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1. Introduction

1.1 Learn your '3 Rs'

"Investing is hard enough, why complicate it with ethics too?"

"If you invest ethically, you take on more risk, because you cannot diversify properly"

"No two people have the same set of ethics, how could you agree on a fund?"

"Ethical investments just don't make as much money"

... These are just some of the responses you might get the first time you mention ethics and investing to someone.

This is why, in this ethical stocks and shares ISA guide, we are going to ban the use of the word "ethics" from here on in. It just has too many negative associations for people.

Instead, we will focus on "values-based" or "responsible" investing. Or you could say positive investing. Or just "ways of doing something with your money that do more good than harm", although that's not massively catchy either.

But that's all we are talking about here.

This guide won't tell you what ethics are, or how they should be applied to funds.

But it will shine a light on those fund managers and investment companies that have spared more than a passing thought for the carbon intensity of the companies they invest in, or who have actively sought out companies that are run profitably but also implement lowest-to-highest pay ratios, use renewable energy or contribute to a preventative measure or solution to one of the world's many pressing problems. Water treatment, for example.

The environmental and the social - planet and people - go hand in hand. There doesn't have to be a trade off between selecting companies that benefit society and those that benefit the planet. If a company does one well, it more often than not does the other pretty well too. Importantly, **without sacrificing profit**.

The conventional way of choosing an investment product is to look at the **risk** and the expected **return**. When investing in your stocks and shares ISA this year, we'd like to suggest that **responsibility** becomes a third indispensable selection criteria.

Research conducted by sustainable investment provider Triodos Bank for Good with Money shows:

- 76% investors think banks should be more transparent about how customers' investments are used. Just 12% think this information is already available or not necessary
- 50% investors think it should be standard that customers are made clearly aware of where their money is being invested or lent out

- 23% say it is not as easy as it should be to find out where their money is invested or lent out
- 15% ISA investors found it very difficult to discover the underlying investments of their ISA
- Just 10% of investors say there is enough information on ethical and sustainable investment and 24% say financial services companies have a duty to provider better education on the ethical sector
- 22% of investors would be likely to invest ethically if it was more transparent and accessible; 13% of investors would be likely to invest ethically if their IFA told them about it
- 45% investors would move their money if they discovered it was invested in companies that did not match their values
- 25% investors already plan to dis-invest from sectors that don't match their values
- 23% investors think ethical investments produce better or similar returns than investments mainstream companies

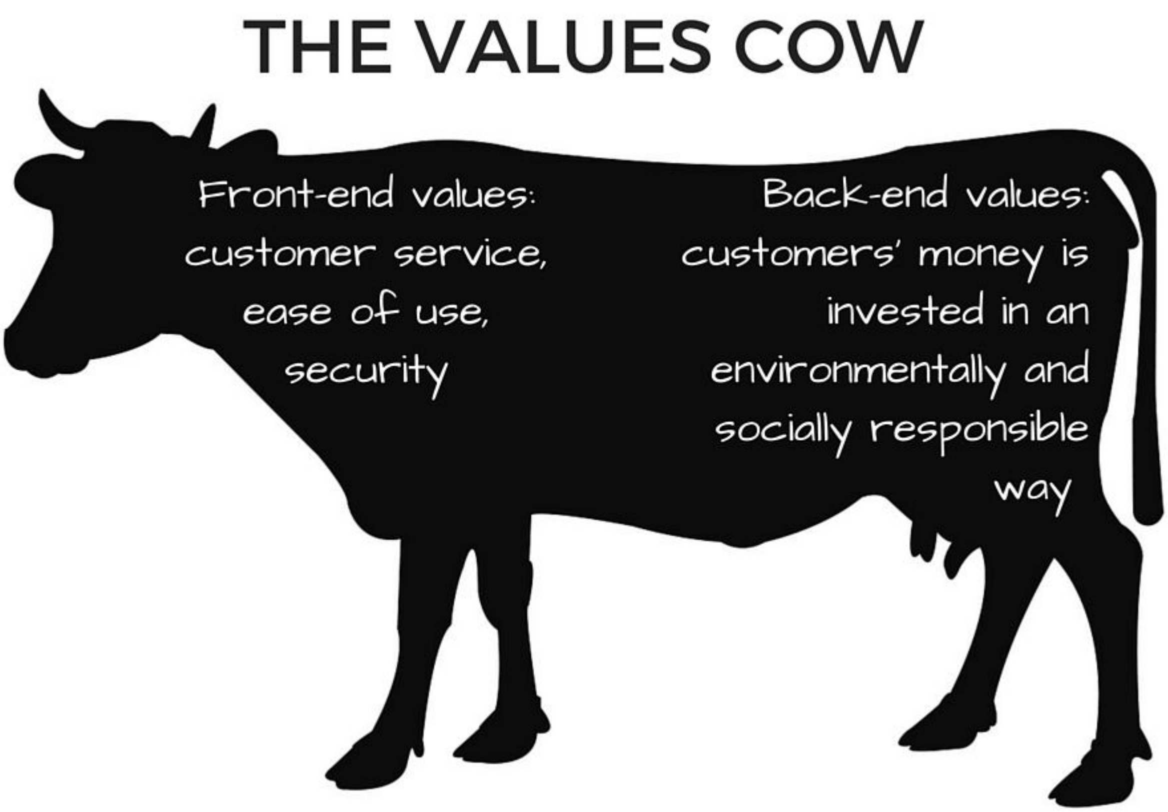
1.2 What do we value anyway? Front-end v back-end values

Unlike most mainstream banks, investment platforms and fund managers, which tend to assume ethical investing is for the minority, we start with the assumption that the **majority** of people would prefer to invest according to values, as long as there is no financial detriment associated with doing so.

But what values should we consider?

It's useful to divide values into 'front-end' and 'back-end', even though it rather makes it sound like we are talking about a pantomime cow.

In fact, why not:



"Front-end" values are the things most of us might consider, beyond price or return, when choosing a product. It's the visible things that benefit customers' lives, like customer service and ease of use. In investment, fair fee charging structures would be in this category. And doing front-end values well means the company genuinely values the customer, treating them well, in accordance with regulatory rules and wanting them to have a good experience.

"Back-end" values - how companies treat their staff, highest to lowest pay ratios, as well as the planet and other people - not just customers - are where there is still lots of work to be done.

Although front-end values are important, we have to assume these are a given and also, with the odd exception, something that most companies aspire to deliver. It's the cow's back-end that is relatively neglected and what we recommend you spend a bit of time thinking about when deciding where to put your ISA this year.

Nb. Incidentally, you can get a good front-end set of values and a bad back-end set in the same organisation. Of course, you want the two together, but don't be fooled into thinking the back-end is sorted just because the front-end looks nice - see our comment on "brand blindness" below.

What usually links the two is **transparency**. Rather like telling someone about how many people you've slept with, this usually just means being open, honest and upfront about where their money is going. Often this is considered subordinate information to the risk/return profile. It should be front and centre.

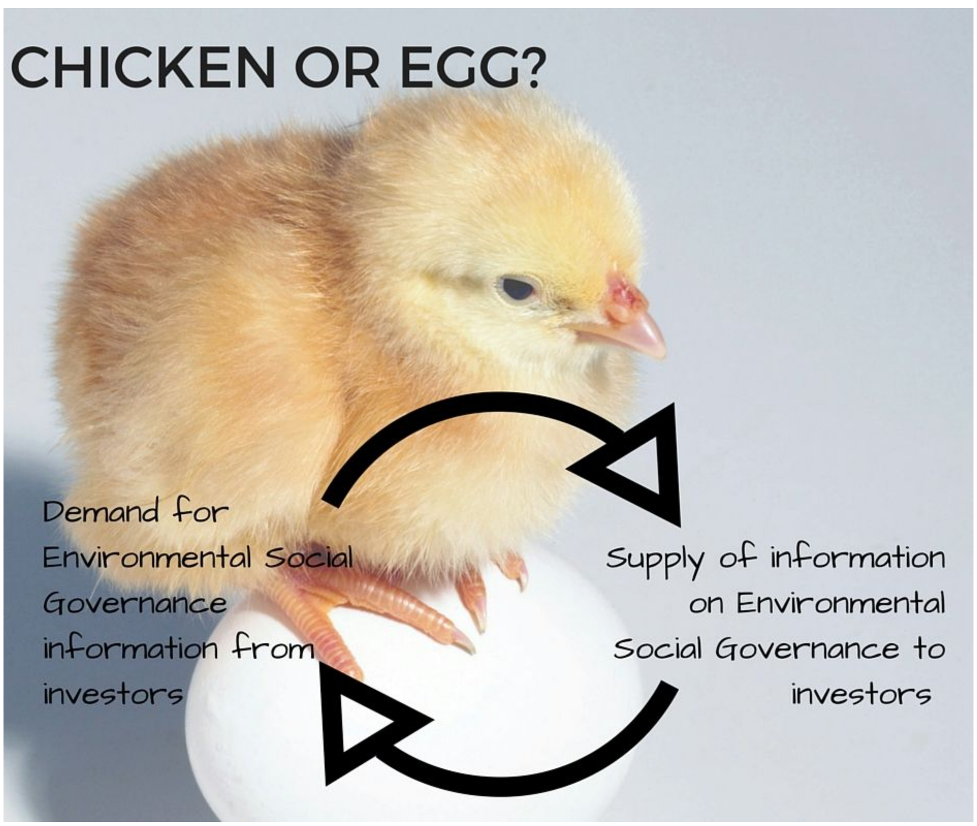
In examining the market for (back-end) values-based ISA investing, we've considered a number of things: ease of access to information on Environmental Social Governance (ESG), in other words, the transparency of and prominence given to information on ESG ratings, as well as ease of investment in companies or funds that score well for values: are they buried in a sub-menu somewhere off the homepage of a platform, or clearly labelled and easy to compare?

1.3 A note on neutrality and the need for more positive discrimination

Morningstar and MSCI are doing it for private investors and Mercer do it for institutions. What are we talking about? Analysis of a fund or company's Environmental Social and Governance status. There is an increase in demand from institutional investors for this information because poor ESG ratings for companies are increasingly considered an alarm bell for future long-term risk profiles. Think Deepwater oil spills and VW emissions tests.

One of the problems for retail investors, however, is that they are not privy to the same level of information on how ESG ratings can affect long-term performance. It is a criteria rarely applied to mainstream investment funds and ready-made portfolios on behalf of ISA holders or any other small investors.

Many fund managers and IFAs say this is because investors don't ask about this. But the problem is chicken and egg - they don't ask about it because they don't know it's relevance.



For this reason, **Good With Money is calling for positive discrimination towards ESG information and funds that integrate ESG values on the biggest investment platforms and banks' investment centres.**

We'd like to see ESG sections on home pages and a selection tool on all platforms that allows investors to see whether their investment choices are also good for people and planet. *Because if the information is not there, how can investors make informed choices?*

1.4 COMMENT Brand blindness - why we shouldn't be fooled

Rebecca O'Connor, co-founder of Good With Money

There is a picture of a small, smiling child sitting on a hallway bench, trying to put on her Dad's mucky walking boots. It is an image of homeliness, family values, the good life. It's also an example of the type of advertising imagery increasingly being used by banks and other financial services firms to make you like them.

They're the best friend you share your hopes and fears with over a cup of tea; the spouse you cuddle up to at night while you are reading your favourite book; the sibling you play football with. Except they aren't, they are your bank. And the soft focus advertising imagery and highly familiar messaging could be lulling us into a false sense of security.

A bank is a bank is a bank. It is somewhere to safely store your money or somewhere to borrow from at an agreed rate of interest. It is not, no never, your best friend.

Some banks do build into their remit a set of 'higher' values, if you like, for how they conduct themselves, which go beyond what the regulator imposes: Charity Bank and Triodos, for example. Building societies are mutually owned, and so are run for the benefit of customers who are members, so that their interests are aligned with the people they serve.

However the bombardment of fluffy branding from those whose primary purpose is to make as much money as possible for shareholders is making it increasingly difficult to discern who is walking the walk as well as talking the talk on things like responsible investing.

There are many wonderful people within customer service centres for big banks who do have hearts and try to help customers when they are in trouble or just need a bit of help. They are doing good work within an imperfect system.

Good stuff can and does happen at banks and there are people within the Big Four who are genuinely trying to turn things around culturally. But with their overarching mandate to deliver bigger profits and pay bigger sums, it isn't easy for those within them trying to make that change to tip the balance and make the bigger picture one that prioritises people, planet and profit.

2. Under the microscope

2.1 How GOOD are the stocks and shares ISAs at the UK's biggest banks?

For this investigation, we looked at the most popular stocks and shares ISA options offered by three of the Big Four banks: HSBC, Barclays and Lloyds (RBS no longer offers stocks and shares ISAs).

First, a small caveat to the findings. One of the problems with ascribing ethical value to any ISA fund held with a major bank is that the money you put in will go into one fund, which often invests in 10 other funds, which invests in 5 stocks and 5 other funds, which each have more than 60 individual fund holdings.

You don't have to be a mathematician to work out that pretty soon, an analysis of every holding within each of these funds would quickly stretch into the hundreds. Diversification is good from a risk management perspective (unless the entire global financial system collapses, in which case, it is of little value), but it is pretty obfuscating if you want to conduct an ethical analysis.

Your money is distilled into so many different pots that the amount of cash going into each stock, by the time it gets there, is negligible.

For this reason, we have had to take a very holistic (rather than microscopic) look at where money goes in each of the below funds, highlighting glaring ethical compromises that make up a meaningful proportion of each ISA portfolio, where applicable.

What we found

- The first thing to say is that the high street banks, through their general business, are hardly what you would call shining ethical examples, with a host of past crimes against customers, society and the planet between them - but, as the saying goes, they are "too big to jail".

So we looked at the investment products, rather than the banks themselves, for this exercise, as often the bank just provides the platform which then enables you to invest in products from other companies.

We found that there are **NO VALUES-BASED OPTIONS IMMEDIATELY AVAILABLE AT ANY OF THE LARGE HIGH STREET BANKS.**

Despite significant growth in responsible investing and demand for it from both private and institutional investors, the big banks are still not designing stocks and shares ISAs - their most popular retail investment product - that openly state a commitment to responsibility.

Without exception, all of the big banks provide ISA options that are based on the investor's attitude to risk (usually the first criteria), or their wish to manage investments actively themselves or have a portfolio designed for them. This latter criteria is really about cost: active management costs the most (a higher percentage fee) passive management, the least.

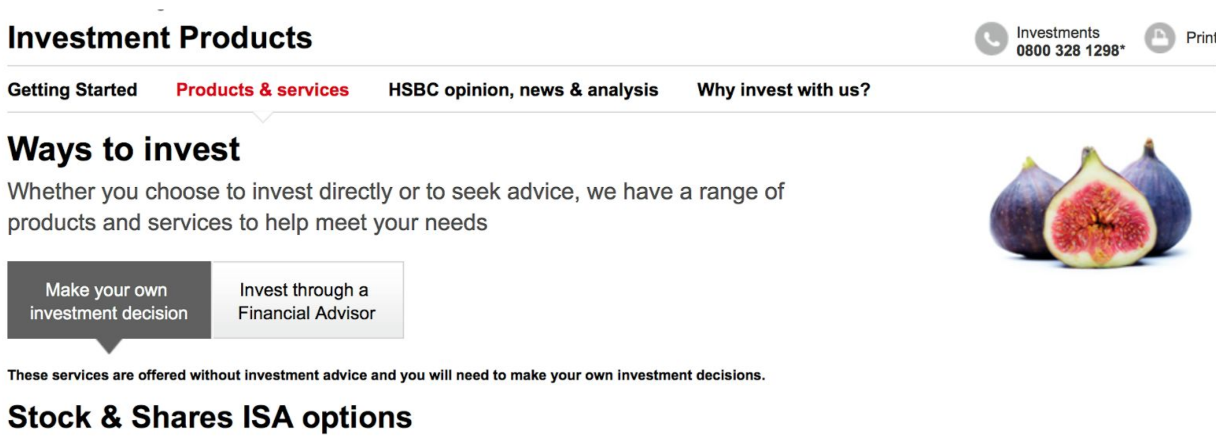
CONCLUSION: Limited choice, with selection criteria that is based on risk, an investor's confidence level and cost rather than the content of the investments, is not a good fit for those who want to know more about what companies, industries and countries their money is funding.

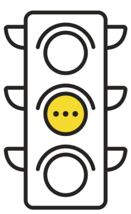
Although there are no ready-made values-based options at the banks, it is possible to make responsible investments via their platforms through an ISA if you choose the "pick your own" option. However, anyone doing so would have to have pre-existing knowledge about the fund or stock from their own research to know it was responsible, because the banks do not give such pointers themselves.

You would need to invest using an additional ESG information source, such as the Fund EcoMarket, which allows you to choose your Socially Responsible Investment (SRI) "style", or 3D Investing, which conducts evidence-based research.

We offer a traffic light score on the ISAs below. Red means 'don't go there'; amber means 'ok, but tread carefully and expect to do a lot of the research yourself'; green means 'go for it'.

- **HSBC/ First Direct**





Traffic light score: AMBER

Across any of its three stocks and shares ISA options, below, HSBC offers only risk-based criteria, and no values-based search tool, although there are some responsible funds and stock picks available if you dig deep enough via the platform - you have to know about them already to find them.

4 options (passive to active)

1. **World Selection ISA**

Ready-made, risk-based portfolios. Four risk options from "income" being lowest risk to "dynamic" being highest. Percentage charges range from 1.09% to 1.37%. No values-based portfolio. The values of the holdings within some of the fund options are mixed and mostly neutral (by which we mean not as bad as a portfolio of oil, gas, plastic manufacturers and seafood producers, but not virtuous either).

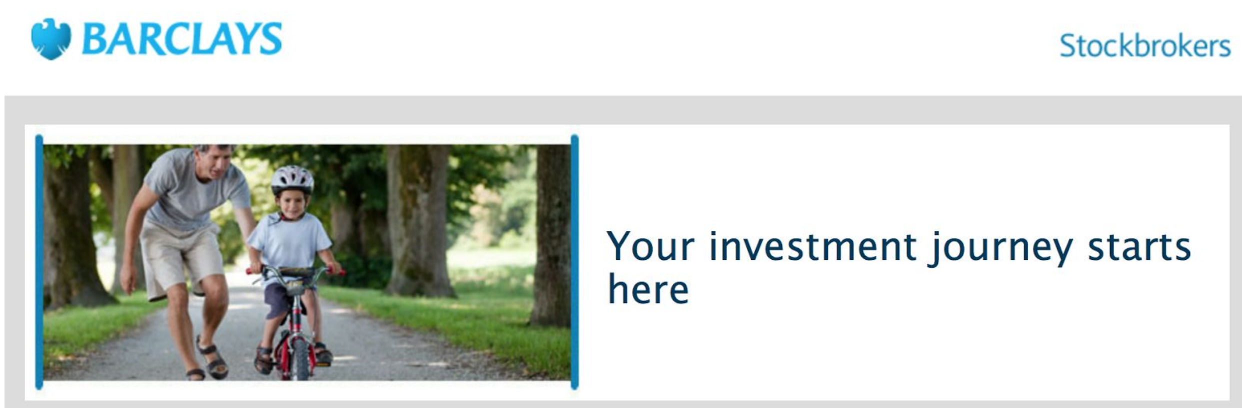
2. Global Investment Centre

Choose your own funds from a list of 22 asset managers. There ARE ethical or values-based options within this list. Legal & General Ethical and Allianz Global EcoTrends Fund, are the stand out examples. But you have to pick these yourself and there may be cheaper ways of investing in these funds than via HSBC.

3. Invest Direct

Share-dealing in UK equities, gilts and UK-listed Exchange Traded Funds. Investors can choose to pick values-based stocks from within this wrapper, which puts more power in your hands to direct your money exactly to where you want it to go than the other 2 options. £10.50 quarterly fee plus £10.50 per trade from April 1.

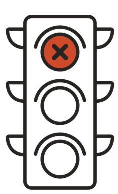
Barclays Stockbrokers Investment ISA



Traffic light score: Red

A Barclays stocks and shares ISA allows investors to select from over 2,000 funds, shares, exchange traded funds, investment trusts, gilts, bonds.

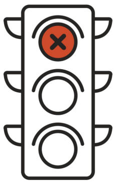
On the plus side, it allows you to access pretty much the whole of the UK fund and stock markets owing to its size, so there is scope for you to make ethical selections within it. It is also relatively transparent on fees (which are per transaction), although this can work out expensive if you trade a lot.



On the down side, if you follow the “open an investment ISA” navigation on the site, it takes you to the application stage without taking you through any illustration of the type of investments you can make within the wrapper, so it is difficult to know what ethical options are available and how easy they are to find until you have already made the choice to invest.

Barclays investment education pages are useful for the basics, however there is no information on responsible funds or “reasons to consider ESG”. The focus is on risks and diversification only.

Lloyds



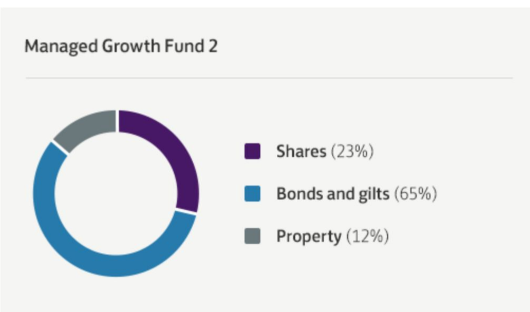
Traffic light score: red

Managed by Scottish Widows, which has a stewardship code and is a signatory to the UN Principles of Responsible Investment (although this is no guarantee of goodness). Lloyds offers three 'Investment ISA' options:

1. Lower risk, lower return
2. Medium risk, medium return
3. Higher risk, higher return

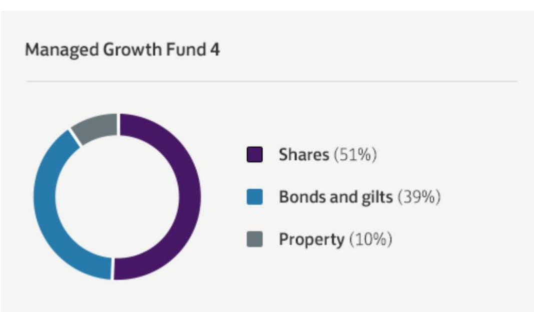
… None of these offer the investor any control over where their money is going.

1. Lower risk, lower return



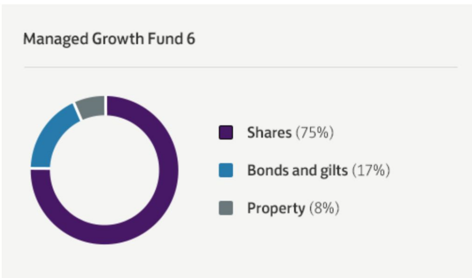
The Managed Growth Fund 2 from Scottish Widows, whose funds are mostly run by Aberdeen Asset Management. This option invests mostly in government and corporate bonds, FTSE trackers, property and international equity unit trusts. No information on the companies being lent to through the corporate bonds or the stocks held in the equity funds in the fund factsheet.

2. Medium risk, medium return



Similar to the option above, except a greater proportion held in equities. The top holding is the Aberdeen Foundation Growth B (29% of the fund). The top five holdings within this fund are HSBC, British American Tobacco, BP, GlaxoSmithKline and Royal Dutch Shell. So another bank, smoking, fossil fuels and pharmaceuticals - not what we would consider responsible stock picks.

3. Higher risk, higher return



As above, but with 75% in equities this time, meaning greater exposure to the companies listed above.

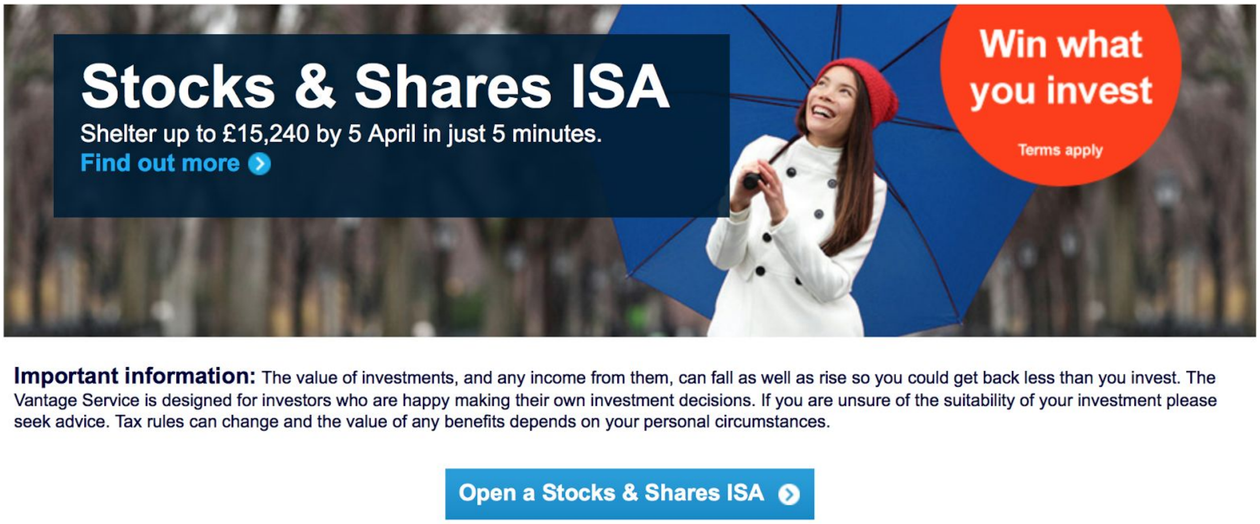
2.2 How GOOD are the top stocks and shares ISA platforms?

As with banks, the biggest investment platforms are not the best place to look for information on the responsibility ratings of funds or stocks.

If you are already equipped with the information from other sources (such as Fund EcoMarket), then you can use them to invest for good.

Good WIth Money calls upon investment platforms as well as banks to offer "responsibility" of an investment as an additional selection criteria. For example, "best performing responsible funds" or "most popular responsible stocks" alongside other ways of helping investors choose which investments are right for them.

1. **Hargreaves Lansdown**



Traffic light score: Amber

Only use this platform if you already know which responsible investments you want to invest in - don't rely on this site for information on ESG ratings.

Hargreaves focuses on the speed of account opening, convenience, and breadth of coverage. It is also good at highlighting fund holdings and directing investors to further relevant information. However, there is no 'ethical' on the sector drop down - there is an 'unclassified' section, but this is hardly click bait.

The site highlights the "most viewed today" - and can also choose to view the most popular funds - at http://www.hl.co.uk/funds. Hargreaves currently lists the CF Woodford Equity Income fund, Fundsmith Equity and Lindsell Train Global Equity as the most popular funds. As you will see from our funds investigation below, these funds do not demonstrate "values" in their stock selections.

Choosing funds based on popularity rather than the content of the funds is not a "responsible" strategy.

2. **Fidelity**

Traffic light score: Amber

Like Hargreaves Lansdown, Fidelity offers options tailored to the confidence and knowledge of the investor. Unlike Hargreaves, Fidelity does offer a decent amount of content on 'ethical' investing and a search on the term "ethical" delivers 29 results in the funds section.

Fidelity offers three options for stocks and shares ISA investors: Ready Made, Top funds list, full funds list.

- Ready Made "pathfinder"

You are given a list of three fund options based on the level of risk you are willing to take (using a risk slider). If you choose medium risk, there are three options ranging from passive to active. The passive fund, comprising index-trackers, is the cheapest. On this "choosing" page, it is not possible to find out which stocks each fund invests in (although it is possible to find out elsewhere on the site). The greatest level of detail on the fund holdings is the asset allocation - not enough for a responsible investor on which to make a decision.

- Top funds "Select" list

"Top rated funds from our experts" - there are 120. Fidelity allows investors to draw up a short list of eight. Within this list of picks, there are two "Global ethical" funds selected: EdenTree Amity International and F&C Responsible Global Equity; as well as two "UK ethical": EdenTree Amity UK B and Kames Ethical Equity B.

- Fund Supermarket

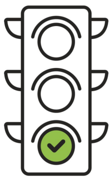
Search on the term "ethical" delivers 29 results. Search on the term "sustainable" delivers 20 results. Search on the term "responsible" gives 13 results. The term "social" delivers four results. The key word search tool gives you another way of finding values-based funds via Fidelity, but you still have to be actively looking for them in the first place, otherwise, the list simply runs alphabetically.

3. The rest.....

BestInvest - Ready-made portfolios or "look at the most popular" options are again the way in for investors. There is no "ethical" option in the sector search drop-down menu. **Traffic light score: Red**

Interactive Investor - Currently promoting four ready-made portfolios. Scores very badly for transparency - you have to sign up as a customer and give your bank details before you can see anything about the ISA options. **Traffic light score: Red**

Charles Stanley Direct - as with Interactive Investor, you have to open an account before you can see any of the ISA options. This doesn't cost anything, but it is still more commitment than a casual browse. **Traffic light score: Red**



Alliance Trust Savings - Uses Morningstar Research (soon to combine ESG ratings into its data), Alliance Trust funds are available via this platform and its Sustainable Futures range of funds is popular and given a showcase. It's our only green traffic light for the platforms for incorporating a values-based perspective, however, its flat-fee charges may not suit everyone - they encourage investors to buy and hold rather than trade frequently. **Traffic light score: Green**

Nutmeg - a challenger. Offers tailored portfolios based on risk attitude and goals. Neat tools such as graphs showing projections. Wins on transparency - you can choose to see a pie chart of assets by sector and the top ten holdings are displayed in plain view. Downside - investors do not have the ability to select a values portfolio option. If Nutmeg offered this, we'd marry it.

Moneyfarm - another challenger. Asks a lot of personal questions to build your portfolio based on you. However this is an accurate risk profile, not a values profile. Invests in Exchange Traded-Funds (ETFs) which are exposed to a wide variety of sectors and stocks. As with Nutmeg, no choice available beyond risk and investment goals/ terms.

2.3 How ethical are the UK's most popular funds?

Ethical, non-ethical?

Before going into the details, it is important to note that the stocks held within these funds can and do change regularly. For that reason, values-based investors might wish to avoid funds that do not have a guiding principle of responsibility at heart, because, as Julia Dreblow, of Fund EcoMarket puts it: "they might look reasonably ethical one minute, but then not the next."

According to Hargreaves Lansdown, the most popular funds right now (March 8) are:

1. CF Woodford Equity Income
2. Fundsmith Equity
3. Lindsell Train Global Equity
4. Blackrock Gold & General
5. Axa Framlington Biotech

The **Woodford Equity Income** fund is far and away the most popular in the UK. **It is not values-based.** The fund invests heavily in tobacco - through British American Tobacco and Imperial Tobacco - and also in arms, through a significant holding in BAE Systems. It also invests heavily in pharmaceuticals giants, which is a bit of a grey area. The only stock we think is responsible in its top ten holdings is Legal & General.

The **Fundsmith Equity** fund could be called the "investing in diabetes" fund - two of its biggest holdings are among the biggest soft drinks manufacturers in the world - Dr Pepper and PepsiCo. It also invests in Imperial Brands and Philip Morris - both tobacco companies. We cannot run quickly enough away from this fund, however great its performance may be...

The **Lindsell Train Global Equity** fund. Although the ultra-sustainable Unilever brand is the top holding here, the fund also invests heavily in alcohol and gaming entertainment - two activities that are not considered very socially beneficial.

Blackrock Gold & General is focused on gold mining, commodities and precious metals and features Randgold Resources, which has mines in Mali and Congo. So not at all good from a planetary perspective.

Axa Framlington Biotech is the only one among these five that could lay any claim to values, because the firms within the fund are focused on developing cures and treatments for some of the world's most lethal diseases.

Conclusion: The UK's most popular funds score VERY BADLY for values. Most money from retail investors in the UK that flows into these funds is actually doing more harm than good.

This doesn't mean that UK investors do not care. We think it's rather that they don't know exactly what they are investing in, because the information is not given sufficient prominence. Many investors may not know what a company does at first glance, and if you look it up on the platform, the "Company Information" is often subordinate to financial performance information.

2.4 Are ethical funds always ethical?

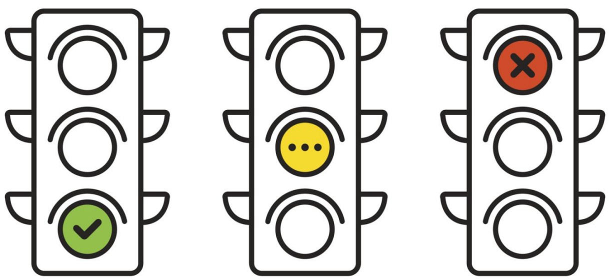
COMMENT: Lisa Stanley, Good With Money

The cynics will not be surprised to hear that the ethical label isn't always a guarantee that the holdings within a fund are as they claim to be. One reason for this is that some analysts rate companies according to their improvement, or the amount they have invested in socially or environmentally beneficial initiatives, without taking into account that the company's actual bread and butter business is harmful, and its efforts to get better will never offset its ill-gotten gains.

Take Shell, for example. A regular feature in some ethical funds (and the FTSE4Good Index), despite its core business being the hugely environmentally damaging extraction and supply of oil. It often features because despite its core activities, Shell does things like research into new 'technologies of the future' and spends money on community initiatives. in effect, the company is the best of a bad bunch when you look at the whole natural resources sector.

But despite the nice things it does around the edges, I still wouldn't want it in my portfolio. The golden rule is to check the fund holdings of any fund - even ones called ethical - and then Google search the companies - to see whether you like the sound of them.

2.5 Snog, marry….. and stocks you should probably avoid



Values-based investing is not an exact science. One investor's "marry" - because a company has a commitment to zero carbon, for instance, is another investor's "avoid", because it tests products on animals.

Using data sources including ET Index on carbon emissions, MSCI's European ESG "Best in Class" index, B Corps, CSR Hub and Share Action Responsible Investment Report, we have compiled the below table showing some of the most popular stocks among UK ISA investors, and whether to SNOG, MARRY or AVOID them.

- **The 20 Most popular UK stocks in the UK according to Hargreaves Lansdown[1]- and what you should do with them**

NB. Three of the UK's most polluting companies are in this list of the top 20 most popular investment stocks: National Grid, BP, Glencore and one of the world's most polluting: Royal Dutch Shell.

SNOG	MARRY	AVOID
Royal Mail	BT Group	GlaxoSmithKline
Vodafone Group	Berkeley Group	National Grid
Foreign & Colonial	Legal & General	Lloyds Banking Group
Aberdeen Asset Management		Barclays plc
Banco Santander		Glencore

[1] As at Feb 19 2016

Verizon Communications		BP Plc
Scottish Mortgage Investment Trust		88 Energy
		Royal Dutch Shell
		United Utilities
		ARM Holdings

3. So where SHOULD I put my money? Resources to help you choose

3.1 IFA picks

The ethical IFAs at Castlefield, including John Ditchfield, left, have kindly selected their top three ISA-able funds for 2016.

- Con Brio BEST Income Fund
- WHEB Sustainability fund
- Steward Investors' (formerly First State) sustainability funds, particularly the Stewart Investors Global Emerging Markets fund

3.2 DIY research must-visit sites

Fund EcoMarket - This site is designed to be used by IFAs and so at first glance, may seem rather sophisticated, as it allows you to choose funds based on "SRI-style" (SRI stands for Socially Responsible Investment). These styles range from

3D Investing - Evidence-based research and ratings on some of the biggest funds that lay claim to being responsible.

B. Corps UK - Companies that have been certified as B Corps are accountable to all stakeholders, not just shareholders, including the environment and society. They have to pass a lengthy legal checklist and become a new kind of legal entity. So you know if you are investing in a B Corp, you are investing in a responsible company.

Vigeo EIRIS - This table, from the consumer-facing website of the Ethical Investment Research and Information Service (EIRIS), is pretty handy to have around when you are working out where to put next year's ISA allowance. Don't log on without it.

3.3 Triodos

Triodos Bank says it offers a rigorous best-in-class selection of sustainability performance, with strict minimum standards. Its stringent engagement efforts can demonstrate influence over the sustainable practices of large companies.

It offers two sustainable investment funds, both available within its Stocks and Shares ISA:

- The Triodos Sustainable Equity Fund is a global fund investing in large listed sustainable equities, the companies selected for inclusion are 'healthy' companies delivering superior social and environmental performance. Risks diversified across sectors and continents.

- The Triodos Sustainable Pioneer Fund focuses on innovative sustainable small and medium-sized companies. The fund invests in companies that are pioneers in areas including sustainable energy, medical technology and water.

3.4 The Innovative Finance ISA - a force for good?

The Innovative Finance ISA will allow investors to put savings held in peer-to-peer platforms into their tax-free wrappers from April 6 this year. First out of the blocks with product launches were Zopa and Ratesetter.

While these are not values-based investments, they are neutral, in that they involve lending to other people, who might use that money to fund home improvements or buy a car, in exchange for a return. For this reason, they could make a compelling alternative destination for ISA money this year, that would take funds out of some of the more harmful holdings described on page 18. Look for more providers launching IFISA products soon.

3.5 Your key takeaways

1. Remember your three Rs
2. Don't rely on the platforms or fund managers to do values for you
3. The most popular is rarely also responsible
4. If it's ready made, it's probably not responsible either
5. Consider alternatives to traditional funds
6. There's more to goodness than customer service and cosy branding