Overstory Finance

SUSTAINABLE INVESTMENT TOOLKIT

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Introduction

This tool kit has two main aims. Firstly, as any good toolkit should, it sets out to provide some simple tips about how to get started on your sustainable investment journey. Beyond that, it looks at some of the issues you might need to think about when it comes to interacting with the sustainable investment industry. Understanding these will hopefully improve your chances of achieving the best experience and financial outcome for you, as well as encouraging you to enrich the financial system with your input - the more we can steer the money clearly in a sustainable direction the better.

Our finance system is like a political democracy, we get to make important choices. In politics, some people opt out of the system and do not exercise their right to vote, but it's not so easy to opt out of the financial system. As soon as we open a bank account, whether it's to hold wages, a student loan or our savings, we are part of it and our choices make a difference.

This toolkit starts by looking at what we mean by "investment" and then asks why we would want to invest sustainably. Sustainable investment can mean different things to different people and its vital that we avoid possible misunderstanding and confusion when talking and writing about it. The toolkit therefore provides an explanation of the various dishes you may be offered on the sustainable investment menu. Once you've understood that part, you will be a big step ahead of the pack.

Once equipped with an understanding of the types of sustainable investment options you will encounter, it's time to think about when and how you will have the option and opportunity to decide whether to invest sustainably. This is split into the three main categories of:

1. having a bank account
2. being a member of a pension scheme or owner of a personal pension plan and
3. paying money into a long-term investment, such as a Stocks and Shares ISA.

Why invest sustainably?

There are many different reasons why you might want to invest sustainably, whether you are an ardent climate activist who is doing all you can to limit climate change or a grandparent who wants to support a better world for future generations. I have summarised some of the potential motivations and options in the table over the page.

What you can achieve	How you can achieve it
Reduce investment risk	Avoid risk of your investment being affected by climate disasters, scandals and bad PR, changes in consumer habits, new taxes and regulation.
Find growth opportunities	Invest in companies that will benefit in long term global trends, such as a low carbon economy or changing dietary habits.
Feel good	Know that your money is working away to do some good for people and or planet – as well as delivering financial returns.
Reduce harm to nature and the environment	Pick funds that exclude deforestation, reduce waste and pollution and promote sustainable agriculture.
Tackle climate change	Invest to avoid companies with high emissions or with investment managers who engage with companies to encourage emission reductions.
Achieve positive social outcomes	Target companies with a record of treating staff, customers and communities well and/or provide positive outcomes such as good nutrition, access to education, good health etcetera.
Futureproof your finances	Make sure your investments are forward-looking and ready for change, able to generate growth from innovation and solutions to global challenges.
Assist your children and grandchildren	Whether you are gifting money now or hoping to be able to leave an inheritance in the future, there are other legacies the next generation will thank you for, not just a financial one.

What do we mean when we talk about investment?

Let's not run before we can walk. Before exploring the art of sustainable investing, lets clarify what I mean by investment:

Investment is the allocation of money to a person, company or other entity for a certain period of time with a specific aim in mind.

This aim may be to receive back a certain financial benefit, such as a regular income in exchange for an upfront lump sum payment or a higher amount back than what you put in when the investment comes to an end. Alternatively, you may not be motivated by financial gain and simply want to participate in a positive outcome, such as when a parent "invests" in their child's education.

Equally, you may hope that an investment brings both financial and non-financial benefits, with house purchase being a good example of this. When you buy a home, you do so with the hope that you will enjoy its comforts, as well as making a profit on it when you sell it in the future.

Regardless of the motivation, investment generally tends to require a long-term timeframe (typically at least five years).

How will you invest?

The majority of sustainable investments that you will encounter as a private or retail investor will come in the form of a product or fund that a financial services company will sell to you (or your employer).

The provider of the product could be a bank or building society, your workplace pension provider, an insurance company or an investment management company. You could access their products through your employer, via a financial adviser, through an app on your phone or an online investment platform. Regardless of the seller or your method of accessing their product, it is most likely that you will acquire a type of **"collective investment fund"**.

Time to jump in the pool?

A collective investment fund is a product offered by a professional investment company that you buy a part of. It is an open-ended pool of money that is contributed to by numerous investors and used to invest in a number of companies, typically those that are listed on the main regulated stock exchanges around the world. It is likely that the companies within the fund will include some big household names that you are familiar with, as well as companies that you do not recognise at all and know nothing about.

Keeping good company

Investment in companies can take the form of purchasing shares in the company or lending the company money. With shares, the company does not have to pay the money back to the investor, the shares are traded on a secondary market, like the London or New York Stock Exchange. The company may however pay a share dividend to the investor, as a form of income.

In the world of finance, we have the annoying habit of calling company shares "equities', just to confuse you!

Over the longer term, investing in company shares has historically generated a higher return on your money than you would get from either holding cash in the bank or lending money to companies and other institutions. However, the potential for higher returns is linked to the higher risk that you will get back less than you invested.

Another interesting feature of share ownership is the fact it gives you a right to vote on certain significant company decisions. You don't get to choose whether the company's office is painted green or blue, but you can vote on how much the Company Director gets paid.

Who's paying you interest?

Lending money to companies via an investment fund also has its own name. In finance, we call funds that do this "corporate bond funds". Sometimes, the fund will also lend money to governments, i.e., buy government bonds as well as company/corporate bonds. As the return on these investments comes mainly from the income or interest that the company or government pledges to pay in return for the loan, these funds are sometimes also described as fixed interest funds. The borrowing company or government will offer a fixed rate of interest for a specified period of time. Typically, bond or fixed interest funds are considered to be less risky than company shares /equities-based funds and to offer lower long-term returns. This is partly because, if a company were to fail, the bond holders are nearer the front of the queue to get their money back than the shareholders.

It is important to remember however when you hold corporate and government bonds within a collective fund, that the value of the amount you have invested will go up and down and you might not get back what you invested. Although the interest payable on government and corporate bonds is usually fixed, the price people will pay for that income stream when it is sold on will vary depending on a number of factors, such as how much income they could achieve from other sources and rates of inflation.

Diversity and choice

A sustainable investment fund could invest in company shares, corporate bonds, government bonds or a combination of these. Some funds could also diversify into certain other assets, such as property or cash. Funds may focus on a certain country or region, such as the UK, the US, the Far East or Europe or select investments from all of the world's markets. Finally, they may consider all types of company or focus on certain types of industry or sector, such as smaller companies, technology companies or businesses in the renewable energy sector.

When figuring out which fund or funds are right for you, it's important to match the potential returns (income and growth) with your personal needs and only take on a level of risk that you are comfortable with. Remember that these funds will go up and down in value to varying degrees and if you have to sell your investment at the wrong time, you might not get back the amount you put in. Its therefore really important to only invest money that you can comfortably tie up for a while, to allow you to ride out any falls in value. Always keep some emergency funds in cash! Lecture over!

"Sustainababble"

I hope that my brief overview of investing made some sense; defining sustainable investment is a little more complicated.

Firstly, a disclaimer. The finance industry is struggling with consistent names and labels at the moment for the various types of investment that are influenced by ethical, environmental, and social concerns, rather than just focusing on financial returns. Channelling my inner Beyonce, if I like it then I need to put a name on it and I my label of choice is sustainable investing. Our regulatory body, the Financial Conduct Authority {FCA} will be introducing new standards in this area in the near future. In the meantime, however, I can only work with my own interpretations and preferences for the best way to describe things and not all financial services professionals will agree with me.

Until greater clarity and consensus prevails, it's very important that people understand what type of investment they might be offered and how it might match both their financial needs and their personal values.

The main terms currently in use as a kind of catch-all, umbrella term for investments with non-financial aims and attributes are:

Ethical Investing	SRI
Responsible Investing	ESG
Sustainable Investing	

You will also come across other terms, such as values-aligned, values-based or purpose-led investing and there may be other phrases and terms yet to emerge. As previously discussed, I use the term sustainable investing as my chosen umbrella term for any form of investment that aims to achieve a positive outcome for the environment and nature and/or human society and wellbeing. However, it can also be used to describe a particular type of investment fund or strategy and I have therefore also defined it in those terms too.

Sustainable investment choices

As summarised previously, most sustainable investment funds will include investments in a range of businesses and it is how they select those businesses which is important.   There is a large and growing range of sustainable funds available and you could potentially invest in any of the following styles of investment.

ETHICAL INVESTING

The oldest variant, the first UK ethical investment fund was launched in 1984. Ethical funds have been around ever since and are identifiable because they rule out certain types of investment - known as negative exclusion. Typically, they exclude tobacco, weapons, gambling, animal testing and pornography – the “sin stocks”. Over the years, some ethical funds have added additional exclusions to meet investor appetite, such as intensive farming or coal, deforestation and oil and gas exploration.

Ethical funds are designed for investors whose morals dictate that they do not wish to invest in this type of business; historically, investors who requested this style of investment tended to be in the minority. For this reason, the range of products available was relatively limited.

In 2020 however, partly due to growing public concerns about climate change and social issues such as gender equality and ethnic diversity, an increased focus on investing in line with personal values has emerged. Richard Curtis launched the consumer campaign Make My Money Matter to make people aware of their ability to align their pension funds with the issues they believe in. A number of new financial apps and on-line services have simultaneously come to market, with a focus on investing in an environmentally or socially positive manner. These are designed to attract younger people, who historically have not always been catered for by the more traditional players in the financial services industry. In some cases, it is young people who are the entrepreneurs behind these products. Examples include Tickr and Clim8 Invest, although I cannot personally vouch for either product, as I have not yet trialled or researched them in detail.

SRI

Short for Socially Responsible Investing. This investment style has also been around for a while and evolved from the ethical investing approach, by positively selecting companies that have a beneficial product or service, as well as excluding those considered to be negative or undesirable.

E.S.G.

When selecting companies to invest in, an ESG fund will consider and how well a company is managing the Environmental and Social risks and opportunities it might face in future and its Governance, or how well it is run. ESG factors might rule out a company that is a polluter and does not have a good plan to address this or select a company that could benefit from social changes, such as a healthcare company that specialises in solutions for an aging population. Adopting ESG means a comprehensive view is taken of a company's current position and how it might fare in future if certain scenarios play out. All elements of the business are considered, from the raw materials it uses to the end user of its products, the locations it operates in and the government regulations that apply in its sector. It wouldn't be unreasonable to claim that ESG investing is simply common-sense investing. We have all become accustomed to weighing up risks during the global pandemic and witnessing how a businesses' fortunes can change as a result of external factors – think online retailers v high street shopping chains.

ESG is everywhere

Since the start of 2020, ESG has been really trending! The term ESG was first coined in 2004, but it has grown massively in popularity and influence in the investment industry. Initially adopted by institutional investors, such as pension funds and the world's largest asset managers, in recent years ESG has gone massively mainstream. According to Bloomberg, by 2025, a third of all the money invested in the world will be invested in line with ESG.

Reasons for this surge in popularity include:

- Emerging evidence that ESG does not reduce investment returns.

- The support of influential industry names such as Larry Fink, the CEO of Blackrock (the largest investment management company in the world) and Mark Carney, former Governor of the Bank of England.

- The introduction of regulations in the UK that make it compulsory for large pension schemes to consider and report on how climate change impacts their investment decisions.

- A rise in research tools and supply of company data.

-The industry perception that this product will sell well and is in some ways easier for the investment world to adopt than other forms ofsustainable investment. It doesn't necessarily rule out whole groups of companies and can be naturally integrated into the company research and selection process.

As a result, we see a mini-industry building up around ESG, more jobs, bigger budgets for staff, resources and marketing, more column inches. ESG has become the ultimate financial services buzzword.

However, it is very important to be aware that an ESG strategy will not necessarily rule out a particular company or industry, such as an oil company or tobacco manufacturer. A company could obtain a good ESG score and be included in a fund simply because it's the "least bad" company in its sector or scores well on some points, compensating for lower scores in other areas. For example, a company could have a high E score for using renewable energy but a low S score for poor contracts of employment for its workers.

Selecting companies based on ESG criteria alone may not fundamentally change the world we live in, although it without doubt encourages companies to disclose the good and bad that they do and adds an additional layer of scrutiny to the investment selection process.

We are beginning to see that this scrutiny of ESG behaviours is having an impact on how easy it us for companies to raise capital and is therefore influencing company policy and strategy.

RESPONSIBLE INVESTING

The official definition, as penned by the PRI, the world's leading proponent of responsible investing is "a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership."

You could therefore say that responsible investing is "serious ESG". It focusses not just on selecting the right business to own a part of, but equally on the right way to be an owner.

Active ownership means you don't just buy a share in a company, you make use of your rights as a share-owner, which automatically includes the right to vote on major company decisions. When you are a large pension scheme or investment manager, you can own (on behalf of your members or investors) a big chunk of a company's shares.

That gives you some influence, and it is the modest sums that we each place in our pensions and investments that collectively make up that influential pot of money/ shares.

Active owners don't just turn up once a year to vote though, they regularly engage with companies on important issues, via meetings, communications and campaigns and sometimes combine with ither large investors to amplify their influence. The activities of Climate Action 100 are a perfect example of this. Climate Action 100+

Some people may think these big investors are not pushing the companies they invest in hard enough and fast enough, but in June 2021, shareholder activism reached new heights.

Exxon Mobil Defeated by Activist Investor Engine No. 1 - The New York Times (nytimes.com)

SUSTAINABLE INVESTING

For me, when I talk about sustainable investing, I mean a form of investment that seeks in some way to be positive for the natural world, the climate and for people.

Within the investment industry, the term sustainable can be used to describe funds and portfolios of investments that positively select the companies they invest in (as opposed to the negative exclusion of ethical funds). These will typically be companies that offer solutions to environmental and social issues or contribute in some way to the UN Sustainable Development Goals (SDGs).

Take Action for the Sustainable Development Goals – United Nations Sustainable Development

IMPACT INVESTING

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact funds will typically track and report on the impact they make, typically in the form of carbon emissions saved or social achievements delivered by the investments. You can find an example of this type of reporting here.
Positive Impact | EQ Investors

With the growing focus on climate action, we are also beginning to see measurement of whether investments are aligned with the 2015 UN Paris agreement (to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels).

This remains a work in progress, as investment managers can only report on this with confidence if they can extract the necessary data from the companies that they invest in.

THEMATIC INVESTING

This approach will, like sustainable investing, positively select companies that the manager believes will do well and that deliver environmental and social positives over the long term.

The fund manager will typically select a number of themes that they believe are a good investment for both financial, environmental and/or social reasons. Examples could include the delivery of clean water, access to education and development of energy efficient transport. Aligning with these themes will override the more traditional considerations that investment managers use to build their portfolios, such as splitting their portfolio across a range of geographic markets.

Thematic investing can remove the positive, risk reducing effect of diversifying your investments across a range of different company types. However, the risk of a concentrated portfolio can be offset by selecting a range of different themes.

The House Blend approach – does it do what it says on the tin?

Having explained the common varieties of sustainable investing, there are some key points I would like to make:

- A fund may be called sustainable, responsible or ethical simply because the marketing department likes that word best. It may not mean that the fund's processes strictly adhere to the strategy that is suggested by the use of that label.

- It is fairly common to mix and match elements of ethical, responsible, sustainable and ESG investing within a single fund or collection of funds.For example, an investment manager may negatively exclude certain types of company and then positively select the rest of the portfolio.

For this reason, it is particularly important to look carefully at the investment solutions you are considering. If you have personal preferences regarding any particularly company or specific type of company that you want or do not want to invest in, you need to take time to check if a fund does or could hold this company/ type of company.

Do your Research

There are various ways in which you can do some homegrown investment research and check if you feel good about the companies that you are investing in:

Fund factsheets

All retail investment products need to provide you with a fund factsheet. There are regulations regarding the information provided, which typically include the fund aims, costs, past performance, top ten holdings and the split between investment regions and investment types.   Here is a randomly selected example. I hasten to add that I have no greater connection, allegiance with or preference for this fund than any other. I have just used it to illustrate a point.

Eden tree factsheet

The aims and objectives of this fund are fairly broad-brush:

"To achieve long-term capital growth over five years or more with an income through a diversified portfolio of international (including the UK) companies. The EdenTree Responsible and Sustainable Global Equity Fund seeks to invest in a portfolio of companies which make a positive contribution to society and the environment through sustainable and socially responsible practices."

A look at the top ten holdings reveals a predominance of large US based companies in the technology sector e.g., Microsoft and Alphabet (Google) but also includes a waste disposal company, a bank and a sportswear brand. This is not unusual for this type of fund.

It may not be instantly obvious how such companies make a positive different to society, but the fund manager will not just pick companies that are setting out to transform the world, or "do the right thing". They will also look for companies that "do the thing right".

A quick glance over the sustainability page of ING, the bank that features in the top 10 of this fund's holdings, shows what "doing the thing right" might look like.

Climate action | ING

Delving deeper

It's important to understand more about what makes a fund tick and I don't think the fact sheet tells the whole story. Spreading out ten fund fact sheets and picking between them is not even the equivalent of speed dating, it's more like a swipe left or right on a dating app.

There are various ways in which you can find out more about the funds that you invest in. You may be able to do this by raising questions via your pension provider, your employer, your online platform or your financial adviser - whatever is your gateway to the fund – or you can simply look directly at the fund and fund provider themselves.

Firstly, you should look at the more detailed supporting documents that explain how the fund manager picks companies to invest in – these will be available on the website. Again, using Edentree as an example.

Fund Literature| Information about Amity Approach & Our Fund Range

The document we are looking for is their "How we screen" document. It's very detailed and reveals that Edentree apply a blend of ethical, responsible and thematic approaches to this fund. Not all companies will provide the same information in the same format, but it's the kind of detail you should be looking for. You may also find impact reports for funds that focus on impact investment and engagement activity reports for investment managers that are focussed on interacting with the companies that they invest in, as active owners.

It may be possible to get a list of all the companies that the fund holds, personally I think it should be mandatory to disclose this level of detail. However, not all companies will give away all of their trade secrets!

If you can't easily access/ find the information you need, don't be shy and give the company a call or message, they don't just employ investment experts, they have customer service staff too. Just explain who you are and what information you are looking for. If you still can't get the disclosure you need, it could be a red flag for how serious this fund provider is about transparency and sustainable investing.

If there is a company on the list of investments that you object to, then ask why they are there. Not only does this improve your own understanding of the company's standing with professional investors, it also gives you an opportunity to express your concerns.

I have personally been through this process to ask about the inclusion of the company Nestle in a fund and the replies have influenced my investment decisions and my continued walk right past 50% of the available products in the supermarket cereal aisle! But that's just my personal preference/ values.

Are the fund managers your kind of people?

It may be that you have never met a fund manager in your life. Having worked in the financial services industry for a long time, I have met quite a few. I know that some of them cycle to work, keep bees in their garden and do great work to improve opportunities for young people, females and ethnic minorities in the industry. Some of them probably love spreadsheets and data and will talk in technical investment speak that is a great remedy for insomnia (but confirms they love their craft), whereas others are more charismatic and personable. A word of caution on the big personalities though, too much ego is not always a good thing, shooting stars become falling stars and a good team/ company culture is crucial.

You can find out more about the personality and ethos of an investment business from the corporate website and it's also worth checking out the people running the funds through podcasts, blogs, news articles and webinars you can find online.

Some people may of course not care at all about whether their fund manager would be a good person to bump into on a train, as long as they get the investments right. In a crowded market place though, in which jargon and marketing can bamboozle us, a knowledge of the real people behind the products can help you find the right fit for you.

If you want to assess whether an investment company is trying to be a sustainable business in its own right, these are some of the indicators you can look out for on the web site:

- Membership of the PRI
- B Corps company status Frequently Asked Questions | Certified B Corporation
- Industry awards for sustainable/ ethical/ responsible/ impact investing
- Data on diversity of clients and staff and on the company's own carbon footprint
- Financial donations and other assistance provided to charities and good causes

The main gateways to sustainable finance

There are three broad money moments which will give you the option to make sustainable choices – bank accounts, pensions and investments.

YOUR BANK ACCOUNT

First and foremost is your bank account – where your wages, pension, benefits or student loan are paid, where you borrow and where you save any cash you don't spend.

Holding money in a bank account is not personal investing. It's held in cash and is not exposed to the risk of the markets. It doesn't grow in value much, particularly in recent years, when the interest rates paid by banks are extremely low. However, there is a reason why banks provide us with free accounts, cash points, debit cards and standing orders – as with collective investment funds, they pool all our cash together and turn it into hundreds of billions of pounds, the majority of which they then use to lend money to businesses and individuals.

Once you have deposited money in your bank account, you don't get any choice about how they apply that money. Therefore, the only way to avoid your money being invested in things you don't like is by choosing a bank whose ethics align with your own.

If you are concerned about climate change for example, you might wish to choose a bank that doesn't invest in fossil fuels. The table below details the UK banks that have provided the most money to oil and gas companies in recent years, as well as their ranking compared to all banks in the world. Data is sourced from the Banking on Climate Chaos - Rainforest Action Network (ran.org) report.

Position	Bank	Total funded
7th	Barclays	$144.897 billion
13th	HSBC	$110.745 billion
32nd	Santander	$34.036 billion
46th	Natwest	$13.393 billion
48th	Lloyds	$11.979 billion

If you currently bank with any of the above and want to find a greener home for your money, then you will find a handy guide to green and ethical banks here. Current Accounts Ethical Banks in the UK (moneyexpert.com)

When lockdown and working from home started, I took advantage of the time and money I could save to transfer my bank account to Triodos and am delighted that I did so. A saver rather than a spender by nature, I was reluctant to start paying for a banking service, something I had been used to getting for free in the past. However, I have received good value for money from the £3 per month fee so far, as banking with Triodos makes me happy! I love the fact that they post details of every organisation that they finance on their website and I can see where funds are going in my local area. I was even personally familiar with one of the arts and culture projects. I am glad that I have made a conscious decision to become a customer of an organisation that clearly sets out to make a positive difference in the world. Please note that not all ethical banks charge an account fee.

The last time I transferred my bank account about 8 years ago, from a high street branch account to an on-line one, there was a fair bit of toing and froing. However, this latest transfer went like clockwork. If you do decide to make a change, then why not add your voice to your money and tell both other people and your existing bank provider why you have decided to move on, whether directly or via social media.

PENSIONS

Nearly all of us entrust a bank with our money, but the next most common route to sustainable finance is when we become a member of a pension scheme or pay money into a personal pension plan.

Some of us probably worry that we don't have enough money saved in our individual pension fund, overlooking the fact that there are huge sums of money invested collectively in pension schemes. Billions of pounds that can have a big impact on the world, either positive or negative, depending on how and where it is invested.

There are several features particular to pensions that should be taken into account when making investment decisions, sustainable or otherwise.

1. They are intended to keep the wolf from your door when you are at retirement age.

2. They tend to be invested for a long time and can grow to a large size.

3. Drawing an income from an investment needs to be carefully managed.

Retirement Income

It should always be borne in mind that pensions are designed to provide people with an income to live on when they are no longer able to work. With the State Pension age rising and the amount payable being relatively low in the UK in comparison to average earnings, there is a growing need for people to provide for themselves in their older years.

This need will only increase further if young people continue to struggle to get on the housing ladder, meaning they might still need to pay rent or a mortgage in retirement.

When deciding how to invest your pension monies, you should not forget that you need to pick funds that offer potential for sufficient growth to build an adequate retirement fund.

Similarly, employers have a "fiduciary duty" (an acceptance of responsibility to act in the best interests of another person or entity) to ensure that pension scheme assets are invested in a way that does not put their employees' retirement benefits at risk. However, in recent years, the understanding of what "fiduciary duty" means has changed. In April 2021, the UK Pensions Regulator said thar all pension schemes have a fiduciary duty to address the risks posed by climate change and consider how this might affect the size and security of member's benefits.

The sweet spot therefore is to invest in a manner that both aligns with your views on environmental and social issues and generates the growth that you need to build a healthy retirement fund.

Size and length matter

For many people, their pension fund may be the second most valuable item that they own, after their home. With employer pension contributions now compulsory and valuable tax reliefs available, people of working age are more likely to invest regularly into a pension than any other form of saving.

With contributions starting earlier and people likely to retire at a later age in future, this makes for a very long investment timeframe – potentially 45 years plus. That makes a difference in two ways, firstly any growth achieved by the fund builds up over time and secondly, a longer investment period means you can potentially take greater investment risk. The minimum age at which you can access your pension is currently age 55 (increasing to age 57 in due course), meaning funds can be tied up for decades. This makes it easier to invest in assets that might fall in value over the short to medium term or might not be readily saleable.

As a result, your pension might be the best vehicle with which to drive the most innovative and focused forms of sustainable investing.

Here comes the income

Pensions are very flexible these days. Once you have reached the minimum pension age, you can withdraw as much or as little as you like from your pension fund, although withdrawing too much may mean you don't have enough left to provide a lifetime retirement income. It may also result in heavy tax charges.

However, a pension fund that is in its income phase is a very different beast to a pension fund that is in the pre-retirement growth phase. Investing in a fund that may fall in value can have a far greater and direct consequence if that fall in value occurs just as you are about to take some money out.

You may need to change the type of investments you hold and should start thinking about this at least five years before you intend to access your pension funds.

This doesn't mean that you cannot invest sustainably at this stage, it just needs to be done a little more carefully. I would strongly recommend accessing investment and retirement planning advice at this stage.

Not all pensions are the same

There are many different types of pension arrangement but I am going to divide them into three main categories, each of which bring different considerations from a sustainable investment perspective:

Pension type	Sustainable Investment Considerations
Workplace pension with a fund value	Is the fund or funds you have invested in suitable to your financial needs and your sustainable investment preferences?
	If not, are there alternative options offered that are suitable?
	If not, can you influence your employer to change the pension arrangement?
Private pension with a fund value	Is the fund (or funds) you have invested in suitable to your financial needs and your sustainable investment preferences?
	If not, are there alternative options offered that are suitable?
	If not, is it suitable to transfer your pension plan to a new plan that offers a more suitable choice of funds?
Workplace pension – defined pension benefit	You do not have investment choices with this type of plan, your retirement benefits are guaranteed by the employer and do not depend on the performance of an investment fund.
	However, you may be able to influence the pension scheme trustee regarding how they invest the scheme's funds. A number of university and local authority schemes have changed or are considering changing their investment policy due to pressure from members.

Workplace and occupational pensions

Workplace pension rules introduced by the UK government in 2012 means that employees who earn over £10,000 and are aged over 22 must be offered a pension. This is a minimum standard and some employers may offer wider access than this.

In order to simplify and encourage enrolment, company pension schemes have a "default" pension option. This is the fund that will be suggested to you as a first port of call, if you don't want to make a decision yourself from wider options likely to be available.

Default pension funds can be a pretty sensible choice, they tend to be designed to provide potential for long term investment growth, to help manage investment risks and keep costs low.

Nest is a good egg

A great example of a pension arrangement that has integrated sustainability into its offering for employees is the one offered by Nest. Take a look at its strategy here. Responsible investment reports | Nest Pensions.

Nest is not the only pension provider doing great work but it is available to the smallest of employers, whereas some pension providers are only interested in working with companies that have workforces of a certain size, who earn salaries of a certain level and tend to stay with the business for a minimum period. As Nest is available to all employers, its particularly important that it manages investments sustainably/ responsibly.

Make your pension matter

But does your employer pension scheme offer a default pension fund that aligns with your values? If you aren't sure about the choices offered by the scheme, ask your employer without delay. It might be worth doing this in conjunction with some of your colleagues.

The helpful folk at the Make My Money Matter campaign have provided some suggested wording in their top tips, at tip no.4! Act now: Question your pension - Make My Money Matter.

If your employer's pension scheme doesn't have a suitably sustainable default fund, but does have one in its wider fund range, it's important to check if the alternative fund is suitable for you before moving your funds and monthly contributions. Does it offer potential to deliver the rate of growth that you need? Is the level of risk suitable for you? Is it aligned to the time you have remaining until your planned retirement date? If you aren't sure about any of this, you should seek financial advice.

Private or Personal Pension Plans

These come in many shapes and sizes and can offer anything from one fund to 1000s of investment funds to choose from. You may have a private pension plan from a past employment or you may have taken one out yourself, independent from your employer. It is also possible for another person, such as a parent, to pay into a pension on your behalf. You might also inherit a pension from someone else.

To find out whether your existing private pension plan offers suitable sustainable investment options, you should either ask a financial adviser to help you (although this will generally involve paying a fee) or ask the pension provider for information. If you are not happy with the choice of funds available, it is relatively straightforward to transfer the pension plan to another pension provider.

Most modern pension plans should offer at least one sustainable or ethical investment fund and a Self-Invested Pension Plan (or SIPP) is likely to offer a range of sustainable investment options.

Where accessible and affordable, I would obtaining independent financial advice about your pension planning. Your adviser can help with selecting a fund or funds that meets your financial needs, risk and sustainable investment preferences but will also typically help you with other pension related issues.

These can include exploring whether you are saving/ have saved enough to achieve the retirement income you hope for, making the most of tax benefits and ensuring that you have arranged pension death benefits in a suitable manner.

The UK financial adviser market does tend to focus on individuals with larger amounts invested / to invest. For those with smaller amounts, there are various options available from phone apps to on-line investment platforms. Some of these will transfer your pension plan for you at the touch of a button. I would recommend treading a little carefully with your pension however, as pension plans sometimes come with built in guarantees and special features that you might not be aware of and might lose irretrievably on transfer. Its therefore worth getting an experienced eye to review your pension arrangements if at all possible.

A lost pension is not a lost cause

As it becomes more common for people to have a number of jobs during their working lifetime and with previous employers changing ownership, it can be hard to track down some of your older pension arrangements. If you have mislaid details of a former pension plan, you can use the government's free pension tracing service. Declaration - Find pension contact details - GOV.UK (findpensioncontacts.service.gov.uk)

Defined Benefit (or final salary) occupational pension schemes

This type of pension plan offers valuable guaranteed benefits and is a very big financial commitment for the employer. For this reason, they are less common than they used to be and often are no longer open to new members.

If you are a current member of a defined benefit scheme or have a preserved benefit within one from a former employment, you do not have any direct control over how the scheme funds are invested. Your pension benefits have to be paid to you by the scheme, regardless of the performance of the scheme investments.

However, the investments are there behind the scenes and are significant. As an example, the largest private DB scheme in the UK is the BT scheme, which has assets worth more than £55 billion. Its good news for the planet that the scheme has recently pledged to achieve "net-zero" for its pension investments by 2035 by investing in low carbon assets.

This initiative was led voluntarily by the company, but in other cases, defined benefit schemes have been persuaded to change their investment policy as a result of member campaigns. In COP 26 territory in Glasgow, there is an ongoing campaign seeking to have the Strathclyde local authority pension fund divest from fossil fuels.

If you wish to influence how the scheme you are a member of is invested, join any member campaign groups that align with your values or write to the Trustees of the scheme and make them aware of your views.

INVESTMENTS

The place where most people will start investing, outside of a pension, is within an Individual Savings Account, or ISA. These are savings accounts with tax advantages, to which you can currently contribute up to £20,000 per annum. Unlike pensions, the amount you pay in is not taxed up with tax relief from the government. However, withdrawals from your ISA are free from income tax, whereas pension income is potentially taxable. You also don't have to wait until you reach age 55 or more to access your ISA.

The flexible access that ISAs offer is attractive, although it should be remembered that there is always a risk that movements in the value of the investment may affect whether it's a good time to withdraw your money.

For the purpose of this toolkit, I am only considering Investment, or Stocks and Shares ISAs. These involve investing in the collective investment funds that hold company shares and corporate and government bonds, which I have already described in the What do we mean when we talk about investment section of the toolkit.

There are other types of ISA available – such as Cash ISAs, Innovative Finance ISAs (peer to peer lending) and Lifetime ISAs (LISA). The latter are worth looking into if you are below age 39 and saving to buy your first home.

You can access all the types of sustainable investment fund that I have described within an Investment ISA or a Lifetime ISA and there are a huge range of places you can access an ISA account – see here for details of some of those that offer a good range of sustainable investment options, although this is not an exhaustive list.

Top sustainable investment platforms 2021

The choices available can make it hard to decide which is the most suitable option for you. For this reason, some people will seek investment advice, although this comes at a cost.

If you are going to be a DIY investor, here are a few tips to help you on your way:

1. Check charges. If you are investing a modest amount, be careful of ISA products that have a fixed fee. The fees can eat into a smaller investment, although can be very good value if you are investing a larger amount.

2. Long term only. No matter how attractive the underlying investments are to you, do not invest in a stock market-based fund unless you can invest for at least five years.

3. Plan ahead. If you know when you are likely to access your funds, think about reducing the risk of the investment well before do. You don't want to be hit by a stock market crash just when you need your money. In the worst of these, such as the 2020 pandemic crash, you could typically lose around a third of the value of your investment. Most ISA accounts will allow you to switch all or part of your investment to a lower risk fund or to cash.

4. All that glitters is not gold. It's always tempting to pick the investment fund that produced the highest return over the last year, five years or whatever other period is being measured.

A word of caution, achieving the best performance can be due to skill but it can also be a result of taking more risk, backing a few areas to a greater extent than competitors. This may take the fund to the top at times, but markets move in cycles and different types of company go in and out of favour. Therefore, last year's top performing fund might be about to take a dive.

5. Don't put all your eggs in one basket. To address the previous issue, you can hedge your bets by diversifying what you invest in. The key here is to choose a range of investments that have different behaviours, that will act differently at different times.

Holding 5 funds that all invest in similar areas can mean you hold 5 different versions of the same thing and a lot of sustainable investment funds favour the same companies. If you do not wish to work with an investment adviser, then selecting a "multi-asset" fund is a sensible option. The fund manager then takes responsibility for diversifying across a range of different types of investment on your behalf.

What next?

I hope that my toolkit has provided you with some useful information about how, why and when to invest sustainably. It cannot provide the definitive answer to which products and funds are suitable for you but aims to make you aware of the key choices and considerations you face. You may feel a little more prepared to do some research and make your own decisions or prefer to seek out the help of a professional financial adviser.

Sustainable investment is an area that brings together finance and the society and natural world in which we live in. We should all benefit from enough money to support a decent standard of living, together with a fair and harmonious society and a thriving natural world. Sustainable investing connects the finance to the social and environmental issues, allowing each element to influence and maintain the other.

Like many other industries and institutions, the finance sector has improvements and changes to make and a lot of work to do if we are to meet some of the challenges and crises that humankind faces. By starting a relationship with the financial services sector as a sustainable investor, you can become part of that change.

About the author.

This toolkit has been penned by Rebecca Kowalski, Chartered Financial Planner and Fellow of the Personal Finance Society. Rebecca developed a keen personal and professional interest in sustainable investing around 3 years ago, at the same time as her daughter declared a climate emergency and became a climate activist.

Since then, Rebecca's 25-year career in finance in Scotland has become a true vocation. Believing that sustainable investment can hugely benefit and reset both the world around us and the finance industry itself, Rebecca has embarked on a mission to educate, influence, train, communicate and enthuse her co-workers and her peers. Since 2019, she has led the development of the Responsible Futures sustainable investment solution offered by her former employer Cornerstone Asset Management and ran their FourWord Thinking podcast with her trusted friend and colleague Ellie Maletto (they are secretly known as Team Rebellie!) In 2021, Rebecca's passion for sustainable investing has led her to successfully study for and pass the CFA Certificate in ESG Investing and be nominated by her peers for the Professional Adviser Awards – Woman of the Year in ESG investing.

Feeling that she could do more if working independently, Rebecca recently left her employment of seven years to establish her own business – Overstory Finance. This is primarily a consultancy service designed to encourage and support financial advice firms who want to develop a sustainable investment service. It will however also aim to provide useful information and resources for the public and be a bridge between potential investors and the finance industry.

Rebecca also maintains a part time management role for a local financial planning business, working on a number of projects that include setting up a graduate trainee scheme and developing their investment proposition.

The website for the new business is (as at September 2021) still in development but is coming soon to a domain called overstory.finance.

In the meantime, feel free to follow Rebecca on Linkedin or on Twitter.

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