



# 'Sin' Stocks v Ethical Investing



The health of the planet is a major global issue.

The wealth of your pocket is a major personal issue.

Can you satisfy both demands?

The majority of funds have a remit to make a profit for their investors and as such, apart from certain guidelines relating to geographical areas or types of asset, there are no restrictions on how your money is invested.

In consequence many funds invest in what may be called 'sin stocks'. Sin stocks fall into four main areas - tobacco, gambling, defence and alcohol. Many leading companies have significant capital invested in these areas. The Table below shows the holdings of just a very few of these companies' funds:

Company	Fund See notes	Stock	% *	Fund Size (£m)	1 Year AGR	5 Year AGR**
Invesco Perpetual	Fund 1	Tobacco	19.29	5513	34.7%	12.4%
Fidelity	Fund 2	Tobacco	7.22	221	10.8%	5.8%
New Star	Fund 3	Defence	15.32	317	43.0%	n.a.
Framlington	Fund 4	Defence	13.29	797	37.0%	n.a.
Odey	Fund 5	Gambling	5.33	351	40.9%	15.6%
Jupiter	Fund 6	Gambling	4.69	303	55.8%	11.6%
Neptune	Fund 7	Alcohol	8.61	237	37.2%	n.a.
Schroder	Fund 8	Alcohol	6.18	291	30.1%	12.0%

Notes: \*% of 'sin' stock of the overall fund  
5 Year AGR is the annualised growth return over five years (all income re-invested).  
n.a. indicates the fund is less than 5 years old.  
These funds have been selected for no other reason than these Companies are 'household names'.  
Past performance is not a guide to future returns and performances are not guaranteed.  
**Due to FSA rules we are barred from printing actual fund names. If you want to know which fund invests in the areas mentioned please contact your RTIFA or telephone Geoff Pollock on 01285 886115.**  
Source: \* Morningstar 25.04.06 \*\* Standard & Pools 01.05.06

Of course, whether you judge these holdings as a 'sin stock' is a personal matter. On the one hand you may feel *Defence* is a major employer and a source of good for the world's safety and economy whilst thinking tobacco is a plague of greater consequence than the Black Death. Your view of course may be the exact opposite. Alternatively you may have positive beliefs about all of the above. One of the best performing US mutual funds in recent years has been the *Vice Fund* which, by investing solely in the four sectors above, has a 4-Star rating from Morningstar. With over \$50 million under management it has outperformed the Standard & Pools 500 Index by around 50% since its launch in August 2002 (source: Vice Fund 31.03.06) One sector that is not included in the above table is pharmaceuticals. A major holding in many UK Growth funds and Tracker funds is the giant pharmaceutical Glaxo Smith Kline, recently in the news due to its connections with Huntingdon Life Sciences. Many clients feel strongly enough about this issue to decide to invest in funds that exclude Glaxo Smith Kline. Similarly, bank deposit accounts exist that have ethical investment policies, so again one can avoid having an interest in a high street bank, where your personal interests may clash with their investment interests.

This is just a very short insight into the subject of 'Sin Stocks'. If you are interested in knowing what lies behind your investments why not ask your RTFP IFA? You can also find out what alternatives exist.

The growth of so called 'ethical' funds has been very fast in recent times. The idea goes back a long way. The very first 'ethical' unit trust was the *Stewardship* fund. This was launched by Friends Provident (whose origins were founded on Quaker beliefs) on 1<sup>st</sup> June 1984. Now part of the F&C (Foreign & Colonial) 'Stewardship' range, the fund is currently valued at £782 million (source: Standard & Pools, 01.05.06).

Since 1984 such funds have diversified, offering differing green credentials. Funds are typically described as ecological, ethical or socially responsible, with their investment criteria focusing on:

**Social** issues when, for example, a firm's approach to employment, health & safety, corporate governance, supply-chain management and community giving is paramount.

**Environmental** matters when, for example, pollution, climate change, mining, quarrying, nuclear power and chemical management are principal issues.

**Ethical** concerns, when alcohol, pornography, repressive regimes, animal testing, gambling and human rights are listed as important criteria.

As with many investment matters there are no clear borders, with funds having differing approaches to different matters. The only way to know whether your money is being invested in a way that suit your stance on such matters is to look at the underlying investments. Compromises may be necessary to one extent or another, but how is your pocket compromised? Below are the annual average returns over one, five and ten years for some of the leading companies' funds of this type.

Company	Fund See notes	Fund Size (£m)	1 Year AGR	5 Year AGR	10 Year AGR
F&C	Fund A	782	26.7%	4.1%	6.1%
F&C	Fund B	265	22.6%	10.3%	8.6%
CIS	Fund C	117	34.3%	2.1%	4.5%
Jupiter	Fund D	188	46.1%	0.1%	5.8%
Henderson	Fund E	219	39.3%	(2.5%)	2.7%
Norwich Union	Fund F	124	36.2%	3.4%	n.a.
Norwich Union	Fund G	22	38.9%	(2.1%)	n.a.
Credit Suisse	Fund H	87	28.7%	1.9%	3.9%
Old Mutual	Fund I	8	38.2%	4.1%	n.a.

Notes: 1/5 /10 Year AGR figures are the annualised return over 1/5/10 years (all income re-invested).  
n.a. indicates the fund is less than 10 years old.  
These funds have been selected for no other reason than these Companies are 'household names'.  
Past performance is not a guide to future returns and performances are not guaranteed.  
**Due to FSA rules we are barred from printing actual fund names. If you want to know which fund invests in the areas mentioned please contact your RT IFA or telephone Geoff Pollock on 01285 886115.**  
Source: Standard & Poors 01.05.06

As with the US *Vice Fund* referred to earlier, 'ethical' funds are restricted in their investment choice and so may suffer in investment returns. In consequence they are often more volatile than other funds operating without such restraints.

Block comparisons can be misleading. The role of the IFA is to sift the wheat from the chaff and one can point as easily to consistently good ethical funds as to poor mainstream funds and of course vice versa. *It is all a matter of personal choice!*

For further information contact your RTFP IFA on 01285 886111 or look at the following websites:  
[www.uksif.org](http://www.uksif.org) , or [www.eiris.org](http://www.eiris.org).

**Geoff Pollock, June 2006**

RT Financial Planners LLP  
2-4 Park Street, Cirencester, Gloucestershire, GL7 2BN 01285 886111  
fax: 01285 886149  
[www.rtfp.co.uk](http://www.rtfp.co.uk)  
RT Financial Planners LLP is an Appointed Representative of Sesame Limited

