



Best Ethical Discretionary
Fund Manager

More than a negative screen

Terminology Buster

The logo for King & Shaxson, featuring a stylized blue ampersand with a small plant growing from it.

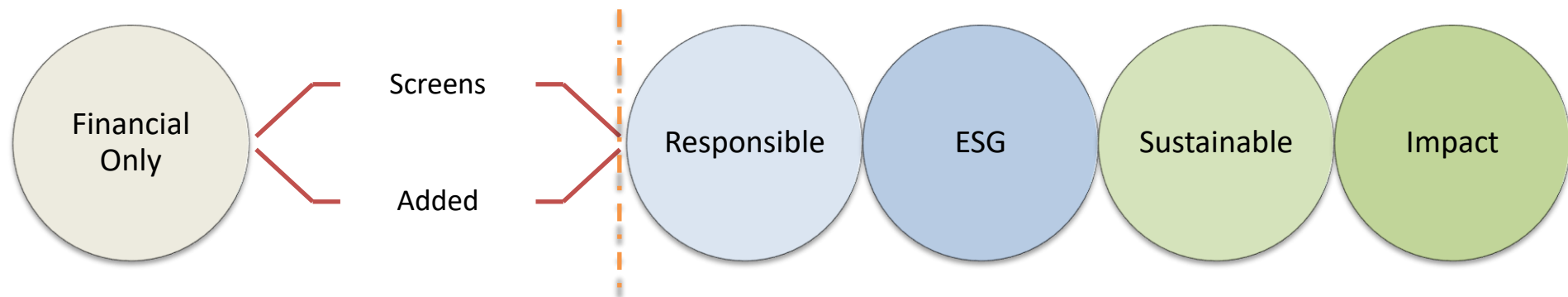
KING & SHAXSON
Asset Management | Rewarding your Values

More than a negative screen

Over the years we have seen ethical, ESG, and Impact investing move from the fringe to being a mainstay offering. However, to investors, these particular fund labels can be confusing, as the underlying holdings of the approach can differ. It is therefore important to understand the different strategies and the effect it has on the holdings within your portfolio. The spectrum of capital has been developed to highlight the main approaches:

Spectrum of Capital

Below is an image showing the Spectrum of Capital, a resource that is used in investing circles to explain the different approaches to investing when other issues such as ethics are considered on top of the financial analysis. We use this resource to hopefully demystify some of the jargon that has emerged over recent years:



Financial Only Investing – Financial only analysis where no additional screening criteria is put into the investment process. Theoretically there is no limit to the stock universe and financial returns are the sole aim.

Responsible – Funds with a responsible label tend to have a traditional negative screen in place, avoiding companies whose products or services are considered detrimental to society or the environment. i.e., tobacco or armaments manufacturers. However, it is important to note, that some Responsible funds will have a positive focus as well, by investing in companies with strong ethical profiles.

ESG Investing - ESG investing integrates analysis of a company's Environmental, Social and Governance factors alongside the conventional investment process. This is done with the belief that companies who focus on ESG issues can lead to positive performance in a company's stock price over the long term. Considering ESG factors is seen as a risk mitigation tool, however it is important to note that some funds that highlight ESG integration into their analysis won't always have a negative OR positive screen in place. There are a number of external companies providing ESG data and analysis, with companies receiving scores based on the quantitative research conducted.

Sustainable Investing – An approach to investing that focuses on companies who have sustainable business practices, addressing or providing solutions to the sustainability challenges that we face. In most cases, the themes or sustainability challenges targeted are identified in the fund documentation. Challenges emerge over time as pressing issues gain greater importance. Most recently we have seen this with climate change or the war on plastics.

Impact Investing - This focuses on investing in companies that target measurable positive impact through financing solutions to the social and environmental issues we face. Fund houses may identify a number of impact themes, with underlying companies supporting some of the 17 United Nations Sustainable Development Goals (see image below). Renewable energy, microfinance, healthcare, housing and education would be sectors of particular focus in both emerging and developed markets. Impact investing is marked by an intentional desire to contribute to a social or environmental benefit, the aim is to address and solve problems that wouldn't be achieved without it. This is the 'additionality' of the investment which requires a commitment to measure and report the impact that is made with full transparency.



The King & Shaxson Process

Our Model Portfolios marry together funds across the spectrum of capital, all of which provide investors with the potential for financial returns. We meet the vast majority of investors' concerns, by selecting a broad range of funds that are specific in their goal, whether this is Responsible, ESG, Sustainable or Impact focused. (Where clients are more specific with their ethics, they may wish to use our full bespoke service.)

On top of this, by selecting a wide range of funds, we are further diversifying the risk of each portfolio; ensuring that exposure to individual companies, specific sectors or fund houses is limited.

Greenwashing

Greenwashing is the process of providing misleading information with regards to a company or funds 'green' or 'positive' credentials.

Our 'under the bonnet' screening (where we look at the underlying holdings within each fund) ensures 'greenwashing' is avoided. This thorough screening approach happens on a monthly and quarterly basis, and all funds will have the full list of holdings scrutinised before initially investing and ongoing.

Adviser Support

Each investor will be different, so a one size fits all approach cannot be taken. Hence, the different approaches outlined above. Over the years, we have noted client's desires to have a greater impact with their invested capital, which is why our model portfolios have a bias towards sustainable and impact funds. Nonetheless, we will invest in funds that cut across the spectrum of capital to ensure portfolios are not only fully diversified but also to ensure our stringent exclusion criteria is adhered to.

As ethics are personal, it is essential that clients are able to articulate to their adviser or planner what ethical means to them. Our adviser support material makes this possible. We have constructed a values-based questionnaire that we encourage advisers and planners to use. We also offer a free screening service, where we will go 'under the bonnet' of your client's current portfolio and produce a client friendly screening report. This ensures the client truly understands where their money is invested, opening up conversations at client meetings. A full report can be produced for portfolios over £250k, whilst a brief commentary can be supplied for smaller portfolios.

Disclaimer

The information in this document is for general information purposes only and should not be considered investment advice or personal recommendations to deal. Nothing in this document constitutes an offer to buy or sell securities of any type. Please remember that the value of investments and the income arising from them may fall as well and rise and is not guaranteed. Investors should be aware of the underlying risk associated with investing in shares of small-cap stocks and emerging markets. These can prove to be more volatile than in more developed stock markets.

Registered Office

King & Shaxson Asset Management Limited (Company Number: 03870667) and King & Shaxson Limited (Company Number: 869780), a member of the London Stock Exchange, are companies registered in England and are a part of the PhillipCapital Group. The Registered Office for both companies is 1st Floor, Cutlers Court, 115 Houndsditch, London, EC3A 7BR.

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