: freedom from fear and distress; pain, injury and disease; hunger and thirst; discomfort; and the freedom to express normal behaviour.)

Whatever your organisation’s ethical or social stance, it should be possible to develop an investment strategy that takes these concerns into account.
Environmental issues

To what extent did CIFs invest in activities which may be harmful to the environment?

<table>
<thead>
<tr>
<th>Fund</th>
<th>Percentage of each CIF's UK portfolio identified by the specified criteria (see opposite)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha Charity Fund</td>
<td>50%</td>
</tr>
<tr>
<td>Charifund</td>
<td>72%</td>
</tr>
<tr>
<td>Charishare Common Investment Fund</td>
<td>62%</td>
</tr>
<tr>
<td>CAF Balanced Growth Fund</td>
<td>62%</td>
</tr>
<tr>
<td>Charities Official Investment Fund</td>
<td>58%</td>
</tr>
<tr>
<td>Charity Equity Fund</td>
<td>70%</td>
</tr>
<tr>
<td>Common Fund for Growth</td>
<td>62%</td>
</tr>
<tr>
<td>Fledgeling UK Equity Fund</td>
<td>71%</td>
</tr>
<tr>
<td>UK Growth and Income Fund</td>
<td>67%</td>
</tr>
<tr>
<td>FTSE All Share Index Average</td>
<td>61%</td>
</tr>
</tbody>
</table>

Criteria

For each fund, the chart shows the proportion of UK equity investment in Company Groups that were involved in one or more of the following:

- the nuclear industry — whether as part of the uranium fuel cycle, through the handling of radioactive waste, the supply of equipment or services for nuclear plants or facilities, or the distribution or supply of nuclear generated electricity
- the manufacture of pesticide products
- convictions for water pollution in the three years before the survey (following a prosecution by Her Majesty’s Inspectorate of Pollution (HMIP), National Rivers Authority or River Purification Boards) which are now collated by the Environment Agency
- the roads industry — whether through road building, the manufacture of cars or private commercial vehicles, or as members of the British Road Federation
- the extraction, clearance, use or sale of timber or timber products, unless tropical hardwood free.

At the time the research was conducted, all the CIFs had half or more of their UK equity investments in Company Groups identified by one or more of the criteria covered in this table. It is relatively hard to avoid such investments — but not impossible.

Comparison

- 422 of the 756 Company Groups in the FTSE All Share Index are not involved in the activities covered by the chart
- one of the 27 ethical funds suitable for charity fund investment completely avoids Company Groups involved in the activities covered by the chart. (See ‘How the findings are reported’, page 5)

Observations

This information may be of particular interest to environmental charities and any organisation with an environmental policy.

The concerns of such groups may not be completely addressed by the criteria covered in the chart. For example, they might want their avoidance criteria to be extended to include industries thought to contribute to the greenhouse effect — such as electricity generation or air transport.

On the other hand, they may wish to make a positive effort to seek out and invest in Company Groups in 'environmentally friendly' industries such as waste recycling, renewable energy or the provision of public transport. They may also be interested in Company Groups that attempt to control their environmental impact through environmental audits, for example.

Whatever your organisation’s ethical or social stance, it should be possible to develop an investment strategy that takes those concerns into account.
Gambling

To what extent did CIFs invest in gambling?

<table>
<thead>
<tr>
<th>Percentage of each CIF’s UK portfolio identified by the specified criteria (see opposite)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alpha Charity Fund</strong></td>
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</tr>
<tr>
<td><strong>FTSE All Share Index Average (Chariguard UK Equity Fund)</strong></td>
</tr>
</tbody>
</table>

Criteria
For each fund, the chart shows the proportion of UK equity investment in Company Groups that:

- derive turnover from gambling. 'Gambling' covers the operation of betting shops, horse and greyhound racing tracks, licensed bingo halls, casinos or gambling clubs, football pools and the manufacture and supply of gaming machines.
- are members of the consortium operating the UK National Lottery.

At the time the research was conducted, all the CIFs had some investment in gambling. Although exposure to such companies is generally low, charities could avoid such investments altogether.

Comparison
- 734 of the 756 Company Groups in the FTSE All Share Index are not involved in the activities covered by the chart.
- 16 of the 27 ethical funds suitable for charity fund investment completely avoid Company Groups involved in the activities covered by the chart. (See 'How the findings are reported', page 5)

Observations
This information may be of particular interest to churches and charities that object to gambling on religious or moral grounds, as well as welfare and social service charities concerned about the social effects of gambling.

The concerns of such groups may not be completely addressed by the criteria covered in the chart. For example, they might want their avoidance criteria to be extended to include Company Groups that sell lottery tickets and scratch cards.

Whatever your organisation’s ethical or social stance, it should be possible to develop an investment strategy that takes those concerns into account.
Human rights

To what extent did CIFs invest in Company Groups operating in countries with serious human rights problems?

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Percentage of each CIF's UK portfolio identified by the specified criteria (see opposite)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha Charity Fund</td>
<td>66%</td>
</tr>
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<td>Charifund</td>
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<td>66%</td>
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<tr>
<td>Charity Equity Fund</td>
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</tr>
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<td>66%</td>
</tr>
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<td>Fledgeling UK Equity Fund</td>
<td>66%</td>
</tr>
<tr>
<td>UK Growth and Income Fund</td>
<td>72%</td>
</tr>
<tr>
<td>FTSE All Share Index Average (Chartguard UK Equity Fund)</td>
<td>61%</td>
</tr>
</tbody>
</table>

Criteria
For each fund, the chart shows the proportion of UK equity investment in Company Groups that:

- include a subsidiary or associated company registered in at least one of the countries which Freedom House has given a rating of 6.5 or worse.

(Freedom House is a US organisation which rates countries and territories against a wide range of political rights and civil liberties criteria. For example, it assesses amongst other items whether the government provides protection from political terror, exile or torture; free and fair elections; freedom of speech and the press; and free trade unions. The scoring used by Freedom House ranges from one (the best, or most free) to seven (the worst, or least free).)

At the time the research was conducted, all the CIFs had at least 60% of their UK equity investments in Company Groups identified by the criterion covered in this table. It is relatively hard to avoid such investments – but not impossible.

Comparison
- 578 of the 756 Company Groups in the FTSE All Share Index are not involved in the areas covered by the chart.
- two of the 27 ethical funds suitable for charity fund investment completely avoid Company Groups involved in the activities covered by the chart. (See 'How the findings are reported', page 5)

Observations
This information may be of particular interest to legal and human rights organisations, as well as Third World charities, universities and other educational institutions.

The concerns of such groups may not be completely addressed by the criterion covered in the chart. For example, they might want their avoidance criteria to be extended to include Company Groups operating in countries that get a lower Freedom House rating, or those cited by Amnesty International as being guilty of certain human rights abuses.

Some investors will be less concerned about a Company Group's involvement in a particular country, and more concerned about what it's doing there. They may want to seek out and invest in Company Groups that are making a positive contribution to the working and living conditions of a country's people – through the provision of education, union recognition or fair trade policies, for example.

Whatever your organisation's ethical or social stance, it should be possible to develop an investment strategy that takes those concerns into account.
Military

To what extent did CIFs invest in military production or sale?

<table>
<thead>
<tr>
<th>Percentage of each CIF's UK portfolio identified by the specified criteria (see opposite)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha Charity Fund</td>
</tr>
<tr>
<td>Charifund</td>
</tr>
<tr>
<td>Charishare Common Investment Fund</td>
</tr>
<tr>
<td>CAF Balanced Growth Fund</td>
</tr>
<tr>
<td>Charities Official Investment Fund</td>
</tr>
<tr>
<td>Charity Equity Fund</td>
</tr>
<tr>
<td>Common Fund for Growth</td>
</tr>
<tr>
<td>Fledgeling UK Equity Fund</td>
</tr>
<tr>
<td>UK Growth and Income Fund</td>
</tr>
<tr>
<td>FTSE All Share Index Average (Chariguard UK Equity Fund)</td>
</tr>
</tbody>
</table>

Criteria
For each fund, the chart shows the proportion of UK equity investment in Company Groups that were involved in one or more of the following:

- Ministry of Defence contracts worth more than £5 million in any of the last three years
- the sale or production of nuclear weapons systems or strategic or non-civilian goods or services for them
- the export of goods and services for military users or exhibiting at defence equipment exhibitions.

At the time the research was conducted, all the CIFs had more than a third of their UK equity investments in Company Groups identified by at least one of the criteria covered in this table. It is quite hard to avoid such investments – but not impossible.

Comparison
- 619 of the 756 Company Groups in the FTSE All Share Index are not involved in the areas covered by the chart.
- three of the 27 ethical funds suitable for charity fund investment completely avoid Company Groups involved in the activities covered by the chart. (See “How the findings are reported”, page 5)

Observations
This information may be of particular interest to Quakers, pacifists and other social and religious groups that campaign for arms reduction.

Some investors might want to extend the avoidance criteria to cover Company Groups with any links to the military – even those supplying safety equipment and food and drink.

It may also be possible to pursue a ‘positive’ ethical investment policy in this area by supporting Company Groups making positive efforts to convert military to civilian production, for example.

Whatever your organisation’s ethical or social stance, it should be possible to develop an investment strategy that takes those concerns into account.
Third World issues

To what extent did CIFs invest in Company Groups that may potentially exploit the Third World?

| Percentage of each CIF's UK portfolio identified by the specified criteria (see opposite) |
|---------------------------------|---------------------------------|
| Alpha Charity Fund               | 20%                             |
| CharlFund                        | 16%                             |
| Charlsheare Common Investment Fund | 23%                           |
| CAF Balanced Growth Fund         | 17%                             |
| Charities Official Investment Fund | 18%                           |
| Charity Equity Fund              | 14%                             |
| Common Fund for Growth           | 18%                             |
| Fledgling UK Equity Fund         | 22%                             |
| UK Growth and Income Fund        | 18%                             |
| FTSE All Share Index Average     | 17%                             |

Criteria

For each fund, the chart shows the proportion of UK equity investment in one or more of the following:

- Company Groups, classified as banks by the Stock Exchange, which were owed money by Third World countries in the last financial year.
- Company Groups which only partially comply with – or completely or substantially violate – the International Code of Marketing Breast Milk Substitutes in the Third World.
- Company Groups which, according to the Pesticides Trust, have infringed the International Code of Conduct on the Distribution and Use of Pesticides in the Third world at least once since 1988.
- Company Groups which market tobacco in Third World.

At the time the research was conducted, all the CIFs had 14% or more of their UK equity investments in Company Groups identified by at least one of the criteria covered in this table. Although exposure to such companies is only moderately high, charities could avoid such investments altogether.

Comparison

- 744 of the 756 Company Groups in the FTSE All Share Index are not involved in the areas covered by the chart.
- 19 of the 27 ethical funds suitable for charity fund investment completely avoid Company Groups involved in the activities covered by the chart. (See ‘How the findings are reported’, page 5)

Observations

This information may be of particular interest to the various Third World development groups as well as more general health charities. Some investors might want to extend the avoidance criteria to cover other activities which might be seen as exploiting the Third World – such as tourism or the extraction of raw materials.

On the other hand, some investors may want to actively seek out and invest in Company Groups that are making a positive contribution to Third World development – through fair trade policies, for example, or the operation of strict codes of conduct.

Whatever your organisation's ethical or social stance, it should be possible to develop an investment strategy that takes these concerns into account.
Conclusions

What the survey shows

The survey looked at seven areas of corporate activity likely to conflict with the ethical objectives of a large number of charities. It found that, with one limited exception (Alpha Charity Fund, Animal Issues, page 8), CIFS have investments in all these areas.

- Many of the charities that invest in CIFS are putting money into activities that arguably undermine their objectives.

Not surprisingly, given that they have ethical investment policies and CIFS so far do not, the survey showed that ethical unit trusts were much more inclined to avoid areas of corporate activity likely to conflict with charities’ objectives.

Charities may at present be able to avoid investments that conflict with their objectives by putting their money into ethical unit trusts or non-CIF ethical funds marketed for charity investment. However, such funds may not be as suitable for charities as CIFS.

- There is a clear gap in the market for CIFS managed with ethical objectives in mind. Given the differing objectives and interests of different groups of charities, any planned ethical CIFS would have to adopt carefully planned and appropriate policies.

The issues for charity trustees

Charity trustees can, and do, satisfy their ethical concerns by investing in ethical unit trusts. However, unit trusts lose out to CIFS on a number of counts. For a start, they do not count as ‘special range investments’ under the terms of the Trustee Investment Act. This means that funds covered by the Act cannot put more than 75% of their money into unit trusts; the remaining 25% must be invested in narrower range investments.

Most CIFS have no initial charge and their annual management fees tend to be lower. An ethical unit trust will not usually be able to match a CIF on fee level. CIFS also have certain administrative advantages over unit trusts – because they are charities themselves, they collect income gross and pay it to the charities gross so charities do not have to make tax reclaimations themselves, for example.

- Ethical unit trusts and other packaged ethical funds can satisfy charities’ ethical concerns but are not classed as ‘special range’ investments. Some are more expensive and more administratively complex than CIFS. By contrast, CIFS are tailor-made for straightforward charity investment but do not at present seek to tackle ethical concerns.

Charities are under increasing scrutiny. Last year, reports in the national press highlighted the fact that a number of major charities held investments that directly conflicted with their objectives.

Moreover, the general public is increasingly showing its support for ethical invest-

ment. A 1995 NOP Research Group survey for insurance company Friends Provident showed that 60% of adults agreed with the proposition that they would ‘rather invest in an ethical trust than any other sort of unit trust’.

- By failing to take their ethical interests into account in their investment policies, charities risk adverse publicity and alienating their supporters and beneficiaries.

Legal status of ethical investment

Charity trustees may be concerned about the legality of pursuing an ethical investment policy. The case of the Bishop of Oxford v Church Commissioners determined the circumstances in which it is legitimate to pursue an ethical investment policy (these are outlined in the Charity Commission leaflet Investment of Charitable Funds: Basic Principles (CC14)). The legal position is summarised in the accompanying table:

<table>
<thead>
<tr>
<th>Trustees’ reason for considering ethical investment policy</th>
<th>Example</th>
<th>Is a policy necessary?</th>
<th>Limits on policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Constitution specifies need for policy*</td>
<td>In charity’s memorandum and articles or trust deed</td>
<td>Yes</td>
<td>Policy need not be limited, even at risk of significant financial detriment</td>
</tr>
<tr>
<td>2. Some investments may be in direct conflict with the charity’s objects</td>
<td>Cancer research, charity holding tobacco shares, charity holding brewery or distillery shares</td>
<td>Yes</td>
<td>Policy need not be limited, even at risk of significant financial detriment</td>
</tr>
<tr>
<td>3. Some investments could alienate the charity’s beneficiaries’ interest in the funds</td>
<td>Beneficaries not willing to accept aid due to natural/ source of charity’s funds</td>
<td>Possibly</td>
<td>Benefits to the charity’s work from the policy must outweigh any risk of financial loss</td>
</tr>
<tr>
<td>4. To reflect shareholder views (e.g. donors)</td>
<td>Circumstances other than 1-3 above, where there are relevant views to take into account</td>
<td>Possibly</td>
<td>Trustees must be satisfied that it would not involve any risk of financial loss</td>
</tr>
<tr>
<td>5. Some investments could bring charities into disrepute</td>
<td>Such disrepute may alienate supporters and donors (see 3)</td>
<td>Possibly</td>
<td>Could fall into same categories as 3 or 4</td>
</tr>
<tr>
<td>6. To reflect the personal moral views of trustees</td>
<td>On own initiative</td>
<td>No</td>
<td>Must primarily be one of the above grounds</td>
</tr>
</tbody>
</table>

*N.B. Amending a constitution (where permitted) to include an ethical policy may be possible, provided it can be argued to be in the interests of the charity. Trustees contemplating such a provision must take appropriate professional advice.
The table gives examples of the different reasons trustees may have for considering adopting an ethical investment policy and states whether such a policy is necessary. Where a policy may be adopted, it states whether the policy needs to be limited by the risk of it causing "significant financial detriment". Exactly what constitutes "significant financial detriment" is something of a moot point. A number of surveys have cast doubt on the notion that ethical criteria in general lead to worse financial performance. However, charities should seek appropriate professional financial advice on this point.

This table is only a summary of the current legal position, so it is vital that trustees obtain proper legal advice tailored to their particular circumstances.

- It is acceptable to avoid investment in a particular Company Group if it is involved in an activity that directly conflicts with the objectives of the charity or would lead to loss of financial support from subscribers. However, trustees have to be sure that any proposed exclusions further the interests of the charity (and not their own individual moral concerns) and would leave enough investment choice to produce an acceptable investment performance.

Ethical investors should note that it is possible to pursue positive, as well as negative, ethical criteria. This means actively seeking out corporate activities that further the charity's aims - health charities might want to invest in pharmaceutical companies, for example, while environmental charities may want to support organic farming.

- It is possible to incorporate positive and negative criteria within a single ethical investment policy.

What should charity trustees do now?

The first step for trustees it to be clear about their current position:

- Check whether your trust deed says anything about ethical investment
- Are there certain types of corporate activities that would conflict with your charity's objectives? If so, what are they?
- Are your donations, support or work damaged by your present investment arrangements?
- Do you know the views of donors, beneficiaries, staff or other stakeholders on ethical investment?
- If you already have an ethical investment policy, is it being fulfilled?
- If you don't have an ethical investment policy, should you initiate one?

If you want to pursue an ethical investment strategy, you should agree a policy and have it approved in writing.

If you invest in a CIF and it breaks your ethical criteria, you have several options:

- Lobby your existing CIF to adopt an ethical investment strategy
- Switch to an ethical unit trust or an ethical fund designed for charities
- If your fund is large enough, you could opt for a segregated (tailor-made) ethical portfolio
- In any event, trustees should always ensure that they are fully advised on financial issues and the various investment options available. This can include seeking further information and advice on ethical investment issues.

- If you want 100% equity investment, but through unit trusts or direct investment rather than CIFs, you can apply to the Charity Commission or the courts to have the TIA restrictions (limiting equity investment to 75%) lifted.

- Remember, there is more than one way to pursue an ethical investment policy. You could consider:
  - Using your influence as a shareholder to persuade Company Groups to change
  - Investing in alternative projects, not quoted on the stock market, that have some specific social value. However, this course may not be appropriate for most charities.

- Make the most of other people's expertise and get proper financial advice:
  - Ask your existing fund managers for their views on ethical investment and whether they would be willing and able to help you implement an ethical investment policy
  - If your existing fund managers have no direct experience of ethical investment, you may wish to obtain additional advice from those that do. EIRIS, for example, produces lists of financial advisers and fund managers with experience of advising on ethical investments
  - Ensure you have read the Charity Commission leaflets listed in the appendix.

The future

Trustees wishing to invest ethically who are governed by the TIA are not able to pursue ethical investment policies through CIFs, and are effectively limited to investing 75% of their funds' assets in ethical funds.

The limit on 'wider range' investments was raised from 50% to 75% in April 1995 and there is speculation that it will be raised again this year.

If the TIA limit is raised, the attractiveness of ethical unit trusts will be considerably increased - though they may still lose out to CIFs in terms of cost and administrative ease.

- Either way, there is a clear market for different types of ethical CIFs. The Charity Commission's approval of the principle that CIFs with ethically restricted investment policies may be set up for particular groups of charities, offers a way forward.
Appendix

1. Charity Commission leaflets
CC 3 Responsibilities of Charity Trustees
CC 14 Investment of Charitable Funds: Basic Principles
CC14(a) Depositing Charity Cash
CC15 Common Investment Funds and Common deposit funds
CC15(a) Common Investment Funds and Common deposit funds; an alphabetical list of funds
CC32 Trustee Investments Act 1961: A guide

All these leaflets are available by sending a large, self-addressed envelope to The Charity Commission, St Albans House, 57-60 Haymarket, London SW1Y 4QX

2. About EIRIS/EIRIS Publications
EIRIS routinely monitors all Company Groups (except investment trusts) featured in the Financial Times Stock Exchange All Share Index and all other Company Groups in the published portfolio of any UK ethical fund, according to almost 300 precisely defined criteria, both positive and negative. The level of involvement of these Company Groups across the criteria covered is regularly reviewed and updated. This monitoring includes keeping track of any disposals, acquisitions etc.

More information on the methods used by EIRIS – including the detailed criteria used in this survey – is available from EIRIS, 304 Broadway Business Centre, 71 Bondway, London SW8 1SQ.

Please write to the same address for information on other EIRIS publications, these include:

- The quarterly newsletter, The Ethical Investor (£10 per annum)
- The consumer's guide, Money & Ethics; a guide to pensions, PEPs, endowment mortgages and other ethical investment plans (£12.50 plus £2 p&p)
- Lists of financial advisers and investment managers with experience of ethical investment (available free on request – 0171 735 1351).

3. Other reading
Charity Trustees and Ethical Investment by the Christian Ethical Investment Group (CEIG) gives guidance on how to pursue an ethical investment policy and is available from EIRIS or CEIG, price £3.50. Contact CEIG at 90 Booker Avenue, Milton Keynes MK13 8FF.