A discussion guide for charities – June 2018

Ethical investing & good governance

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We can support you

As shown, discussing and reviewing your charity's ethical investment approach can help manage and mitigate risk to your organisation and maintain its reputation.

At Aberdeen Standard Capital, we can help your organisation meet its financial goals and also align its investments with its underlying purposes. To find out more, please email us at **charities@aberdeenstandard.com**

This information should not be taken as financial advice. Law and tax rules may change in the future. The information here is based on our understanding in May 2016.

How does your charity board approach ethical investing?

For some of you, this may be a new discussion point. For others, you may want to take a fresh look at your organisation's investments and review your ethical policy. Likewise, if your organisation does not already take an ethical approach to investments, perhaps now is the time to consider whether your charity's purposes might require you to adopt one.

Framing your discussion

When considering ethical investments for your organisation, it is important to take a clear-headed view of good governance. So as a charity trustee, what are the key questions your board should be asking?

- **Could any of your investments conflict with the purposes of the charity?** For example, a cancer charity holding shares in a tobacco company would run directly against its goals.
- **Could beneficiaries decline help if they are uncomfortable with the source of your charity's income?** This could undermine the charity's operational ability to fulfil its purposes.
- **Could potential donors be alienated by certain investments?** Loss of donor support could result in financial detriment for a charity.

Given recent governance failures and negative press for some charities, acting in a way that helps to preserve your organisation's positive reputation is a critical part of a board's role.

Areas to consider

At Aberdeen Standard Capital, half of the investments we look after for charity clients include one or more ethical criteria. In our experience, the most frequently excluded sectors are:

- tobacco
- armaments
- alcohol
- gambling
- mining, oil and gas.

Climate change is a salient issue for trustees to consider, with experts suggesting that investment in carbon-intensive assets could be irreconcilable with charity purposes that focus on the environment, improving health or alleviating poverty. 'Stranded assets' are an additional concern and involve the financial risk of owning a mispriced asset. Should new regulations make it uneconomic or not permissible to extract coal, for example, then the asset (coal) becomes stranded, as its value can no longer be realised. Therefore, the share price of the company concerned will be affected.

The value of an investment is not guaranteed and can go down as well as up. An investor may get back less than they invested.

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GB-211218-79449-1

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