

# Parmenion Ethical Portfolio Selector

## What is ethical investment?

At its core 'ethical investment' is a range of investment styles which go beyond simple financial returns to incorporate a client's Environmental, Social and Governance (ESG) concerns and their ethical values into the investment process. This area is also often referred to as Sustainable and Responsible Investment (SRI).

## Selecting the right ethical portfolio for you

As the ethical market has grown, the range of styles and approaches to investment has developed too. Although avoidance of specific industries and issues remains an important element of traditional ethical investing, there are an increasing number of funds which adopt positive selection criteria or follow broader themes such as climate change and sustainability. Many funds may also engage with companies to encourage better environmental, social or governance standards.

Where the emphasis is placed between the positive and negative characteristics depends upon the approach and the ethical policies adopted by the fund manager. The Parmenion ethical portfolios are unique in reflecting these different styles.

The Parmenion Ethical Portfolio Selector is therefore designed to help you to identify the option that best suits your personal views. There are four Ethical Profiles (A-D) available, which collectively aim to offer a cross-section of the ethical/SRI market. Ethical Profiles A and B are more positively orientated whilst Ethical Profiles C and D offer more extensive avoidance screening. It is important that you read the following text carefully to ensure the Ethical Profile selected is right for you.

## Choosing between the 40 portfolios available

Funds within Ethical Profiles A and B focus on companies which demonstrate strong corporate governance (responsible management) and sound business responses to environmental and social issues (sustainability). Funds within Ethical Profiles C and D place a greater emphasis on avoiding controversial businesses and activities (ethical values). These approaches, whilst fundamentally different in style, also overlap as illustrated in Figure 1 below.



There are 40 risk graded portfolios (1-10) available for each Ethical Profile to align with your individual tolerance for risk and capacity for loss. A Risk Profile Questionnaire (RPQ) should be completed in addition to this document to assist you in this process. This document is designed to help you find the approach which aligns with your values and how you want your money to be invested.

## Ethical Profile A – Responsible Leaders

Funds in this portfolio invest in companies that are good corporate citizens - setting the standards in business management. These companies are selected for their good corporate governance and business responses to environmental and social issues. Funds will invest widely across most business sectors, typically focusing on positive company behaviours rather than exclusions.

### Investment focus

- ✓ Focuses on companies that take a responsible approach to a wide range of environmental, social and governance issues.
- ✓ Aims to encourage positive company behaviour through engagement with senior management and responsible voting practices.
- ✓ No specific negative screens but funds selected are likely to be underweight in the specified areas as a result of their more positively orientated approach.

### Limits exposure to

- ✗ Armaments
- ✗ Pornography production
- ✗ Animal testing (non-medical)
- ✗ Human rights abuse
- ✗ Tobacco production

## Ethical Profile B – Sustainability Leaders

This portfolio invests in businesses which help to address environmental & social challenges. This goes beyond green technology to incorporate products and services that help us transition to more sustainable lifestyles. Funds selected will mainly use positive, solutions based investment themes; investing in sectors such as energy, healthcare, transport, water & waste.

### Investment focus

- ✓ Focuses on companies that offer products and services that help reduce the negative impact of our lifestyles on the environment and society.
- ✓ Aims to support companies with leading sustainability practices and may encourage improved behaviour through engagement with senior management and responsible voting practices.
- ✓ No specific negative screens but funds selected are likely to be underweight in the specified areas as a result of their more positively orientated approach.

### Limits exposure to

- ✗ Armaments
- ✗ Pornography production
- ✗ Animal testing (non-medical)
- ✗ Human rights abuse
- ✗ Tobacco production
- ✗ Environmental damage

## Ethical Profile C – Ethical Leaders

This portfolio represents a balanced approach to values based investing. It invests in funds that combine positive environmental and social investment themes with extensive negative screening criteria. Funds will invest across a wide range of business types, including 'best in sector' companies that can help to deliver positive social or environmental benefits.

### Investment focus

- ✓ Aims to balance the 'pros and cons' of investment opportunities and select only those which are considered to meet stringent ethical criteria.
- ✓ May encourage positive company behaviour through engagement with senior management and responsible voting practices, wherever possible.
- ✓ Included funds must meet specified avoidance criteria.

### Aims to avoid

- ✗ Armaments
- ✗ Pornography production
- ✗ Animal testing (non-medical)
- ✗ Human rights abuse
- ✗ Tobacco production
- ✗ Environmental damage
- ✗ Gambling

## Ethical Profile D – Traditional Ethical Leaders

This portfolio represents a traditional approach to ethical investment with the emphasis on avoidance of controversial businesses and activities. The funds in this portfolio use the strongest set of ethical, social and environmental avoidance criteria available when making investment decisions and many will have screens beyond those listed below.

### Investment focus

- ✓ Strict avoidance based strategy.
- ✓ May encourage positive company behaviour through engagement with senior management and responsible voting practices, wherever possible.
- ✓ Included funds must meet an extensive range of specified avoidance criteria.

### Aims to avoid

- ✗ Armaments
- ✗ Pornography production
- ✗ Animal testing (non-medical)
- ✗ Human rights abuse
- ✗ Tobacco production
- ✗ Environmental damage
- ✗ Gambling
- ✗ Alcohol production
- ✗ Nuclear power

## Important notes

It is the responsibility of the Ethical Oversight Committee (EOC) to determine which funds are eligible within each Ethical Profile. Funds are monitored on a continual basis to ensure they continue to meet the specified ethical criteria.

Ethical Profiles A and B have no specific negative screens, but exposure to controversial sectors is likely to be limited by the responsible approach to environmental, social and governance issues adopted in Ethical Profiles A and B.

Ethical Profiles C and D only invest in funds which include the specified ethical criteria, as defined by the EOC.

## Client declaration

I have read the above statements and confirm that my preferred ethical grade is correctly specified below. I understand that there may be infrequent variances to criteria over time as a result of changes in underlying fund policies and on-going ethical issues.

**Agreed Ethical Profile(s)**

**Client name(s)**

**Client signature(s)**

## Glossary of terms

Definitions are included below for some of the commonly used industry terms included within this document. If you require further information on any of the criteria specified then please contact us for further information.

**Ethical** - a values based approach to investing. It seeks to balance an objective for investment returns with consideration of how that return is made. In addition to 'moral' issues, such as arms, alcohol and pornography, the definition has been extended to include environmental, social and governance concerns (often referred to as ESG).

**Responsible** - reflects the behaviour of businesses as 'corporate citizens', taking into account, not only their ability to meet legal and regulatory obligations, but the extent to which they act as leaders in establishing best practice.

**Social** - a social issue refers to something that impacts on or influences a considerable number of individuals within a society. This might include issues such as human rights, employment practices, health or welfare. Funds may assess businesses against international standards and norms on these issues.

**Sustainability** - based on the principle that everything we need for our survival and well-being depends, either directly or indirectly, on our natural environment. Sustainable investing, therefore seeks to balance the drive for economic growth with minimising impact on future generations. Sustainable investments therefore look at how businesses help with management of resources, and contribute to wider health and well-being.

**Governance** - considers the extent to which a company is a good corporate citizen. This relates not only to having policies for all aspects of its business conduct; but includes the firms transparency, ongoing monitoring on the effectiveness and remuneration of senior management. This helps to identify those businesses that understand how their activities can impact on, not only immediate stakeholders, but the wider environment and society as well.

## Get in touch

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