

THIS TRANSCRIPT IS ISSUED ON THE UNDERSTANDING THAT IT IS TAKEN FROM A LIVE PROGRAMME AS IT WAS BROADCAST. THE NATURE OF LIVE BROADCASTING MEANS THAT NEITHER THE BBC NOR THE PARTICIPANTS IN THE PROGRAMME CAN GUARANTEE THE ACCURACY OF THE INFORMATION HERE.

MONEY BOX LIVE

Presenter: RUTH ALEXANDER

TRANSMISSION: 16th OCTOBER 2013 3.00-3.30 RADIO 4

ALEXANDER: Hello. Today we're taking your questions on ethical investing. The first ethical retail fund was created only a few decades ago, but there are many more to choose from now. And yet, what does ethical mean? It's not always clear. You have to get behind the words in the brochure to the facts of what the fund is investing in. Many screen out companies from the gambling and alcohol industries, as well as weapons manufacturers. Some ethical funds avoid oil companies too. Others don't and that's the avoidance strategy. Another approach is to focus on companies which specifically do good like those involved in, say, renewable energy. So it's a complicated picture. How can you do your own research to make sure your investment is aligned with your values? Oh and what money can you hope to make? We'll also be looking at what options exist to invest directly in an organisation whose aims you'd like to support and which are the most ethical bank accounts. To put your question to our panel of experts, call now on 03700 100 444. With me to answer your questions about ethical investing are Olivia Bowen, Director at GAEIA, which aims to give what it calls "responsible" financial advice; Jamie Hartzell, Founder of Ethex, an online platform for what it terms "positive" savings and investments; and Mark Hoskin from Hold en and Partners, a financial advice firm which says it has expertise in ethical and green investment. So the first question today is from Judith who's calling from Merseyside. Hi Judith. What's your question?

JUDITH: Hello. My husband and I have tried to invest ethically for quite a while and, as you say, it's not always easy. But we decided a short while ago that we didn't

want to bank any longer with one of the big banks that we've been with a long time because they behaved so unethically for so long and we're still not confident that they're going to improve. So we're considering using a building society that offers banking and we've been investigating, but we find it's really hard to find out what they're doing with our money. When we ask, they say, "Oh you can speak to our ethical investment adviser" but actually that's not the answer we're looking for. What we want to know is how do they conduct their business generally? Do they do that ethically? And so we're looking for help from you, I hope, for how we can find that out.

ALEXANDER: Okay, well that's a good question to start the show with. Let's go to Jamie Hartzell from Ethex. What advice would you have for Judith?

HARTZELL: Well you're right, Judith, it is quite hard to find out what the mutuals are doing with their money. I mean they're all mutual organisations, which is a plus in itself, but they vary in the extent to which they're transparent about where the funds are going. I mean one option you might consider is Ecology Building Society who do quite clearly put ... all the money is lent to projects that are doing sustainable eco renovations and that kind of activity, and that's all quite transparent. And it's not only mutuals. You've got options there as well. Triodos Bank, for instance, publishes all of the projects that it lends to as a bank on its website and Charity Bank is another option as well that only lends to charitable and social organisations and it's pretty clear to find out where the loans are going. So I think if your key interest is in transparency and where the money's going, I would have thought those are probably three really good options.

JUDITH: Okay.

ALEXANDER: What about returns? How do they tend to compare in those institutions compared to the big names Judith will be more familiar with?

HARTZELL: Well if you're looking at savings accounts, the difficulty really with those options, it's hard to get the level of current account facilities that you would

with a mainstream bank and that's probably where you're falling back. Just in terms of savings accounts, the rates are actually not really that different really. You get pretty comparable rates and it's also all guaranteed by the Financial Services Compensation Scheme up to £85,000, or (in the case of Triados) by the Dutch scheme up to £100,000. So you've got the same level of risk guarantee there as well.

ALEXANDER: Okay. Judith ...

JUDITH: Could I just come in and say something? It isn't a savings account though that we're after. What we're after is to put all our banking business, so direct debits, cheques, all the day to day business that we've been doing with a big bank for a long time. And, as I understood it - I looked into Triodos - as I understood it, they don't even offer those services.

BOWEN: They don't yet.

JUDITH: It's general banking we're after.

ALEXANDER: Olivia Bowen?

BOWEN: That's right. Judith, they don't yet provide current accounts. It is something that they're looking at. So I bank with the Coop, for example, and they can provide the full range and they're the most ethical sort of high street bank available, as I'm sure you found out. I would suggest you look at the Move Your Money campaign, which deals with these sorts of questions and would help you make that sort of decision.

ALEXANDER: You mentioned the Coop there, but we have heard from Money Box listeners who say well you know we've heard that the Coop has had its own troubles recently. What other options are there? I mean the Coop is the big name, but on the high street are there some banks and building societies which you know do better than others in terms of ethics and sort of social responsibility if you like?

BOWEN: Well, as Judith comes to herself, looking at the building societies is your next step. We consider them sort of ethically neutral really.

ALEXANDER: Why is that? What makes them better?

BOWEN: They're much less likely to be funding arms regimes and that sort of thing. In terms of how they manage money, it's much more UK based. So they're not strictly ethical necessarily, but they're doing a lot less harm. Finding out exactly what they are doing though will still be a challenge, as Judith's just said.

ALEXANDER: As Judith has experienced.

JUDITH: That's exactly the problem, yes. *(laughs)*

BOWEN: Exactly. So what we need to do is ask them for more information and keep asking, and when they realise that's what people want hopefully they will respond.

JUDITH: Is there any pressure that could be kind of mounted to get them to do that because the answer they give, when I've asked exactly those questions, is well we can send you a report of all the good things we do with our profits. And yeah I want to know they're doing that too, but they still don't answer the fundamental question.

ALEXANDER: Is there any onus, Mark Hoskin, on banks and building societies to publish anything about their social responsibility strategies?

HOSKIN: I'm probably not the person to speak to about that. You need an expert on that sort of thing, an accountant. I don't think there is, to be honest. I think it's a PR thing when they do, but I could be wrong.

ALEXANDER: Okay. Well Judith, thank you very much for your call and for raising all these issues. And we have Elaine on the line who's in South Somerset. Elaine, what's your question for the panel?

ELAINE: Thank you. I had an ethical fund as part of an ISA portfolio and it performed appallingly. And although I asked the fund managers for an explanation, given particularly that renewable energy is such a growth industry and surely falls under ethical investment, it continued to perform so very, very badly.

ALEXANDER: Well that's interesting. I'm just looking at an email that we've had from Glenys which chimes with that. They say they took out an environmental ISA in 1991, the value of £5,000. Since 2008 this has plunged below the original sum invested and as of today they say it's risen to just £5,825. 'So much for my principles'. Mark Hoskin, what has been going on? Elaine's talking specifically there about renewable energy investments, but why have those investments done so poorly?

HOSKIN: Elaine, what fund was it?

ELAINE: In detail, I don't know. It was just referred to as an ethical fund ...

HOSKIN: Oh right, okay. Well ...

ELAINE: ... as part of a broader portfolio. I don't ...

HOSKIN: You don't know the name of the fund?

ELAINE: ... or I didn't seek you know ... But I did ask the fund managers more than once and never got a reply.

HOSKIN: Do you mean you've got a discretionary broker in the middle between you and the funds that you buy?

ELAINE: Yes.

HOSKIN: Yeah, okay. Why is it? Well renewable energy's been a big challenge over

... well since the financial crisis really. Up till about 2007, a lot of these clean energy if you like funds were doing extraordinarily well and were outperforming massively; and when the financial crisis hit, renewable energy as a sector suffered real challenges. You know ...

ALEXANDER: More than other sectors?

HOSKIN: Oh much more. Capital dried up for them. They're a hugely capital intensive business. They face extraordinary competitive pressures from China. The governments were all trying to cut the tariffs they'd introduced to save their costs and their government budgets and it completely squeezed the renewable energy area.

ALEXANDER: And they're capital intensive because they're doing so much building, there's so much new infrastructure going into those sorts of projects? That's why they need so much money, is it?

HOSKIN: They need a lot of money because if you're going to make solar panels, you don't need to make a thousand solar panels, you need to make a million solar panels and you need to do it over and over and over and over again in order to compete on a cost basis because when you're competing with the Chinese, they force the price down so much. In fact the EU recently actually threatened to put a massive tariff to protect European industry. The horse had bolted by then; European industry had pretty much died by that point. But unfortunately that's what happened. But ironically if you'd stayed in your ... If say you had a clean energy fund in the last year - the Guinness Alternative Energy, which I'll name, is up 84% this year - but that hides the fact that it probably was down more than 100% over the previous 4 years.

ALEXANDER: And of course we don't know what's going to happen to that fund over the next year ...

HOSKIN: No, you don't.

ALEXANDER: ... and I suppose this just highlights that even if you're investing in a fund that says it's you know ethical and green, of course you are investing and with that comes risk. You don't know what's going to happen to your money, you don't know what's going to happen in the wider world.

HOSKIN: Absolutely. And also it's a bit of a mis-description to describe everything as ethical because the range of funds that you can be in in the ethical sector is so diverse that the risk you're taking is completely different depending on what you're picking.

ALEXANDER: Olivia Bowen, you want to come in.

BOWEN: Yes, I just wanted to say that there were some performance figures in Moneyfacts recently showing that ethical funds across the board have outperformed non-ethical funds in the last 3 years, up 36% on average compared with 31% for the average non-ethical fund.

ALEXANDER: Oh that's not true over the 10 year period though, is it, which ...

ELAINE: *(over)* No it's not the case because I cashed mine in only this spring.

BOWEN: I understand. It doesn't help you Elaine at all, but it sort of compliments what Mark was saying in terms of it depends where the money is and we always recommend having a balanced portfolio of lots of different things of course.

ALEXANDER: Elaine, have you made a decision about what to do with that money you took out, what to do now with it?

ELAINE: Well I do have a mortgage with the Coop as some sort of compensation. But it saddens me that, as your previous caller said, that you truly want to do the best thing and it's neither transparent; nor is it showing the results that actually justify your decision and it will turn people away out of sheer practicalities.

ALEXANDER: I just want to come back to Mark Hoskin a moment. You mentioned the fund which had done very well over the past year. What do you think the outlook is for renewable energy? Do things look more positive now we're out of the 2008 woods?

HOSKIN: Well obviously everyone feels more positive with the last year's results, but renewables face all sorts of pressures. There's an incredible pressure on driving electricity prices down, not up. You know the Government recently has come out or the Labour Government I think said they wanted to cap electricity prices or energy prices or proposed it. And the unfortunate fact is that clean energy is very expensive upfront because while sun and wind is free, the stuff you need to capture the energy is expensive. And the idea behind the tariff is to encourage people to make that capital investment upfront, so that you can have 20 or 25 years of free energy, but it does rely on government policy and if you're investing in equities, you're buying companies that are producing the solar panels themselves. So you're not actually buying the physical asset that's producing the electricity. You are involved in the supply chain of solar panels to people who are buying the panels to produce electricity, which is a very different investment game. And we've got a caller I think later on to talk about that Good Energy have released a retail bond, 4 year retail bond at 7.5% to fund actually buying the infrastructure itself. And that area has been quite a profitable area for people to be in, but it's not something if you have a discretionary portfolio buying pure equities you'd necessarily have exposure to, although TRIG did recently release an equity which does do that. But, yeah.

ALEXANDER: Jamie Hartzell from Ethex, what do you have to add?

HARTZELL: I just wanted to mention that as an alternative to investing in renewable energy funds, you might consider investing in community renewable schemes. There's a number of these springing up and it's where you're investing directly in wind turbine or a set of solar panels. And I notice you're in South Somerset and there actually happens to be one on the Isle of Wedmore running just at the moment, which is the one megawatt solar panel installation, which would give you a direct investment. You can choose a bond or an equity investment in fact - a bond at

3.5 or equity at 5%. And also it makes you a member of that scheme and you have a local connection to it and participating in generating renewable energy from your local area which can be quite an exciting plus.

ELAINE: Okay, thank you very much.

ALEXANDER: Okay, that's interesting. Thank you. Thanks for your call, Elaine. We have Brian on the line who's calling from Worcester. Brian, I think you're the one with the question about Good Energy. Just outline the issue.

BRIAN: We get our electricity from Good Energy, the company, and they reckon to produce most of their electricity that they supply to people like us from renewable projects - solar and wind. They have just offered a bond paying 7.25% per annum with a bonus of .25% at the end of the 4 year investment term. They've offered that to people like ourselves who buy our energy from them. I'd be interested to know whether your experts would agree that that is an ethical form of investment and also perhaps comment on how profitable it appears to be against the market generally. I would also like to say that we've put money into a number of local schemes. Somebody mentioned just now local hydro and solar and wind schemes, and I do think that the Government should support these community run local schemes much more generously than they do at present.

ALEXANDER: Okay. Mark, you were mentioning this, so let me come to you. What do you think? Does this sound like a good investment?

HOSKIN: I've got to be careful here because I'm obviously FSA regulated and so I need to make caveats, but ... or FCA, sorry.

BOWEN: FCA.

HOSKIN: Yes, I mean basically the back story to these sort of launches is that it's very difficult for people now to raise money direct to the consumer, to retail investors,

and the only way to do it is through something ... well the only way to market it is through something called a retail bond. And what this effectively is is Good Energy in this example are effectively rather than going to a bank to borrow money, they're trying to go to you directly to borrow money. Now that means that you are in effect a lender to Good Energy. Now unlike going to a bank of course, the Government guarantee your capital. Good Energy obviously do not guarantee your capital and so you need to be careful. Personally I think these are very ethical investments. I fully support Good Energy and I think they're a great outfit. I have a huge amount of respect for Juliet Davenport who's the Chief Executive of Good Energy. I think she's a very ethical person and runs the company very well and it's a huge success story. But as a retail investor, I think you should dip your toe. It sounds like this is something that would appeal to you and I think it's a sensible thing.

ALEXANDER: But your money wouldn't be protected, as you say, and also it would be tied in for 4 years, wouldn't it?

HOSKIN: Well and this is the big risk. I think Good Energy are a very sound business, but they are listed on AIM and there are obviously risks that we can't foresee now as to whether they'll be able to refinance this bond. The projects they're investing in will be much more profitable than the 7.25% that they are offering to customers or 7.5. They're investing in a range of solar and wind and they have a development pipeline, and I believe they will be able to use this money to good effect. But I do think the big risk with all of these things is actually the refinancing risk, and that's something that someone who goes into this has to be aware of. You have to be prepared I think to accept the fact that while your money may not be lost, although there is a risk - and I personally don't think your money will be lost - you have to be prepared that they won't be able to refinance it in 4 years and, therefore, you might be in for as long as 20 years. I think over that time period, they will repay you, but you have to take the view when you go in that you're prepared for that to happen.

ALEXANDER: So you might want to take and presume you can take your money out after 4 years, but you find out you can't; it's tied in longer?

HOSKIN: Well only because they won't be able to refinance. They can't tell you today that they will be able to get a bank or another retail investor to buy you out.

ALEXANDER: So they might not at the end of the 4 years basically have the money, enough money to give back to you? Gosh.

HOSKIN: Yeah. And so this is why you have to sort of just be a little cautious when you're allocating within your portfolio. Having said that, I think they're a great thing and I actually think Good Energy are a great company. I think it would be successful and they probably will be able to refinance. There are two other offers you should look at in the same process, all in the same game. The greener bond is offering 6% over 3 years, extendable to 4 years, and the energy bond is offering 6.5% over I think 4 years. And they all do something slightly different, but they're all in the same area. You can take a portfolio approach, but I do think that the one thing to bear in mind is can I afford for this not to come back to me in 4 years, and I think that's the risk that most people need to be aware of.

ALEXANDER: Olivia Bowen, I wonder if there are any other options you would raise for Brian to think about?

BOWEN: Yes, well I think he should look at Ethex because - we've got Jamie here today from there - because that has Westmill, for example, doesn't it Jamie on it?

HARTZELL: Wedmore Solar, yeah.

BOWEN: Yes. So that's a place where you can have a look at the market.

ALEXANDER: Jamie, would you just explain what Ethex is, how it works. What is an online platform and what does positive investing mean?

HARTZELL: Well positive investing is really where your money is doing good rather than simply the avoidance of harm. You know a lot of the funds, they're very

valuable and it's a very positive development to see ethical funds, but they're in the large part based on negative screening, which is just certain things like bombs and tobacco, pornography and alcohol are excluded, and then investments go in the rest. So what we've done is pulled together investments that are quite definitely positive, and the business that you're investing in - very often directly rather than through a fund - has very much of a core social mission and purpose about it.

ALEXANDER: So it's not kind of the ... well you might almost call it the old style of ethical investing, which is screen out the "baddies" or just industries you don't really approve of like gambling and alcohol, weapons manufacturers and so on, but taking a more kind of positive approach - well what do I approve of? I want to put my money into organisations and companies whose aims I would like to support.

HARTZELL: Exactly. So when you're investing, you're not just thinking about the financial return you'll get. You're also thinking about the social return and thinking about what it is you expect from investment and what you want to see from that. You know is it climate change you care about? Well then invest in a community renewable energy scheme. But I notice ...

ALEXANDER: People ... If you don't mind me interrupting. People you know do raise an issue about this, don't they? That if you are say you know avoiding certain big companies and sectors which are known as being quite defensive stocks like drinks companies, tobacco manufacturers, and going for maybe smaller companies or certainly companies from a smaller range of sectors, then what you've got there potentially is a diversification risk; your portfolio might be too narrow and ethical funds are said to be quite volatile. What would you say to that?

HARTZELL: Well I mean it all has to be considered as part of a balanced portfolio. I mean the debate about whether ethical funds under-perform or over-perform the market seems to go on and on and actually I don't think there's any sort of clear distinction in the two really. But I mean yes, when you're looking to invest directly in a business which is a positive investment, you have to consider quite carefully the risks involved. And sometimes you know they may not be higher at all. Some of the

investments are Financial Services Compensation Scheme guaranteed, but others are higher and you need to see that as part of a balanced portfolio and I'm sure my colleagues here are very capable of advising where one needs advice on how that portfolio should be constructed.

ALEXANDER: Mark, I know you want to jump in here.

HOSKIN: Yeah, I think the problem when you talk about ethical investment and whether they outperform or under-perform is the whole investment industry is very interested when it doesn't perform as well and they never say anything when it outperforms. And currently ethical investments - and I use that in a broader sense - are outperforming quite substantially, and our experience of looking at this issue is actually over a time period there isn't actually a great deal of difference between either. If equities collapsed during the financial crisis, it wasn't just ethical funds that fell; it was the whole market. And you can get too caught up in if I avoid tobacco, I will under-perform. That's not correct actually and over long periods of time you will outperform for a period and you will under-perform for a period. But it's very easy for the people in the investment industry to point their finger and say it's underperformed because they have no interest in selling those funds.

ALEXANDER: Let's go back to the phone lines. Michelle is calling from London. Michelle, what's your question?

MICHELLE: Oh hello. Well we've recently gained power of attorney in order to direct my father-in-law's finances. And I suppose there's issues of trying to offset his assets and I thought what if we suggest creating a charitable trust; that maybe then you know I could identify aims that I would like to support and then I could do that. Does that sound like something that people do? I mean and how tightly do I have to define the aims of a charitable trust and can I give myself the job of administering it?

ALEXANDER: Well let's put these questions to Olivia Bowen who's a financial adviser. Michelle says is this something people do? Do you have people coming to you to do this kind of thing?

BOWEN: Yes certainly, we manage quite a lot of money on behalf of individuals where it's in a trust. You should probably talk to the Charity Service, I would suggest, to actually get things up and running.

MICHELLE: The Charity Service, I'll write that down.

BOWEN: Yes and they can give you guidance on the structure and the legal element of it.

MICHELLE: Thank you, that's what I need.

BOWEN: And then really all a trust is a structure which goes around other investments. So then naturally I would suggest you receive financial advice on what should go in the pot, and that can be very diverse, a huge range of different things, and I believe that Ethex can invest money for charities ...

HARTZELL: It's possible.

BOWEN: ... and of course all sorts of ethical, more mainstream ethical funds are available as well.

ALEXANDER: What sort of setup costs might Michelle face?

BOWEN: The same as normal really.

ALEXANDER: Which are?

BOWEN: Hmn, it really depends on the sums involved.

ALEXANDER: Michelle, could we ask you what order of money we're talking about?

MICHELLE: Well I suppose £50,000 plus.

BOWEN: Okay. *(to Mark)* Yes sure, Mark?

ALEXANDER: Mark?

HOSKIN: Is it your father, sorry?

MICHELLE: He's my father-in-law.

HOSKIN: Yeah father-in-law and he's 92. And what do you want this money to do because you won't have any inheritance tax because you're under the £325,000 nil rate band, so ...

MICHELLE: Oh no, no, no. I mean I was thinking we would do other things with the other money. He will have ... he'll probably have ... his total of assets will probably be 1.5 million.

HOSKIN: Aha! Right, now we're into it. Okay, fine, yes. Well obviously when you give money to charity, you escape inheritance tax. You should probably look at CAF.

MICHELLE: *(over)* Yes that is part of ... I will admit that is part of what we're looking at.

HOSKIN: Yeah, well the Charities Aid Foundation ...

BOWEN: *(over)* Yes, the Charity Service is complimentary to ...

HOSKIN: ... you can set up an account whereby you can give the money into the Charities Aid Foundation and then you can distribute it as you choose.

MICHELLE: Oh great!

ALEXANDER: And a word on ...

MICHELLE: We'd like to give to charity, but it would be nice to be able to have some kind of control or some kind of choosing or you know in the process.

HOSKIN: Yeah we have a number of clients who use that as a very cheap way of dealing with it all.

ALEXANDER: And a word on the sort of fees that would be associated with this kind of thing. And also if you seek financial advice, what kind of money would you be paying an adviser?

HOSKIN: That's a broad question. It depends on the situation. I mean we as a business at Holden and Partners look for people who have over £100,000 worth of assets and we tend to charge on a percentage basis. However, we do charge on if you like a daily rate for specific advice, but the way that the industry has gone is our fees are too expensive for a lot of people.

ALEXANDER: I can hear the sound of people all around the country heaving a sigh of disappointment. Maybe they thought ethical investing was for them, but you know they don't have that kind of money. But Jamie from Ethex, if you've got smaller amounts, can you still invest?

HARTZELL: If you've got smaller amounts, it's very difficult to get sort of forward advice. But what you can do is make investments directly and that's what Ethex is set up to do - to enable people to do that.

ALEXANDER: And are there specific low cost schemes which are termed ethical and which might attract people?

HARTZELL: Well what you'll find is you know a lot of the investments that are available have very, very low minimum amounts. They could be down to £100 in

some cases, so it really is a chance to participate directly in a range of investments if you're looking at smaller sums. It's slightly ironic that when you're making those kinds of investments, it's harder to get advice than when you're making more conventional investments, but that's something that it would be great to address.

ALEXANDER: Okay, well thank you very much. *(Michelle talks in background)*

Michelle, thank you. I'll have to end it there, I'm afraid Michelle - thanks very much for your call - because that's all we have time for. My thanks to Olivia Bowen from GAEIA; Jamie Hartzell, the Founder of Ethex; and Mark Hoskin from Holden and Partners. Thanks to you for all your calls and emails. You can find out more about ethical investing from our website: bbc.co.uk/moneybox. You'll also be able to read a transcript there in a few days time. Paul Lewis is here with Money Box on Saturday at noon and I'm about to take more of your calls on Money Box Live next Wednesday afternoon when the subject will be how to get the best energy deals.