



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

McInroy & Wood - Ethical principles in practice

The acid test for ethical conduct in business, as in life, is whether it can be seen to make a difference for the better; whether ethical standards professed really improve things in practice. If a claim to uphold ethical principles cannot prove itself in the field of hard choices, tough decisions, and personal sacrifice, it won't be worth much.

Ethical investing will never contribute much to business life if its adherents require of others standards they do not uphold themselves. The voice of an investing institution will not be heard if it indulges its own irresponsibilities while complaining about those of others. Such inconsistencies convince us that the goal of ethical conduct must be pursued as strenuously within internal areas where one has direct personal responsibility as in external ones where the conduct of others can only be examined objectively and at a distance. Ethical conduct can have no boundaries.

Nor can it be cooked up by recipe or evidenced by observance of some formulaic code. It reveals itself in an attitude of mind and a readiness to pull against the tug of self-interest.

Ethical investing sometimes seeks to justify itself by keeping the enemy out: by distancing itself from, for example, tainted profits (of tobacco companies or arms manufacturers), by disengaging from contact with oppressive regimes or whatever else carries a whiff of human fallibility. Yet high-minded detachment, for all that it sends useful signals about the bounds of acceptable business practice, often fails to stand up to logical scrutiny. Where in the supply chain does responsibility for the manufacture of arms cease? At the point of manufacture, with the components supplier or with the metals producer? Is a huge company, with a small but vital operation in a country with a questionable regime, less culpable than a small one whose entire production is sited there? What is one to make of the drinks trade when there is evidence to suggest that alcohol, in moderation, can be good for you?

Investment sanctions may help support an ethical framework but they are insufficient because, like economic sanctions, they are often ineffectual. They may not make a real difference.

MW has given careful thought to these matters and for more than a quarter of a century our whole approach to ethical issues has been based on consideration of how best we could make a difference to the world in which we practise. Our policy is unchanged from that we published in May 2009, and consists of several closely connected strands.

First we believe that force of argument and the power of the written word can be brought to bear with powerful effect on ethical issues. A firm such as ours keeps contact with a wide circle of conscientious and sensitive readers. Many are keenly alert to ethical investment issues. Over many years we have sought to lay before them short essays, either directly or through professional periodicals. These have addressed many ethical concerns including "short-termism" in business; ecological conflicts; the responsibilities of institutional investors; co-operation as a basis for prosperity; the natural limits to growth; striking a fair balance in reward differentials; and ethical dilemmas in investing. The entire series is contained in our book "Grown from home" published in 2013. It is available upon request.

Secondly, we have tried to apply ethical principles to the conduct of our own business affairs. That effort has been expressed by, for example maintaining equitable and sustainable compensation policies across all our employees; by involving all staff in regular discussion of the firm's affairs; and by active support for the local community which supports us and by joining in its charitable work.

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Thirdly we have made specific ethical concerns known to company executives, for example over the exploitative marketing of alcopops, and the unjustifiable remuneration of directors. Although generally we prefer to influence conduct as active and concerned shareholders, we have on occasion disengaged from companies because of a particular concern (exploitative baby-food marketing).

Fourthly, we strive to make financial regulation more effective, particularly when it bears upon the exploitation of the most vulnerable.

Fifthly, we try hard to treat our customers honourably and fairly, and in particular to avoid potential conflicts of interest, for example acceptance of remuneration generated solely by discretionary transactions. In preserving our genuine independence, we believe we are better placed to avoid such conflicts.

Ethical conduct and social responsibility are simply different aspects of the same issue. They need to be considered together.

The results of our endeavour can't be directly quantified in the world outside and, at first glance, that shortcoming might cast doubt on its practical worth. But shaping a culture, changing attitudes, is a gradual process. What can already be directly attributed to our efforts is the appreciation of our clients and friends. Their goodwill evidences a respect for the principles we have tried to apply. Undoubtedly it has assisted the growth of our practice and in that sense treating clients well has brought material rewards. We have much to be grateful for. But approbation reinforces our efforts only insofar as it strengthens a conviction that they are worthwhile for their own sake.

In summary, we see our responsibility for our internal conduct, our interactions with society and our contribution to good practice within the financial community not as ancillary obligations, sidelined to a separate compartment, but an integral concern that should lie at the heart of our thinking. It does so and we believe the evidence supports that claim.

If despite all our own stumbles, inadequacies, failures, omissions and inconsistencies those efforts are making some difference to those whose lives touch ours, we feel entitled to conclude that we are working on the right lines.

Summary

1. ethical considerations govern all we try to do – externally and internally. Ethical conduct has no boundaries
2. ethical principles express an attitude of mind, not a code; their worth lies in changed behaviour, not lip-service paid to ritual observance
3. ethical conduct affects our relationship with companies, our relationship with our clients, and the conduct of our internal affairs
4. we have discussed and written about our ethical concerns publicly for 30 years
5. we avoid conflicts of interest with our clients
6. we seek to improve client protection through better financial regulation and contribute to the regulator's discussions about such matters
7. we try to uphold the worth of ethical conduct for its own sake
8. we recognise the many shortcomings of our efforts to uphold ethical principles, but are encouraged by the appreciation of clients and friends to strive further to express them in ways that make a real difference

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