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# The History of Ethical Investment

## Origins of Ethical Investment

The concept of 'ethical investment' is thought to have originated with the Quakers in 18th century Philadelphia, USA – at the annual meeting in 1750, members were explicitly prohibited from participating in the buying and selling of slaves.

Early proponents of ethical investment came predominately from religious institutions such as the Methodists. John Wesley, one of its founding members, preached in his sermon "The use of Money" (1872) of the benefits of avoiding businesses that manufacture dangerous materials or cause harm to humans claiming: "it is quite wrong to make a living from selling those things which would harm a neighbour's health". The trend started to spread as more religious organisations, charities and individuals began to consider ethical criteria when making investment decisions.

## Modern Day Ethical Investment

In more modern times, the concept of ethical investment evolved with the political climate of the 1960's. It was brought to the forefront of investor consciousness by Dr Martin Luther King who managed various economic development projects, incorporating boycotts and action targeted at large corporations, which later provided a model for ethical investment initiatives.

Ethical Investment was thrust into the spotlight once again at the time of the Vietnam War, during which chemical manufacturers, such as Dow Chemical, produced napalm and were found to be profiting from warfare. In 1971, US citizens who were opposed to financially supporting military action in Vietnam invested in the world's first retail ethical fund, the Pax Fund.

According to the UK Sustainable Investment and Finance Association (UKSIF), the rise of ethical investment can be closely aligned with major societal shifts in the last third of the 21st century, particularly the growth of key social movements for the environment, human and animal rights. Major economic trends such as the increasing financial independence of women and young people, the growth of employment in the voluntary sector, the emerging power of multinationals, and the large increase in share ownership by unit trusts, pension funds and insurance companies, have all helped to drive ethical investment forward. Given that these factors are unlikely to abate anytime soon, ethical investment looks to be a rapidly expanding movement with a powerful future.

In 1983 EIRIS was established as the UK's first independent research service for ethical investors. The UK's first ethical fund followed in 1984 in the form of the Friends Provident Stewardship Fund whose investment criteria specified excluding tobacco, arms, alcohol and oppressive regimes. The fund was initially dubbed 'the Brazil fund' by the city, as they viewed the concept as "nuts". Since then, however, the ethical investment landscape has changed considerably. There is now around £9 billion invested in over 100 ethical funds in the UK – a decade ago there was just a handful.

Ethical investment now manifests itself through a number of Sustainable and Responsible Investment (SRI) strategies, including those that utilise general exclusions and negative screening, or norms-based screens which involve assessing each company against specific standards of ESG criteria. Both strategies continue to grow at a rapid pace, faster than that of the broad European asset management market; investment strategies incorporating some form of exclusion criteria now cover around 41 per cent of European professionally managed assets.