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MONEY BOX LIVE

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LEWIS: Hello. It's 25 years since the first ethical investment fund was formed. Today, there's nearly £7 billion invested altogether in ethical funds. It's a tiny fraction of the total amount invested by people in the UK, but when it's very hard to make money out of your investments maybe now is the time to ensure that at least it does no harm. The first thing to decide is if you're against things like arms, gambling, alcohol, tobacco, or if you want to choose investments in companies that do good - wind energy perhaps or those that defend human rights, or perhaps firms that have done things you disapproved of in the past but are improving. And can you go beyond investment? Is there an ethical bank, a moral insurer, or a green mortgage? If you do choose to go green, is ethical money more expensive? How do ethical investments perform compared with those that are more interested in whether the money is doing well than whether it's doing good? Whatever your question about ethical investing and finance, you can call Money Box Live now: 03700 100 444. If you call that number, there's a good chance you'll get on air with your question: 03700 100 444. With me today to answer your questions are Mark Robertson of Ethical Investment Research Services, EIRIS, which has launched a new website: YourEthicalMoney.org. Robin Keyte is a financial planner from independent financial advisers Towers of Taunton who specialises in ethical investment. And Mark Hoskin, a partner from independent financial advisers Holden & Partners, who specialises in environmental investments. Our first question's from Charles in Gosforth. Charles, your question?

CHARLES: My question is what ethical unit trust type funds do you recommend for a low to medium risk investment as an ISA or PEP transfer, say, involving amounts of between £5,000 up to a maximum of £20,000?

LEWIS: Okay, let's start with Robin Keyte.

KEYTE: Thank you. There are a number of ways of approaching low to middle risk investment strategy. Fortunately, these days we have a number of ethically screened corporate bond funds available, which are lower risk than shares, and you can combine those with ethically screened funds investing in shares - something like 50% in each - to achieve something like a low to medium risk. Depending on the ethical screens you want to avoid, there are a fairly wide choice. And are there any particular issues that you particularly do want to avoid?

CHARLES: Well not especially. I think I'd more look at it in terms of funds that I might be interested in, which would be, for instance, low carbon energy funds, that sort of thing. Anything on the green environment front is of particular interest to me.

KEYTE: Okay. The sort of fund that comes to mind is Impax Environmental Leaders, which is very good on environmental issues and combined with some ethically screened corporate bond funds such as F&C Ethical Bond, that would probably meet your ethical requirements and your risk level.

LEWIS: Mark Hoskin?

HOSKIN: Yeah, I think you need to consider what else you've got because you can build a portfolio and the risk of the overall thing can be relatively cautious. I would mention Henderson Industries of the Future as an equity fund. I think corporate bonds have suffered recently almost as much as some equity funds - the better equity funds maybe. I would also say that the Impax Fund is not actually ethically screened, but if you're, as you say, more interested in the environment, then the world kind of opens up for you, although it doesn't really open up on the sort of lower risk funds such as bond funds. Charles, sorry, do you understand what I mean by a bond fund?

CHARLES: Yes, I was a bit surprised to hear you referring to corporate bonds as part of this package. However, I'm here to learn.

LEWIS: Yes, I was in a way too, I must say to both of you, because corporate bonds have done pretty badly, haven't they? And they've been sold as safe or at least safer than shares, but, in fact, over the last year or two they've done pretty badly.

KEYTE: Yes, although there is varying performance. What we've seen is the degree to which some ethically screened corporate bond funds hold subordinated debt …

LEWIS: And just explain what you mean by that?

KEYTE: Well others hold more senior debt, and senior debt is where if a company goes bust those lenders get paid out first; whereas subordinated debt, they're further down the pecking order.

LEWIS: Yeah, but if there's not much left, no-one gets very much anyway.

KEYTE: True. But the F&C Ethical Bond Fund has done noticeably better because they have a lot of senior debt.

LEWIS: Let's move to Mark Robertson now from EIRIS. Well talk about screening, I suppose, and how you actually choose the things that you want.

ROBERTSON: Yeah. I mean there are a number of other ethical funds out there that do incorporate green and environmental issues as part of their screening process, so that might be screening out involvement in companies with a poor record in those areas or it could involve focusing more on companies doing positive things in those areas such as renewable energy companies or waste and recycling companies, that kind of thing. And on the new YourEthicalMoney.org website, there is actually a database that you can use to interrogate the universe of funds out there according to different ethical issues, including environmental issues.

LEWIS: You say “interrogate the universe”. What you really mean is you just tick a box and you say I don’t like weapons or I do like green things.

ROBERTSON: Yes, yes - search probably is what I mean.

LEWIS: Search. I think interrogating the universe is a good subject for a phone-in. So you can actually … I mean I mentioned in my introduction that you can screen things out like you don’t like gambling or you don’t like alcohol, but you can also - as Charles wants - to screen things in. You know you can screen in wind farms or environmentally friendly things.

ROBERTSON: That’s right. I mean a third approach is actually engagement whereby the managers of a particular fund will seek to engage with the companies that the fund invests in in an effort to improve the performance of companies on a whole host of different issues. So that’s, if you like, using your influence as a shareholder to try and bring about better performance.

LEWIS: You meaning turning up at AGMs and shouting a bit, do you?

ROBERTSON: That kind of thing.

LEWIS: Mark Hoskin?

HOSKIN: I think going back to Charles’ question - I think you need to … everyone wants good return, equity return with low risk, and that really isn’t something that has proved to be out there. So I think, Charles, it’s sort of down to you really. I mean corporate bonds are lower risk on the risk scale than equities - but, as we have commented, people have lost quite a lot of money in corporate bonds as the markets have dried up. But fundamentally in a bankruptcy any corporate bond will rank in front of equity.

LEWIS: So I mean risk obviously is risk. If you invest, you take a risk and that’s it.

But what we’re talking about is whether you can do that and have some kind of …?

HOSKIN: Yeah, I think if you’re in the environmental space, you have to think about the overall portfolio and have some equity exposure in the environmental space and take that view. Charles, I mean we do … EIRIS do their website. We have a guide to climate change investment which does cover the environmental … well it is about environmental investment.

LEWIS: Let me ask you about that in a minute, but I just want to talk about performance for a moment because we’ve had an email about this from Bob. And he mentions one of the funds that I think one of you mentioned, the Henderson Ethical Fund. He says he invested £6,000 in it in March 1999 and today it’s worth well certainly less than £5,000. Is that the experience with ethical funds? Are they not as good as regular funds? Mark?

HOSKIN: No, that’s not the case at all and you’d say you know I would say that. I think what people focus on is when they get to ethical funds, they don’t perform. Actually conventional funds don’t perform either and you’ve got the same situation for both types of funds. I’ve actually done some research on 3 year and 1 year performance of conventional funds that lots of financial advisers recommend and ethical funds that financial advisers recommend, and looking down this list it’s a pretty even split. In fact over 3 … I mean I looked at Artemis Income, Jupiter Environmental Income, Jupiter Income, F&C Stewardship Income, AXA Framlington Monthly Income. Now if you’ve been advised or an IFA’s come to see you, you might have heard of one or nearly all of those funds. But actually what you find is that there’s an even spread like the Henderson Industries of the Future is one of the top performing funds and it outperforms Artemis Income. Now Artemis Income is in most people’s conventional portfolio.

LEWIS: Right, so you’re not saying they do better or worse. They’re probably … It’s neither here nor there.

HOSKIN: I think it comes down to the fund manager because with an ethical fund you do take a screening approach, but you must recognise that any fund manager will, unconsciously or not, will screen and he'll have a preference for areas he wants to invest in. Over the last year, banking has been a terrible area to be in while a lot of ethical funds have been overweighting banking. But you can't forget a lot of conventional funds are hugely overweight and some of them might have been holding mining stocks as well and they would have got absolutely slaughtered in the last sort of two years.

LEWIS: Sure. Robin, briefly.

KEYTE: I was just going to chip in that Artemis Income is mostly in UK shares and Henderson Industries of the Future is more global, has quite a lot in the US. And we've seen a number of funds that have a wider remit outside the UK. Ethical funds have done better.

LEWIS: And Mark Robertson from EIRIS, you research this kind of thing. Overall - and I know all of you probably have a bias in the direction of ethical funds in this room - but overall is it fair to say that ethical funds are neither better nor worse than traditional funds?

ROBERTSON: Generally speaking that's the case. I mean, you know, the ethical fund sector, like any sector, has good and bad performers out there. And it's also worth remembering that most funds, most retail funds that is, have their universe restricted in some way - be that in terms of the geographical regions that they focus on or the size of companies they invest in. So, you know, yes some funds do have restricted universes, but that's generally the case across the board.

LEWIS: Okay, let's move on. Thanks very much for your email. That was Bob who sent us that. And we're moving to Chris now in Leominster who's got a question for us. Chris?

CHRIS: Oh good afternoon to you. I wanted to ask the panel if they could advise me or make suggestions on how I might be able to move my existing mini cash ISA's into a more ethical fund from where they are at the moment.

LEWIS: Where are they at the moment, Chris?

CHRIS: I’ve got one which I opened this financial year with Barclays, which has dropped 1% since April, and the others were with Portman - now it’s become Nationwide.

LEWIS: Right, so you’ve got two cash ISA’s. You want to move them to another one.

CHRIS: Well there’s several dotted around ….

LEWIS: You’ve got several, okay.

CHRIS: … but they’re the two main organisations that they’re in, yeah.

LEWIS: Sure, you’ve got several and you want to consolidate them. Cash ISA’s.

CHRIS: Yes they are, yeah.

LEWIS: Robin?

KEYTE: Thank you. There are a number of providers offering cash ISA’s with an ethical aspect. There’s Triodos Bank, Co-operative Bank, Ecology Building Society, and also to some degree Norwich and Peterborough Building Society who do green mortgages. Now generally we see a much lower level of interest from ethical cash deposits and ISA’s, but Norwich and Peterborough Building Society at the moment have a 1 year fixed rate cash ISA offering 2.8%, which is, you know, quite reasonable in the current environment.

LEWIS: But if you look at Triodos Bank, that’s I think 1%. And the Co-op, which brands itself as an ethical bank, they're offering 0.5% on their cash ISA. You can do much better, can't you, with non-eth… well not non-ethical but building societies that don't market themselves as ethical - Newcastle, Chelsea for example up nearly 3% on their cash ISA's?

KEYTE: I agree and I have a lot of clients who prefer to use building societies because they don't feel they can accept the cost of the lower interest from the ethical cash ISA's. And building societies are a much more acceptable half-way house compared to just using banks.

LEWIS: Yes because I mean the idea of one is that it takes money in savings and it lends it to people who buy houses. I know a lot of them do a bit more than that now, but that's the tradition. Mark Hoskin?

HOSKIN: Yeah, absolutely. I mean you've got to ask what's ethical? A bank taking deposits to lend to somebody else to buy a house, well I can't see anything *un*ethical about that, so I'm a full supporter of building societies.

LEWIS: Yeah. Of course some of them don't do that. They package up the loans and sell them off to people around the world, don't they?

HOSKIN: Well I'm not sure building societies

LEWIS: Building societies generally don't, no.

HOSKIN: I mean they had some capital issues, but that wasn't really what their game was.

LEWIS: No, sure, okay. Okay, does that help Chris?

CHRIS: Yes, it does. I take it from the current climate that if I'm getting around about 2.5%, I'm probably not doing too badly?

LEWIS: No, you're not indeed. And of course the other thing you have to consider is if you want to move your money not all of these best buys necessarily take *existing* ISA's. They might take new money but you can't transfer you know £10,000 or £20,000 if you have that into them.

CHRIS: This was the case with the Barclay's of course - it had to be new money - and then it dropped … They enticed me in with 3.6% and then within 2 months dropped it down to 2.5.

LEWIS: I suppose I have to be fair to them and say well interest rates have fallen, haven't they, since then? But anyway, you've got some information there, Chris, and I think there are a range of ethical and, what shall we call it, semi-ethical providers who will give you reasonable rates. Thanks very much for your call. We'll move on now to Ann from Guildford. Ann?

ANN: Hello.

LEWIS: Hello, your question?

ANN: I understand that by investing in certain types of shares, sort of small business shares I think, the capital within the fund are not liable to inheritance tax after 2 years. Are there any ethical or green funds available within this area?

LEWIS: Robin?

KEYTE: Yes, your understanding is correct. It's business property relief that those investments would benefit from and there is at least one provider I'm aware of at the moment, which is Smith & Williamson, who offer an ethical what they would call IHT portfolio service.

LEWIS: Right. Now of course we should say that you shouldn't make investments on the basis of saving tax. I mean you've got to have a good investment in the first place.

KEYTE: And because of the nature of these substantial tax reliefs, they're not given away willingly by the Revenue or the Treasury and so these do have quite a lot more risk associated with them than a typical investment in the UK share market.

LEWIS: Because the tax relief is there to try and encourage you to invest in smaller and maybe riskier enterprises. Mark?

HOSKIN: Yeah. What are you trying to achieve, Ann?

ANN: Well we've got some money in savings and I'm not sure how long we're going to live and we're not sure how much money we're going to have to pay in inheritance tax if we pop off tomorrow, or hopefully not for a couple of years. So we thought that perhaps if we could put it into one of these ethical green shares or something like that, that after 2 years it *doesn't* become liable for inheritance tax. We are achieving keeping the use of our money should we need long-term care or something like that and also hopefully leaving something to the children.

HOSKIN: Yeah, I mean it comes down to risk. You're basically investing in unlisted shares or AIM listed shares, and certainly there was a lot of selling of IHT portfolios pre the bust in the economy and they would be looking very sad today. There is an argument to say this type of investment, should there be a recovery - which I am dubious of - but should there be a recovery would perform very well. I think though if you believe that actually your time with us is not that long, you've got to be very, very careful because these can be very illiquid and you may not be able to get your hands on money.

LEWIS: By illiquid, you mean there's not much of a market, so if you want to cash them in or your heirs want to cash them in, they may find they're stuck with them for a while?

HOSKIN: You can get stuck in them for quite a length of time.

ANN: What sort of length of time would you say?

HOSKIN: Well it depends on the market. I mean the recent experience of corporate bonds, which in theory were very liquid, no-one's buying them, so …

ANN: Nobody's selling them.

HOSKIN: Nobody's selling because they can't. It's a bit like having a house. It's a bit like if you've got a house, how long does it take you to sell a house? Well sometimes it takes five minutes and sometimes it can take you 3 years.

LEWIS: Right, so some information there Ann, but also some suggestion perhaps that you shouldn't be looking in that direction. Is that helpful?

ANN: I think so, yes. Thank you.

LEWIS: Thank you very much for your call. A couple of specifics now from emails. We have been talking about investment. There are a lot of other ethical products. Catherine asks, 'Child Trust Funds. Are there any ethical Child Trust Funds?' These of course are the investments for children born after September 2002. Mark, you've been looking into this?

ROBERTSON: Yes indeed. There's probably about 4 or 5 options available at the moment. I'll just run through a couple now. The Children's Mutual offer a Child Trust Fund which is actually linked to the Co-op's FTSE4Good Tracker Fund and that particular product avoids investment in things like the sale of tobacco, nuclear power, weapon systems, that kind of stuff, but also actually seeks to invest in more positive areas as well. So that's quite a good one because it screens out certain things and actually screens other things.

LEWIS: FTSE4Good also lets companies in, doesn't it, if they're making progress - so it might have an oil or a mining company in there as long as they're moving in the right direction, which has caused some controversy in the past, I think?

ROBERTSON: Well there are specific screens that FTSE4Good does have in places - the tobacco screens. But yes you're right, the index will let other companies in on the basis that they're making progress in certain areas. Other options would be Family Investments, which offer CTF Funds, as do the Methodist Chapel Aid and Healthy Investment Company as well.

LEWIS: Mark? The other Mark, I should say - Mark Hoskin?

HOSKIN: Hi there. I think the key thing about Child Trust Funds is actually the cash or equity decision, and most people - and I don't know why - seem to go for cash funds. Now short-term …

LEWIS: Maybe because they've grown 24% over 4 years whereas funds invested in shares have dropped by 7% in 4 years. That could be one reason.

HOSKIN: Absolutely right, but when … Absolutely right, I mean if you're going to take no risk, but you've got to remember these things are in for 18 years. 16, sorry. 16 years, is it? 18 years? Well you're in that ball game.

LEWIS: That's the first amount you put in at age 0, but of course if you're putting money in through the child's life, some of it's in there for a short time.

HOSKIN: Well shorter. I mean it's still most people's investment horizon is less than 10 years, but these are 15 to 20 year time horizons. And I think that I would encourage anyone when they're putting money into Child Trust Funds to really consider equities and take a bigger risk because I know we're in a current sort of bear market, but even then over a 20 year period you would expect equities to outperform cash.

LEWIS: Yeah, well that's a perfectly fair point. So there's some advice on Child Trust Funds. Catherine sent us that email. And another one, a very specific one from Lucy who says she's wondering about mortgages. 'Are there ethical mortgage providers for standard house purchases?' Who wants to take that one on? Robin?

KEYTE: I would say have a look at Norwich and Peterborough Building Society.

LEWIS: There is of course the Ecology Building Society, which Mark you wanted …

ROBERTSON: Yeah, I mean the Ecology's a good one to look at. Generally they only lend to projects that have got some kind of environmental dimension to them, so that could be a change, for example, to your existing property - or your *intended* property rather - so that could be installing things like renewable energy or it could be actually funding an eco build. So they're an interesting organisation.

LEWIS: But the further you get from investment, the more difficult it sometimes is to find something that what you might call ethical or people might call ethical.

ROBERTSON: Yeah. I mean there are other … The Co-op is another organisation that offers mortgage offset products. So you know there are a few options out there.

LEWIS: Okay, thanks for that email Lucy. We'll move onto another call now. Margaret in Cornwall. Margaret, your question?

MARGARET: Oh good afternoon from a very sunny Cornwall. I'm 67, close to the same age as Paul McCartney. Are there any ethical equity schemes because at the moment everything's so uncertain? Would it be worth, because equities really are a sort of risk, and would there be any difference to the risk element of that in premium bonds?

LEWIS: Right, is this where your money is - in premium bonds, Margaret?

MARGARET: I put some in recently, yes.

LEWIS: Yes, I know one caller a year or two ago said they didn't want to put money in premium bonds because it was supporting the Government and they disagreed with its policies.

MARGARET: Oh I don't know.

LEWIS: I'm not quite sure about that.

MARGARET: I wouldn't know who to follow these days.

LEWIS: So you're looking for an alternative to premium bonds at the age of 67? Mark Hoskin?

MARGARET: Yes, that's it. And I mean it's a game of uncertain, you know, whether you live long or short, isn't it really?

LEWIS: Indeed it is. None of us knows, do we? Mark?

HOSKIN: Absolutely. I mean every investment decision is based on your expectation of your own life in many ways for people. Premium bonds. We recommend premium bonds. We think they're a good thing for people to hold. It's accessible cash, it's liquid, you can get it when you want it, and you don't have to worry about it. If you go into the equity market and if you want to do that, you've got to really be prepared to sort of not look at it. Is that your sort of nature, Margaret?

MARGARET: I like to put … I'm like a squirrel - put nuts here, there and everywhere. So I'm hoping the premium bonds will come up.

HOSKIN: Absolutely. Well if you are like a squirrel and you do sort of forget about things and leave them, then equities might be for a small portion of what you do. But you need to bear in mind how much money you've got and what you actually need it for.

LEWIS: Robin, I mean maybe … Well give me your views. I was going to say maybe cash at that sort of age might be an alternative.

KEYTE: Yes. And I was just going to add, I mean, National Savings and Investments offer a number of very good products. Another one is index linked certificates. And although inflation has gone a little bit negative at the moment, it's expected to come round and they would provide very good returns tax free over the years ahead. So I would also look at index linked certificates.

LEWIS: And also cash again from building societies, looking at what you call your half-way house for sort of pure ethical investments. I mean Leeds launched a 3.05% instant access account this very day. That's quite a good return at no risk for a period of time.

ROBERTSON: Yes, that's very reasonable and we're glad that building societies keep coming up with offerings at the moment that are market rate.

LEWIS: Okay, well thanks very much for that call, Margaret. I hope that was helpful. We're going to go to Si now who's calling from Leeds. Si, your question?

SI: Hello there. My question is I'm Muslim myself and I'm thinking about researching ethical products now - Sharia products or Islamic products. I'm just wondering if the panel does have any experience of some Islamic or Sharia products that have a high ethical rating?

LEWIS: Right and these are products, Sharia products - the ones that don't pay interest and don't accept interest. That's right, isn't it, generally?

SI: Generally acceptance in that in interest – in that cumulative term - they may have a rate at which they reimburse you on commission or bonus or I don't know how much knowledge?

LEWIS: Sure you can get a return from it, but it's not interest in the traditional sense.

SI: Yes.

LEWIS: Mark Robertson, you've certainly done some research into this, I know.

ROBERTSON: Yes, we have. On our new website, there is a section specifically on Sharia investment, which is good. There's a number of options available. If you're looking for products like mortgages and insurance, then the Islamic Bank of Britain is an obvious choice and offers both those kinds of things, so they offer a series of investments … sorry a series of insurance products - holiday, car insurance, household insurance, that kind of stuff - but also they have mortgage products too. If you're looking to invest, then there are other options available to you - so Standard Life have recently launched a Sharia compliant investment trust, I think it is, which conforms to Sharia law, and HSBC also have investment products available as well.

LEWIS: So it's becoming a more mainstream thing. I remember … we've done a number of things on Money Box about this over the years and it was very unusual at one time, but now with these big mainstream companies joining in, it's actually quite a mainstream product.

ROBERTSON: Yeah and I think that's just in response to demand. The other thing to mention of course is that by their very nature and the kind of things these products may avoid, they may be of interest to other ethical investors as well.

LEWIS: Yes, certainly I know it's not only Muslims who invest in Sharia compliant products at all. And there's more information on that or links to that on our website, bbc.co.uk/moneybox. And I'm now going to just very briefly, I think, go to Barbara who's calling us from the West Midlands. Barbara, your question?

BARBARA: Oh hello. I have a sum of money which we put into a scheme of 3 years with a higher interest rate, something like about £19,000. This money will be available in September to me as the 3 years will be up and I want to know … I don't particularly want to put it into the same thing. I want to know if I have some of it kept and if I invested sort of round about £10,000 to £12,000 of it, what is a good place to invest it and I don't really know whether I can do something with it ethically.

LEWIS: Right. And just let me ask you briefly, if it was ethical what would you like to exclude or include?

BARBARA: Explain to me what you mean.

LEWIS: Well what investment would you like *not* to be involved in? Do you want to not have money in armaments or …

BARBARA: Oh I don't want that, no.

LEWIS: No, okay. Robin?

KEYTE: At the moment it's in a Lloyd's high interest cash investment. Is that right?

BARBARA: That's it, yes. I invested it 3 years ago at 6%, which has stayed and when it's matured I'm still getting the 6% interest.

LEWIS: Right, so are you going to get anything like that on an investment?

KEYTE: Or are you sure you want to move it away from a cash environment? I mean the cash ISA rates are due to increase this year.

BARBARA: What I want to do, I want to make sure that some of the money I can't use. I'm a bit of a one for spending money.

LEWIS: You want it somewhere locked up. Well I suppose you could have a 1 year bond or something like that. Very briefly, Mark, because we're running out of time.

HOSKIN: If you keep it in cash, use your ISA allowance of £10,200 if you can. It doesn't sound like it's in there at the moment.

LEWIS: Okay. I'm afraid that is all we have time for. Thanks for that, Barbara. I'm sorry we had to cut you off. My thanks to Mark Hoskin of Holden & Partners, Mark Robertson of EIRIS, and Robin Keyte from Towers of Taunton. Thanks for all your calls and emails. It got busier as the programme went on, as it always does. More about ethical investing, saving and borrowing from the Action Line - 0800 044 044. Our website, bbc.co.uk/moneybox. I'm back at noon on Saturday and to take more of your calls on Money Box Live next Wednesday afternoon.