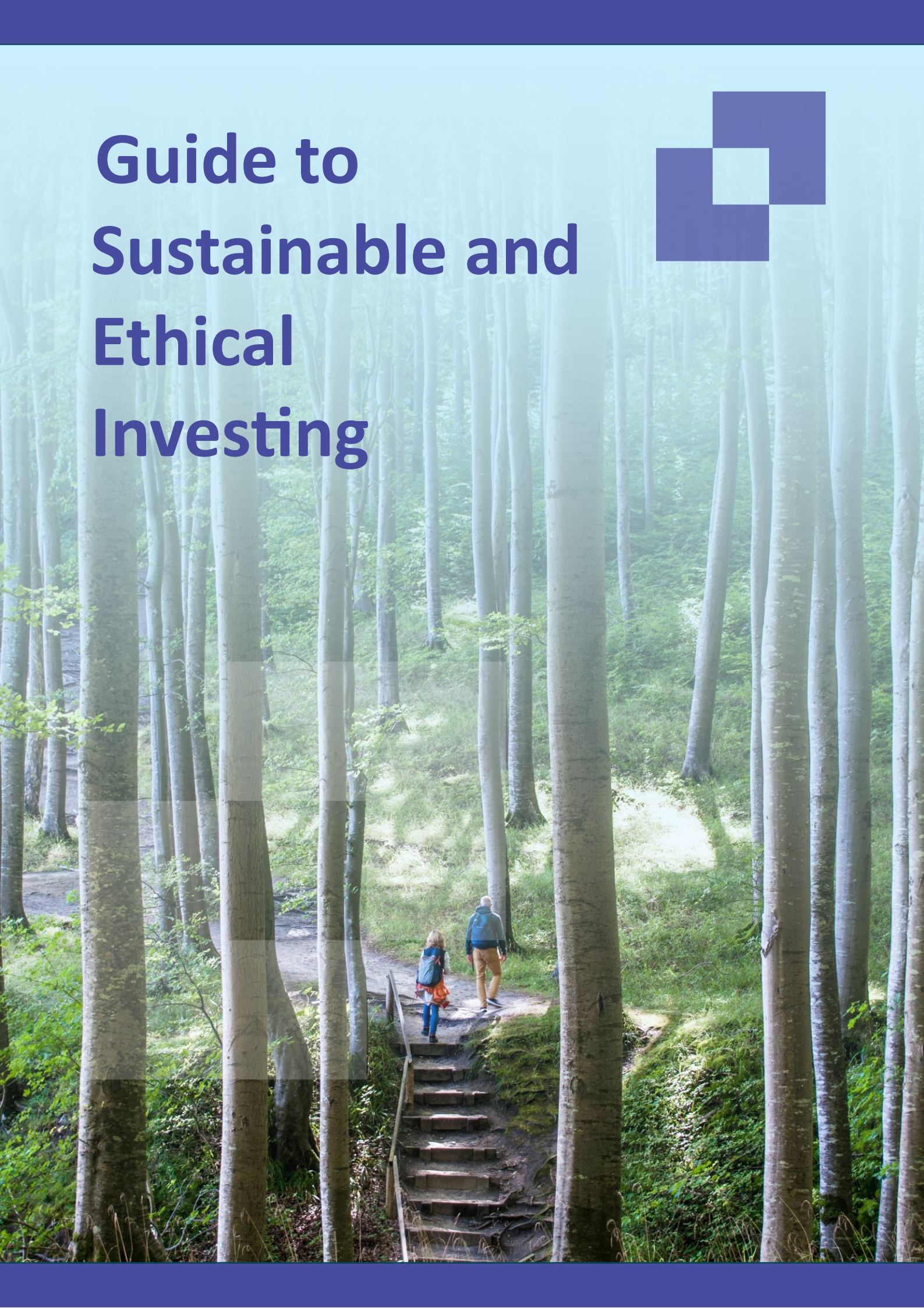


Guide to Sustainable and Ethical Investing



Sustainable and ethical investing has gained significant momentum, appealing to investors who want their portfolios to reflect their personal values while achieving long-term financial growth. At Clarity Wealth Limited, we recognise the importance of integrating environmental, social, and governance (ESG) considerations into your investment strategy and aligning your portfolio with your ethical priorities.

This guide explores the fundamentals of sustainable investing, challenges investors face when excluding specific companies, and how driving corporate governance at board level can contribute to meaningful change.





1. What is Sustainable and Ethical Investing?

Sustainable and ethical investing aims to align investments with an individual's values, often prioritising positive environmental, social, and governance (ESG) impacts. This approach encompasses various investment types, from green funds focused on renewable energy and low-carbon technologies to ethical funds that exclude companies with negative social or environmental impacts.

Types of Sustainable Investing:

- **ESG Investing:** Considers Environmental, Social, and Governance factors in the investment decision process. ESG scores can help assess companies on sustainability-related risks and their potential for long-term value creation.
- **Socially Responsible Investing (SRI):** Focuses on excluding companies that conflict with an investor's moral or ethical beliefs, such as industries involving fossil fuels, weapons, or tobacco.
- **Impact Investing:** Targets investments with the explicit aim of creating a measurable social or environmental impact, such as renewable energy projects or affordable housing.

2. Benefits of Sustainable Investing

Sustainable and ethical investing offers both personal and financial benefits. For many, knowing their investments are contributing to positive societal change provides peace of mind and a sense of purpose. On a financial level, companies that score highly on ESG metrics often have better risk management practices and can exhibit stronger long-term growth, especially as consumers and regulators increasingly favour sustainability-focused businesses.

3. Complications in Excluding Certain Companies

While excluding companies that do not align with an investor's values may seem straightforward, it can be complicated in practice. Here's why:

- **Complex Supply Chains:** Many companies operate within intricate supply chains. A company in an ESG-friendly industry, like electric vehicles, may still source materials from suppliers that have negative environmental or labour practices, making full exclusion difficult.
- **Subjective Criteria:** Investors may have different definitions of ethical behaviour, and companies vary in their approach to ESG issues. For instance, some investors might want to exclude all companies that engage in fossil fuel extraction, while others may support companies that are transitioning from fossil fuels to renewable energy.
- **Portfolio Diversification:** Excluding large segments of certain industries, such as oil and gas or mining, can limit diversification, potentially affecting risk and return. Investors need to balance exclusions with diversification to maintain a resilient portfolio

4. Active Engagement: Driving Corporate Governance

Excluding companies is not the only approach to ethical investing. Active engagement and proxy voting offer investors a way to influence companies directly, advocating for improvements in corporate governance at the board level.

Benefits of Active Engagement:

- **Driving Positive Change:** By holding shares in a company, investors can engage with its board to advocate for improvements in sustainability, diversity, and ethical practices. Shareholders can push for better environmental policies, labour practices, and governance structures.
- **Strengthening Transparency and Accountability:** When investors pressure companies to disclose ESG data and address ESG concerns, it increases accountability, making it easier for investors to assess and make informed decisions.
- **Encouraging Long-Term Value Creation:** Companies that adopt sustainable practices tend to have a more forward-looking approach to business, making them potentially stronger and more resilient in the long term.

At Clarity Wealth Limited, we encourage clients who hold shares in companies to exercise their voting rights and participate in shareholder advocacy. Supporting responsible governance practices can be a powerful tool for driving positive change without sacrificing access to investment opportunities.



5. ESG Ratings and Challenges in Comparison

Not all ESG ratings are created equal, and navigating the landscape of ratings can be challenging for investors:

- **Inconsistent Scoring Systems:** Different ESG rating agencies use varied scoring systems, making it difficult to compare companies' sustainability performance accurately.
- **Lack of Standardisation:** With no single regulatory body overseeing ESG disclosures, companies can choose what they report, leading to inconsistency and potential greenwashing (misleading claims about environmental practices).
- **Subjectivity and Bias:** ESG ratings may reflect the values and methodologies of rating agencies, leading to subjectivity. An investment with a high rating from one agency might receive a lower rating from another.

Our approach at Clarity Wealth Limited includes using multiple data sources and an in-depth analysis to help our clients make informed choices, selecting investments that truly align with their values.

6. Key Strategies for Building a Sustainable and Ethical Portfolio

At Clarity Wealth Limited, we focus on creating a tailored ethical investment plan that balances clients' values with financial goals. Here are some common strategies we may recommend:

- **Screening:** Positive screening involves selecting companies with high ESG standards, while negative screening excludes companies based on specified criteria. Clarity Wealth Limited works with clients to determine which screens align best with their values.
- **Thematic Investing:** This focuses on specific ESG themes, such as renewable energy, clean technology, or healthcare innovation. Thematic investments allow clients to support industries aligned with their personal values and long-term global trends.
- **Active Management and Engagement:** By working with fund managers focused on ESG principles, we ensure that your investments benefit from both skilled portfolio management and direct advocacy on sustainability issues.

7. Final Thoughts on Sustainable and Ethical Investing

Sustainable and ethical investing offers an opportunity to align your financial decisions with your personal values, potentially contributing to positive societal change while pursuing long-term growth. However, it requires a thoughtful and well-informed approach to address challenges around exclusions, rating inconsistencies, and corporate governance.

At Clarity Wealth Limited, we guide clients through the complexities of sustainable investing, helping them develop a portfolio that matches their ethical stance without compromising on financial goals. Whether you're just beginning your journey into sustainable investing or looking to refine your existing strategy, our experienced advisers are here to help you every step of the way.

This guide is for informational purposes only and does not constitute financial, legal, or investment advice. Sustainable and ethical investing involves various complex considerations, including subjective assessments of environmental, social, and governance (ESG) factors, which may not align universally across different rating agencies, industries, or individual investors.

The information provided does not guarantee specific investment results or that all ethical preferences can be fully accommodated in a diversified portfolio. Investing in ESG and sustainable funds may involve a trade-off with other investment objectives, including diversification and risk management.

We recommend consulting a qualified financial adviser before making any investment decisions to ensure they align with your individual goals, risk tolerance, and financial circumstances.