

(Article for the Jakarta Globe – 13 Aug 2012 issue)

MONEY WISE

ETHICAL INVESTING – IS THIS THE WAY WE SHOULD GO?

A while ago at an investment seminar in Bali a fund manager from London was expounding the virtues of the stocks he held in his fund. When he mentioned one of these was an international tobacco company a lady in the audience stood up and told him he should be ashamed of himself. She explained that her husband had recently died as a direct result of a lifetime of smoking. The somewhat shaken fund manager had come face to face with the issue of ethics in investing.

This is not a new subject

In fact, socially responsible investing, or SRI, dates back to 1798 when the Quakers prohibited members from participating in the slave trade. In more recent decades protesters have campaigned against polluting chemical companies, demonstrated against companies operating in South Africa during apartheid and have had a considerable influence on the activities and even financial standing of many enterprises.

As a general rule, socially responsible investors support corporate practices that promote environmental awareness, consumer protection and human rights and avoid any company involved in alcohol, tobacco, gambling or weapons. The value of the ethical investment industry is now estimated at US\$55 billion, although it still represents less than 0.5% of the total fund industry.

Let's take a closer look at some of the targets that we are told should be avoided.

Alcohol – Social Asset or Demonic Brew?

Each will have his or her opinion here. Religious groups throughout history have periodically condemned alcohol as the drink of the devil. There is plenty of evidence to support that position! On the other hand, most will probably argue that responsible drinking can add to the quality of life and indeed the

medical industry even states that moderate drinking (equivalent to just one or two glasses of wine a day) is actually beneficial to health.

Smoking – once fashionable, now disgraced

Remember the old Hollywood films with the hero puffing away close to a subtly-placed cigarette packet with the brand name clearly visible? But times have changed; the old macho image has been replaced by that of a forlorn group of outcasts condemned to a small glass cage in airport terminals. Yet tobacco is still huge business, particularly in countries like China and Indonesia. Easy to criticize the tobacco industry but if it were shut down the livelihood of millions of people would be destroyed. Of course, there is an argument that workers could be redeployed to produce more useful crops but it would take a massive effort and a huge culture shift to achieve this.

The arms industry

There is no question that weapons in the wrong hands can cause death and destruction in the world. The American love of guns is the cause of thousands of deaths each year, the incident at a cinema in Colorado being the latest example. Yet proponents of the gun lobby will argue that it is the right of every American to own a gun to defend himself and his family. And in the larger scale of things, would you really want to live in a country that could not defend itself?

But where and how do you draw the line?

Should you invest in oil or mining companies considering the damage they do to the environment? But if everyone stops investing in oil where will we find fuel for our cars and all the other products that come from oil? There was a BBC documentary last week about the exploitation of children in the Congo in the production of gold. Should we stop using or investing in gold? Not as easy as it seems; gold is used extensively in most of the electronic gadgets we use daily.

Wish to avoid companies with poor corporate governance? What about the banking industry with its recent scandals of market speculation, interest rate manipulation and massive money-laundering? But how could we live without the banks?

Would you object to litigation funding on ethical grounds? If you did you could be depriving the small guy of the only opportunity he has to seek justice against the big guys.

What about forestry? Would you invest in an industry that encourages the destruction of vast tracts of rainforest to produce palm oil which does not even provide a hungry world with food? Yet there are many forestry products like bamboo which are renewable and environmentally friendly.

The case for ethical investing is a complex one

While it might be a better world without smokers, gamblers, drunks, murderers or irresponsible corporations, there is a big downside and people will continue to demand freedom of choice and right of employment.

Oh yes, and there is one other consideration; ethical funds generally underperform conventional funds as they are prevented from investing in the some of the most profitable companies. This factor can often put to the test the level of resolve to support ethical principles!

But if you have a personal issue and a strong case, such as that of the lady in the seminar, by all means stick to your principles and invest or not invest accordingly.

Colin Bloodworth

PPi Indonesia