Published October 2017

The Good Investment Review

#FindingGood

3D investing
Powered by Ethical Money

GOOD WITH MONEY
MORE MONEY, FEWER PROBLEMS

Contents

About Good With Money

Good With Money publishes news, views and information about how to make more positive, impactful choices with money.

The site was founded by Becky O'Connor and Lisa Stanley in October 2015 to improve the availability of information about what financial services companies do with our money and increase the demand for more responsible products.

It launched the Good Egg, the UK's first responsible money mark, in May 2017 and has a directory of firms that are making a positive impact for the environment and society, as well as for customers.

About 3D Investing

3D investing is a distinctive investment approach that seeks to maximise the social impact of a portfolio, while minimising exposure to ethical controversies and delivering on financial expectations. Its mantra is "do good, avoid harm and make money".

3D aims is to help investors, advisers and managers to identify and manage investments to achieve these aims. It also aims to demonstrate the social impact of investments in a transparent and systematic manner so that investors can see exactly how well their aims are being delivered.

3D Investing is an evidence-based approach that analyses the constituent holdings of every investment, so investors can be confident that their money is being used in a way that really does make a positive difference whilst meeting their financial needs. This approach means that, not only can investors be assured of successful financial outcomes, they can be equally confident in maximising the social impact of their portfolio.

It has analysed every fund registered for sale in the UK that has some form of ethical, sustainability or environmental and social governance (ESG) mandate and this analysis forms the basis of this review.

3D attributes a star rating to each fund as a short-hand for identifying the 'best' funds according to the 3D Investing criteria. The best funds in each sector form the basis of the 3D Portfolio, a shortlist of funds approved for use in managed portfolios that truly "do good, avoid harm and make money".

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#FindingGood

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By John Fleetwood,
founder and director of 3D Investing

Welcome to the second edition of the Good Investment Review. Since the last issue, the industry has continued to evolve, as has our research, and this is reflected in this review. The review provides an overview of the sustainable and ethical investment industry as well as insight into specific sectors. In this issue, we focus on UK Sterling bond funds, one of the main building blocks for balanced portfolios.

We also have great pleasure in presenting the results of the Pennine Wealth Solutions survey into investor appetite for positive investing (page 10). The disparity between the demand for positive investments according to investors and advisers' perception of demand is stark, so Pennine Wealth's initiative to demonstrate investor demand to advisers is especially welcome.

WHEB Asset Management also considers the knotty problem of pricing when social impact potentially conflicts with profitability.

We've posed questions to Triodos Investment Management, Liontrust and Rathbones to get a better understanding of how they run their funds.

I trust that you will find the review informative and useful.

John Fleetwood
John Fleetwood, 3D Investing Founder

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About the 3D Universe

£96 Billion AUM
196 Funds

About the 3D Universe

£96 billion assets under management in the 3D universe of sustainable and ethical funds. This represents an increase of £10 billion since the last review (+11 per cent), mostly due to organic growth in the existing funds under management.

196 funds in the 3D fund universe which are registered for sale in the UK to retail investors as OEICs, unit trusts, investment companies or SICAVs. The number of funds has remained static with new funds replacing funds that are no longer included in the 3D universe.

A number of funds were removed when it became clear that they were not widely available for UK retail investors. These include the JAR Sustainable Bond, MarketVectors Global Alternative Energy, Market Vectors Solar Energy, MarketVectors Environmental Services, Powershares Global Clean Energy and Powershares Global Water ETFs. Similarly the Impax Food & Agriculture Fund is no longer open to retail investors. The Allianz Global Ecotrends Fund has been closed and the Phaunos Timber, Ludgate Environmental and Leaf Clean Energy funds are all in the process of being liquidated.

At the same time there has been a steady flow of new issuances, largely due to the growth in popularity of infrastructure as an asset class and especially in the social housing space. In the current financial climate, housing associations struggle to secure finance to provide enough homes to satisfy demand for affordable and social housing. Civitas became the first fund to meet this need earlier this year, buying homes to lease to housing associations and thereby releasing capital for new developments. Since then, Triple Point Social Housing has followed Civitas' lead, focusing on homes for those with special needs.

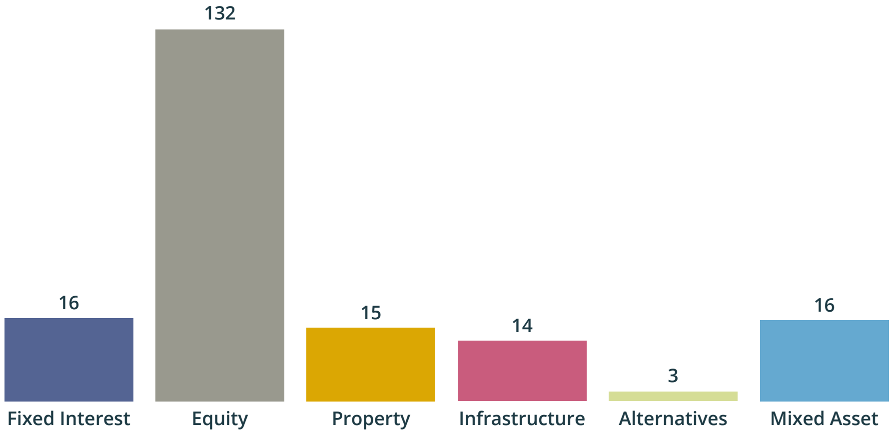
Impact Healthcare also raised £160 million to invest in a portfolio of long term care properties, following the lead of the Target Healthcare REIT whose market capitalisation now stands at around £300 million, having raised further capital to extend its portfolio.

Demonstrating the ongoing strength of the renewables market, Greencoat Renewables raised £200 million to purchase windfarms in Ireland.

We've also added two healthcare funds. We are wary of general healthcare funds with their attendant ESG issues, but we've added two funds that invest in unlisted securities. These provide capital for the successful commercialisation of new drugs and treatments that address life threatening diseases. Syncona is an investment company that largely consists of hedge funds alongside a portfolio of life science stocks. The intention is to move the majority to investment in the life science portfolio over time. Likewise, the high profile Woodford Patient Capital Trust invests in early stage technology companies, mainly in the life sciences sector. Although this fund has no ethical constraints, it does exhibit a high level of transparency and provides funding for new medical solutions.

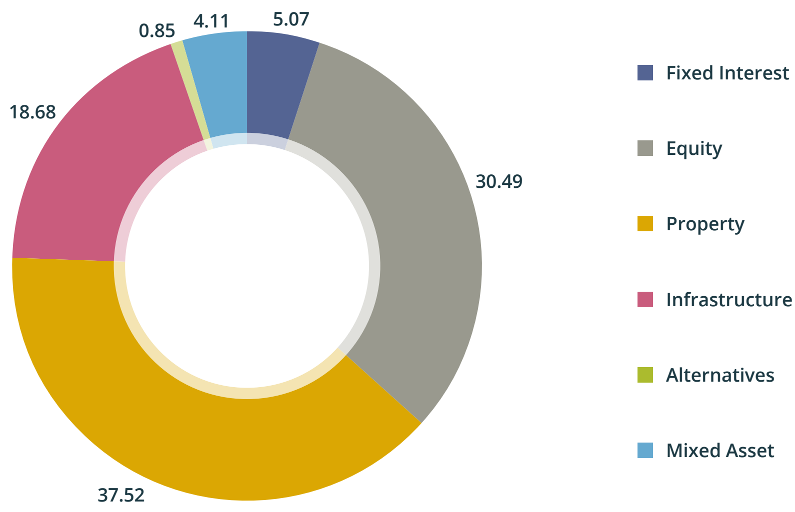
Finally, F&C launched the F&C Responsible Global Emerging Markets Fund earlier in the year. Although the fund exhibits clear evidence of ESG management and good reporting of how it manages ESG issues, the fund nevertheless invests in stocks that have a significant negative social impact.

Most of the funds are invested in equity, but there are a significant number of fixed interest, property and infrastructure funds, as well as mixed asset funds.



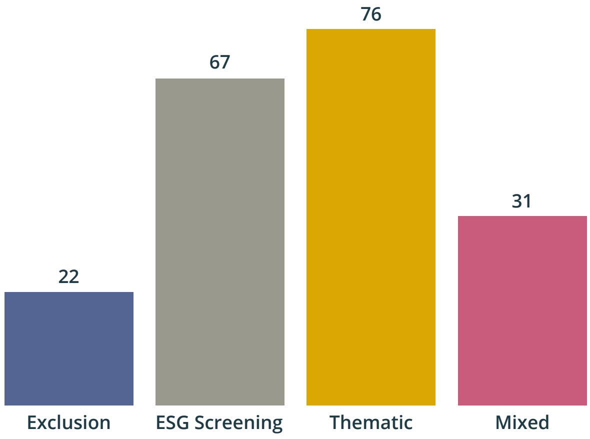
Fund Distribution by No. of funds in Asset Class

Most interestingly, the picture looks quite different if the analysis looks at assets under management rather than number of funds. Although there are relatively few sustainable funds investing in real estate and infrastructure when compared with equities, they represent a much more important component of the whole universe when considered by size of funds.



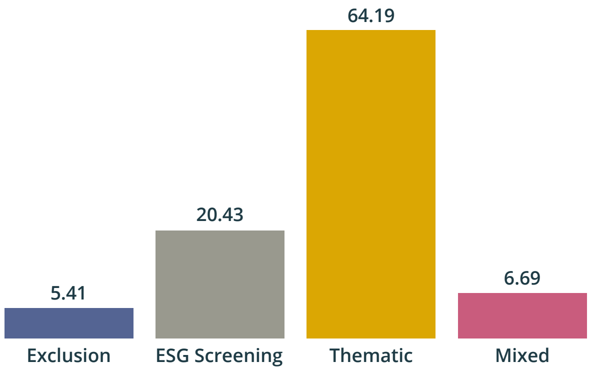
3D Fund distribution by Asset Class (AUM £billion)

Similarly when looking at the overall approach taken by funds, there is a major difference depending on whether one looks at numbers of funds or assets under management. Judged by number of funds, there is a fairly even spread of approaches.



Fund distribution by approach (No. of funds)*

If one looks at assets under management, thematic approaches dominate, reflecting the growth in specialist infrastructure and real estate trusts as well as thematic equity funds.



Fund distribution by approach (AUM £billion)

* Approaches: **Exclusion** – avoiding companies on the basis of pre-determined ethical criteria. **ESG Screening** – consideration of Environmental and Social Governance in assessing companies. **Thematic** – focus on investment in environmental or social themes

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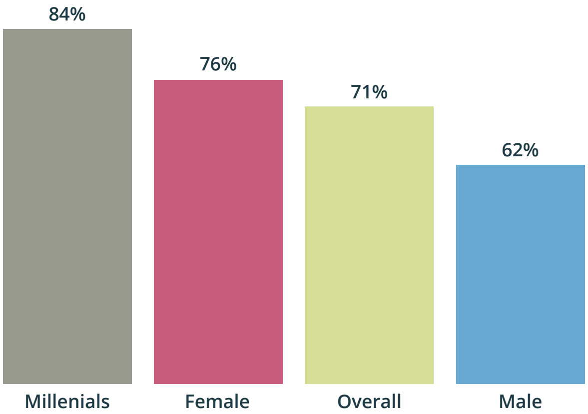
Bridging the divide – demonstrating demand to IFAs

Bridging the divide – demonstrating demand to IFAs

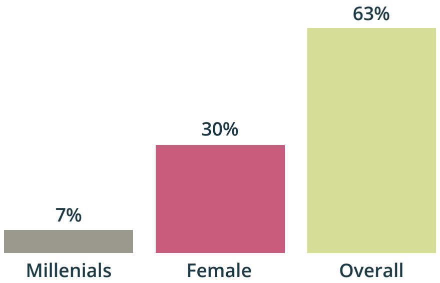
Public surveys have repeatedly shown a high level of interest in positive and sustainable investing, yet the actual take-up has remained stubbornly below the purported demand. There are a number of contributing factors, but low adviser interest is undoubtedly one of them. The contrast is marked: According to Morgan Stanley, over two thirds of investors have an interest in sustainable investing, whilst Cerulli Associates reported adviser interest at half this level.

Investor interest in sustainable investments



Source: *Morgan Stanley Institute for Sustainable Investing*

Adviser interest in sustainable investments



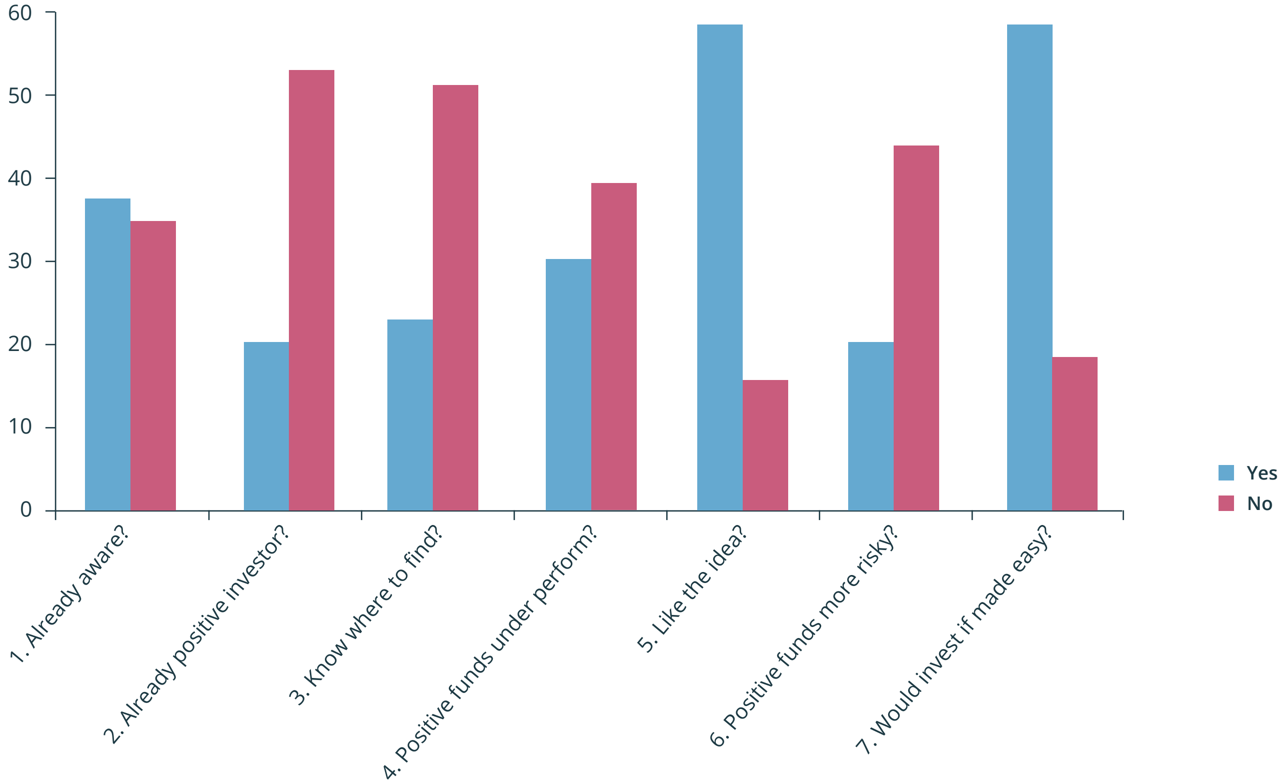
Source: *Cerulli Associates*

Source: *Cordes Foundation, 28 December 2015*

This isn't entirely surprising whilst strong misconceptions about the market persist and in particular, a pervading view that values led investing is still about negative exclusion. The market has become increasingly complex and unless advisers have a personal interest in the area, positive investing is not likely to be viewed favourably.

Discretionary Fund Manager, Pennine Wealth Solutions (PWS), is attempting to address this blockage to wider uptake of positive impact investments. PWS has created a brief survey for advisers to send to their clients to demonstrate their belief that their clients would like advice on these types of investments. Once advisers have a mandate from their own clients to provide advice on positive investments, they are know that there is a clear requirement to offer a service that meets this demand. And of course, PWS has a solution in the form of the Positive Portfolios!

The survey is in its early stages, but the initial results are encouraging. Three general advisers with no previous experience in ethical or sustainable investing sent the survey to 167 clients, of whom 72 (43%) responded. The average age of respondents was just over 60, with the vast majority in the age range 50-70. Given the greater propensity amongst younger people to invest sustainably, it can be expected that the results would be even more supportive were a wider age range surveyed. Despite this and the small sample size, the results are highly indicative of the latent demand amongst 'ordinary' clients of generalist advisers.



Pennine Wealth Solutions Survey summary, August 2017

It can be seen that, amongst this population of general investors, 76 per cent of those that responded like the idea of positive investing. This equates to 32.9 per cent of all who were surveyed.

Encouragingly for advisers, most investors did not know how to get information on positive investing and even where investors had heard of it, the majority didn't know how to access them. Several who said 'yes' noted that they presumed it would be their adviser who would guide / educate them. Most tellingly, 58 per cent of respondents said that they would invest positively if the process was made straightforward. Again, this is something that a dvisers can offer in a value-added process, especially if model portfolios are used.

> *"58 per cent of respondents said they would invest positively if the process was made straightforward."*

Jon Neale, IFA at True Bearing was delighted to be asked if his clients could be surveyed about their views on Social Impact Investing, and was intrigued to learn the results because his clients are not typical impact investors, being general investors across a broad age range. Jon says, "The survey was sent to all of my clients and I was pleasantly surprised with the high level of engagement and the number of my clients who took time to complete the survey. The results show that a large percentage of my clients who took part in the survey are interested in positive investing and several have asked me to contact them to discuss Social Impact Investing in more detail. So its a good outcome for both my clients and myself."

Senior partner at PWS, George Critchley, said that "Many advisers are not in touch with how their clients feel about investing for positive social impact. This survey provides an opportunity for advisers to engage with their clients and to develop a new area of business that is good for everyone".

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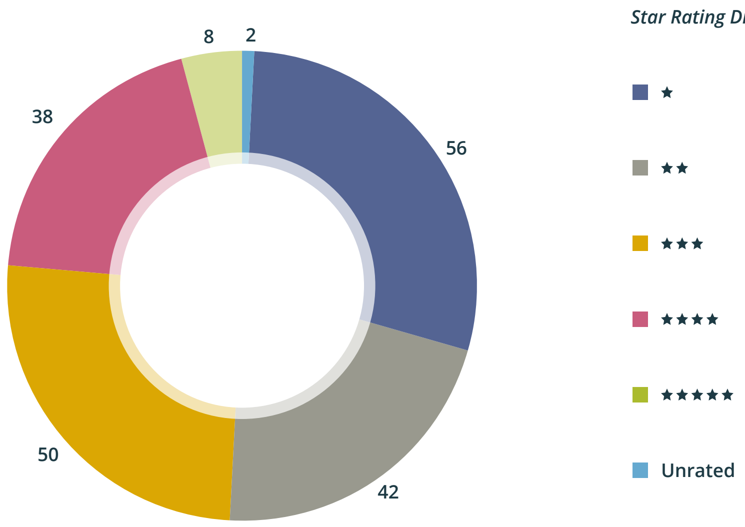
3D Star Ratings

“A three-star rating is far from average and in fact means the fund is likely to be amongst the best in its sector.”

Given the increasing complexity and extent of the ethical/sustainable investment market, 3D Investing has developed the 3D Star Ratings to facilitate quick and easy identification of the best funds that make a positive social impact, avoid ethical controversies and deliver decent financial returns. These ratings are designed to be demanding, so a three-star rating is far from average and in fact means the fund is likely to be amongst the best in its sector. A five-star rating is reserved for the very best funds and is an aspirational standard.

2.48

2.48 average 3D star rating. The distribution of funds reflects the discriminating approach with half of all funds in the universe being rated two stars or less, with positives outweighing negatives for the remainder. This includes infrastructure and specialist real estate funds which tend to have a relatively high rating by virtue of their focus on assets with a positive social impact. Funds falling out of the universe also tend to have a low rating and this means that over time, the overall rating is likely to rise.



What the Ratings Mean

The fund is a real pioneer in the industry. It has delivered financial returns in line with expectations, excellent levels of transparency, a high social impact and is not exposed to ethically controversial companies.

The fund carries a high level of conviction for the same reasons as five star funds, but with a relative weakness in impact, transparency, or sustainability management.

The fund is positively rated where the advantages outweigh the disadvantages, and where the fund might be considered for inclusion in the 3D Portfolio.

The fund may be worth considering, but there are significant weaknesses in terms of financial track record, social impact or avoidance of ethical controversy.

The fund is negatively rated because of major concerns over its financial track record or stock selection that fundamentally undermines our confidence in the fund.

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Recent developments in Environmental Markets

Recent developments in Environmental Markets

By Jon Forster, Co-manager of Impax Environmental Markets

At Impax we conduct our own proprietary research, which includes visiting the facilities of the companies in which we invest and meeting their managers. In doing so recently, we have identified three compelling developments in Environmental Markets.

1. Electrification of transport systems

We have seen announcements for high speed and metro rail developments across the globe, including India's $50 billion railway corridor project and a multitude of routes throughout Africa, often driven by Chinese funding and the use of Chinese equipment, construction, and operations expertise.

The electrification of transport involves more than rail. Many economies (China and India in particular) are pushing for more use of electric vehicles (EV). Generous incentives for manufacturers and consumers aim to help achieve this goal, and the cost of EV technology is falling. In 2016 there was a 45% increase in EV sales year-on-year globally[1], and this trend looks set to continue.

2. LEDs and next generation "connected" lighting

Light emitting diodes ("LED") lighting markets are expanding at 15-20% a year[2], driven by energy efficiency regulations that are leading to the phasing out of incandescent and halogen lighting, and the falling costs of technology. However, LED penetration is still low at around 5% but is expected to grow to 20% by 2020[3], creating a significant investment opportunity.

We also believe that there is huge potential for "connected" lighting, which adds sensors to lighting infrastructure to collect, analyse and use data. Examples of applications include automated dimming, tracking of machinery or assets in a factory and targeted marketing to customers in retail environments.

3. Water in the era of the "Internet of Things" and "Big Data"

Technological advances are changing the ways in which water is managed and used. Advanced metering solutions are growing at nearly twice the rate of traditional water meters. This growth reflects strong support from utilities, which are adding smart meters to their asset base on which they earn a regulated return, while also reducing their operating costs.

Longer term, we believe that utilities will focus on more effective management of their infrastructure, particularly reducing leakage rates and avoiding catastrophic failures through improved integration of sensors and monitoring technology.

Finally, smart pump technology is developing rapidly, including the launch of waste water pumping systems with integrated intelligence. These systems can adapt performance in real time and provide feedback to pumping station operators, increasing efficiency and reliability.

Investment opportunities

With our deep research process and expertise, and our focus on environmental solutions providers, investors can be assured that Impax will always be seeking companies set to benefit from the transition to a lower carbon and more sustainable global economy.

Notes to Editors - About Impax Asset Management
Impax Asset Management manages or advises on approximately £7.2 bn[1] in both listed and private equity strategies primarily for institutional clients.

The Company's investments are based on the strong conviction that population dynamics, resource scarcity, inadequate infrastructure and environmental constraints will profoundly shape global markets, creating investment risks and opportunities. Impax expects that these trends, reflecting the transition towards a more sustainable global economy, will drive earnings growth for well-positioned companies. Impax's proprietary investment framework identifies and calibrates the rising risks and expanding opportunities from this transition, and guides the search for investments that will deliver long term outperformance.

1. As of 31 August 2017

Issued in the UK by Impax Asset Management Group plc, whose shares are quoted on AIM. Impax Asset Management Group plc is registered in England & Wales, number 03262305. AUM relates to Impax Asset Management Limited and Impax Asset Management (AIFM) Limited. Both companies are authorised and regulated by the Financial Conduct Authority and are wholly owned subsidiaries of Impax Asset Management Group plc. Please note that the information provided and links from it should not be relied upon for investment purposes. For further information please visit www.impaxam.com.

1. www.liberum.com
2. ftp://ftp.panasonic.com/whitepaper/ledvideomarketstudy_whitepaper.pdf
3. https://www.alliedmarketresearch.com/press-release/global-LED-market-is-expected-to-reach-42-7-billion-by-2020-allied-market-research.html

7↑

7 funds have been upgraded, following a re-assessment of portfolios. The NextEnergy Solar Fund has been upgraded to five stars by virtue of the incorporation of carbon impact data and ESG management in its annual report. Two US REITS – Ventas and the Medical Properties Trust – have been upgraded to four stars to reflect their social impact. European fund manager Mirova has two of its funds upgraded – the Mirova Europe Environmental Equity fund to four stars and the Mirova Europe Sustainable Equity fund to three stars. The former rates relatively highly in its sector in terms of social impact, whilst Mirova demonstarates excellent ESG management, underpinning their positive ratings. The GCP Infrastructure fund has also been awarded a four-star rating, reflecting its wholesale focus on social and environmental infrastructure. Finally, the Parvest Climate Impact Fund has been awarded four stars on the basis of its overwhelming positive impact.

6↓

6 funds have been downgraded. These include Assura (now four stars as it no longer produces a social impact report) and Jupiter Green Investment Trust (falls from four to three stars due to weak performance). The JSS Sustainable Equity Europe, JSS Sustainable Equity Global, JSS Sustainable Portfolio Balanced and JSS Sustainable Global Emerging Markets funds have also been reassigned a one-star rating. These all invest in stocks that severely undermine our confidence in the ethical suitability of the funds.

3D-licenced funds

Although we rate funds with prejudice, a number of the better rated funds have paid to licence the marketing of the Star Ratings. These funds are listed below together with the rating.

Fund	Star rating	Summary
Foresight Solar	3D investing ★★★★★	A closed end fund investing solely in ground mounted solar assets
Impax Environmental Markets PLC	3D investing ★★★★★	A specialist, small & mid cap global environmental solutions fund
Liontrust SF Absolute Growth	3D investing ★★★★★	A growth fund with freedom to invest without reference to asset allocation benchmarks
Liontrust SF Cautious Managed	3D investing ★★★★☆	A mixed asset fund with a 60 per cent allocation to global equities that benefits from good ESG management
Liontrust SF Defensive Managed	3D investing ★★★★☆	A mixed asset fund with a 45 per cent allocation to global equities that benefits from good ESG management
Liontrust SF European Growth	3D investing ★★★★☆	A leader amongst European equity funds
Liontrust SF Global Growth	3D investing ★★★★☆	A global equity fund which balances thematic investment with an ESG approach
Liontrust SF Managed	3D investing ★★★★☆	A mixed asset fund with a 20 per cent allocation to fixed interest and the remainder in equities
Liontrust SF UK Growth	3D investing ★★★★☆	Some themes evident as well as a best of sector approach
Liontrust UK Ethical	3D investing ★★★★☆	Similar to the SF UK Growth fund but avoids animal testing
Pictet Water	3D investing ★★★★☆	A water fund with a sustainability overlay
Rathbone Ethical Corporate Bond	3D investing ★★★☆☆	A UK corporate bond fund with rigorous exclusion criteria and a small amount in charity bonds
Sarasin Responsible Corporate Bond	3D investing ★★★☆☆	A UK corporate bond fund with a clear thematic approach
Sarasin Sustainable Equity - Real Estate Global	3D investing ★★★☆☆	An open ended fund investing in global property shares with good ESG management
Triodos Sustainable Equity	3D investing ★★★★☆	A global equity fund investing in large cap stocks with a 'best of sector' approach
Triodos Sustainable Pioneer	3D investing ★★★★★	A thematic fund investing in multiple social & environmental themes
WHEB Sustainability	3D investing ★★★★★	A thematic equity fund investing in sustainability themes with excellent impact reporting

The full ranking of funds assessed by 3D Investing is available at www.3dinvesting.com/ethical-funds

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Sharing the benefits of wealth creation

Sharing the benefits of wealth creation

By Paul Pizzala, WHEB Asset Management

People often ask the question, "Can you make a difference and make a profit?"

A commonly held belief is that doing the 'right thing' means giving something up in return. On the other hand, it is often assumed that doing the 'wrong thing' can be quite rewarding.

At WHEB Asset Management we have always questioned this relationship. It seems natural to assume that, in fact, it should really be the other way around. Companies that provide goods and services that improve the quality of our lives should make very healthy and sustainable profits.

Performance Through Positive Impact

This is what we call "performance through positive impact". As an active fund manager, we find and invest in companies selling goods and services that improve society and the environment.

These are businesses that support the global shift to healthy, low carbon and sustainable economies. We know that businesses that are providing education, making people safer and healthier, creating greater resource efficiencies, treating and recycling waste and generating renewable energy are enabling and benefiting from this shift.

However, finding these growing areas is just the first step. The second is to find companies that can turn sales into growing profits. The key to this is to understand their pricing power.

Pricing power allows companies to regularly raise their prices. Together with sales growth this amplifies their profits. Companies that can do this are highly valued because investors know the combination is a winning formula.

Pricing and Impact

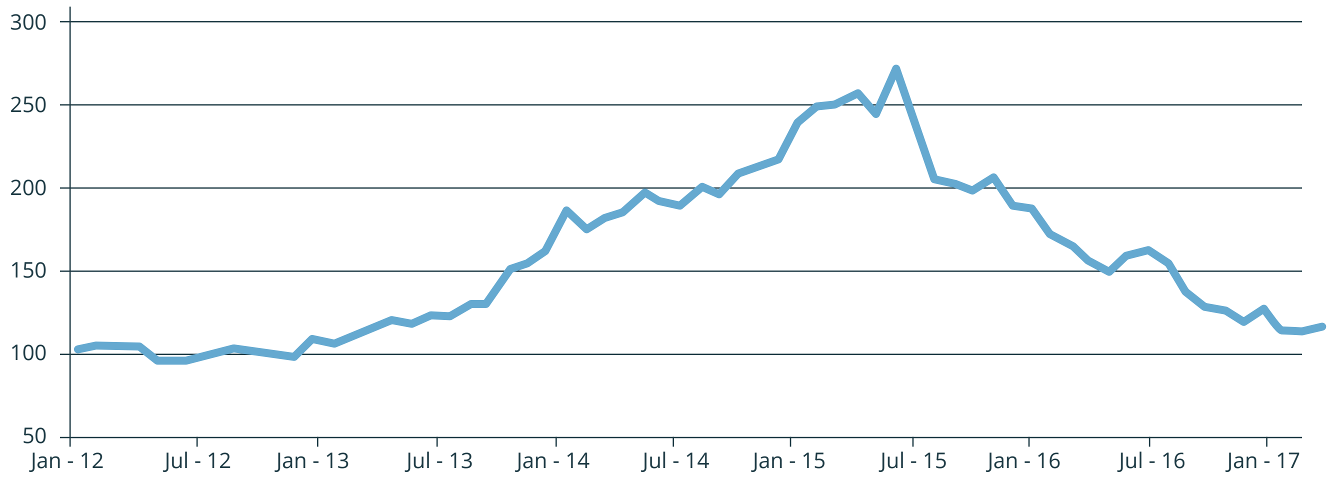
Therefore, pricing power is attractive, but how do we square being able to raise prices with increasing overall positive impact? Does it mean that the positive impact from a product or service declines when prices go up? In some cases, the answer is clearly "yes".

In the following chart you can see how well the share prices of Specialty Pharmaceutical companies did between January 2012 and September 2015. Up until that point, these businesses had 'ramped up' their prices. But then, in response to public pressure Hillary Clinton famously tweeted that *"Price gouging...in the specialty drug market is outrageous"*. The consequence was a rapid collapse in share prices in the sector.

Sailing close to the wind and maximizing short-term returns can end up undermining long-term value creation. However, pricing power does not have to be exploited in this way.

WHEB has identified four broad ways in which companies can exert pricing power while also creating positive impacts for their customers and for society. These are: through innovation; benefit sharing; selective pricing and finally intentionality.

Speciality Pharmaceutical Price Index



Innovation

If a company is innovating and improving its products for its customers then it deserves its pricing power. We have a lot of companies in our portfolio like this, such as Dassault Systemes in our Resource Efficiency theme and Wabco in our Safety theme.

Benefit sharing

The second means to balance impact and pricing power is benefit sharing. HMS Holdings helps to eliminate fraud and waste in the US Healthcare system, and it works on a success basis: the more its clients save, the more HMS earns. And at the same time, the more wasted spending is reduced, the more the cost of health care is reduced and then it can be provided to more people.

Selective pricing

The third approach is through selective pricing. Some companies provide the same product at different prices to different groups of customers. Almost always this is because they have identified different abilities to pay. This increases the availability of impactful products to customers that need it. For instance, Novo Nordisk take this approach by selling insulin at lower prices in less well-off countries.

Intentionality

Lenzing is an Austrian company whose stated intention is to make products that are better for people, planet and profits. They make textiles from wood-based fibres and replace environmentally damaging cotton in the process. They also make clothes that are more comfortable to wear and work with their customers to make the most of its product.

Long-term sustainability

As you can see, there is plenty of scope to have pricing and positive impact. What all these different types of company have in common is a thoughtful and collaborative approach to working with customers.

Building long-term relationships like this that are mutually beneficial is a quality of the companies we invest in. In this way we may provide our investors with competitive financial returns whilst accelerating a shift to healthy, low carbon and sustainable economies.

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Q&A Simon Clements, Liontrust SF Managed Fund

Q&A Simon Clements, co-manager of the Liontrust SF Managed Fund

Who are you (fund management group)?

Liontrust is a specialist fund management company that takes pride in having a distinct culture and approach to running money. The company launched in 1995, was listed on the London Stock Exchange in 1999 and is an independent business with no corporate parent. We focus on areas of investment in which we have particular expertise and have seven fund management teams: five that invest in UK, European, Asian and Global equities, one that manages Multi-Asset portfolios and a Sustainable Investment team. We believe in the benefits of active fund management over the long term and our fund managers have the freedom to manage their portfolios according to their own investment processes and market views without being distracted by other day-to-day aspects of running a fund management company. Each fund management team applies distinct and rigorous investment processes to the management of funds and portfolios that ensure the way we manage money is predictable and repeatable.

Tell us a bit about yourself – what gets you out of bed in the morning?

We are excited about being involved in the transition to what we see as a more sustainable global economy. With so many new technologies emerging, such as alternative energy that can be applied on a massive scale, battery storage technology that is cheap and accessible for everyone, and electric vehicles that we all want to drive, this is an exciting period. The world is changing and we love being a part of this change.

What makes your fund distinctive?

The Liontrust SF Managed Fund is distinctive because it focuses on key trends and changes in the global economy related to sustainability. It then focuses on these changes across a broad range of sectors. So while the fund's sustainability lens is a differentiator, the broad range of areas in which we invest also gives it a clear edge. There are things we will not invest in, fossil fuels for example; instead, we will seek out alternatives in this area of the global economy that can deliver a solution to our energy needs without negatively impacting the environment and our atmosphere.

How do you engage with the companies in which you invest?

Engagement is a key pillar of our process, as we aim to help and encourage the companies in which we invest to act in a more sustainable way. We set engagement priorities at the beginning of each year and are currently prioritising areas such corporate tax, gender diversity, supply chain responsibility within apparel and responsible use of plastics within the consumer sector. We also collaborate with our peers and organisations such as the PRI (Principles for Responsible Investment) to ensure we can capitalise on shared goals.

"There are things we will not invest in, fossil fuels, for example."

What are the positive social and environmental impacts of your fund and how do you measure them?

Our investment process is designed to identify quality growth companies with good business fundamentals, which we feel are undervalued and have a positive impact on society and the environment. The social and environmental impact of the companies in which we invest is measured in the following ways:

1. All companies are rated using our sustainability matrix, which assesses their net impact on society and the environment. The rating ranges from A, which is a positive net benefit in keeping with sustainable development, to B, positive impacts offset by some lesser negatives, to C, which is neutral. We avoid companies rated D or E as we believe they are net detractors from developing more sustainably and are ultimately a poor investment as a result. The outcome of this is to skew our portfolios towards the more sustainable opportunity set of investments.

2. Exposure to positive investment themes: we analyse all companies to check their impact and have identified 23 themes with net positive impacts. These are under three broad categories, which make development more efficient (better use of resources such as energy, water and materials), healthier, and safer (more resilient businesses and services to make systems more robust). Our funds generally have in excess of 80 per cent exposure to these investment themes. We classify the remaining holdings as neutral.

3. In response to client demand and to help them better frame the positive impacts associated with the Sustainable Future funds, we are doing work to show where our positive investment themes (point 2 above) are aligned with the Sustainable Development goals established by the United Nations.

4. We also have aggregate portfolio measurements showing how the funds differ from the markets in which they are invested. To date, this has been limited to how much carbon the companies we invest in emit compared to the market as a whole. We have run this analysis using a third party, MSCI Carbon Analytics, for a number of years and the results consistently show the Sustainable Future funds emit approximately two-thirds less CO_2 than mainstream benchmarks. This shows the portfolio emits far less carbon than the market, which makes the companies in aggregate resilient to climate change regulation (such as any future carbon tax).

What's your biggest concern for the next year?

Our biggest concern is the macroeconomic shock. Our themes are very much structural, rather than cyclical, in nature so they will deliver in almost any macroeconomic environment. A shock will derail sensible long-term investment decisions for many of the products and solutions we invest in, however, so it can provide a short-term headwind.

What's been your most successful investment?

Energy efficiency as a theme has been very successful for us. There are a range of companies that have benefited, including Kingspan in Ireland with leading technology in insulation, Daikin in Japan with similar leading technology in air conditioning and Equinix in the US that provides the same solutions in data centres for the technology industry.

What's been your biggest investment disappointment?

Sunpower in the US was a disappointment. It is the technology leader in the manufacturing of solar cells and we felt even in a deflationary market, where the cost of cells are falling, its technology lead and impressive volume growth could deliver improving returns. Unfortunately, oversupply out of China over 2016 was a severe headwind and the stock suffered. Falling solar prices is great for the industry but companies need to improve efficiencies to offset these price falls, and the pace at which prices fell made that very difficult.

Always research your own investments and consult suitability with a regulated financial adviser before investing. Past performance is not a guide to future performance. Investment carries the risk of total loss of capital. Please refer to the Prospectus and Key Investor Information Documents for more information.

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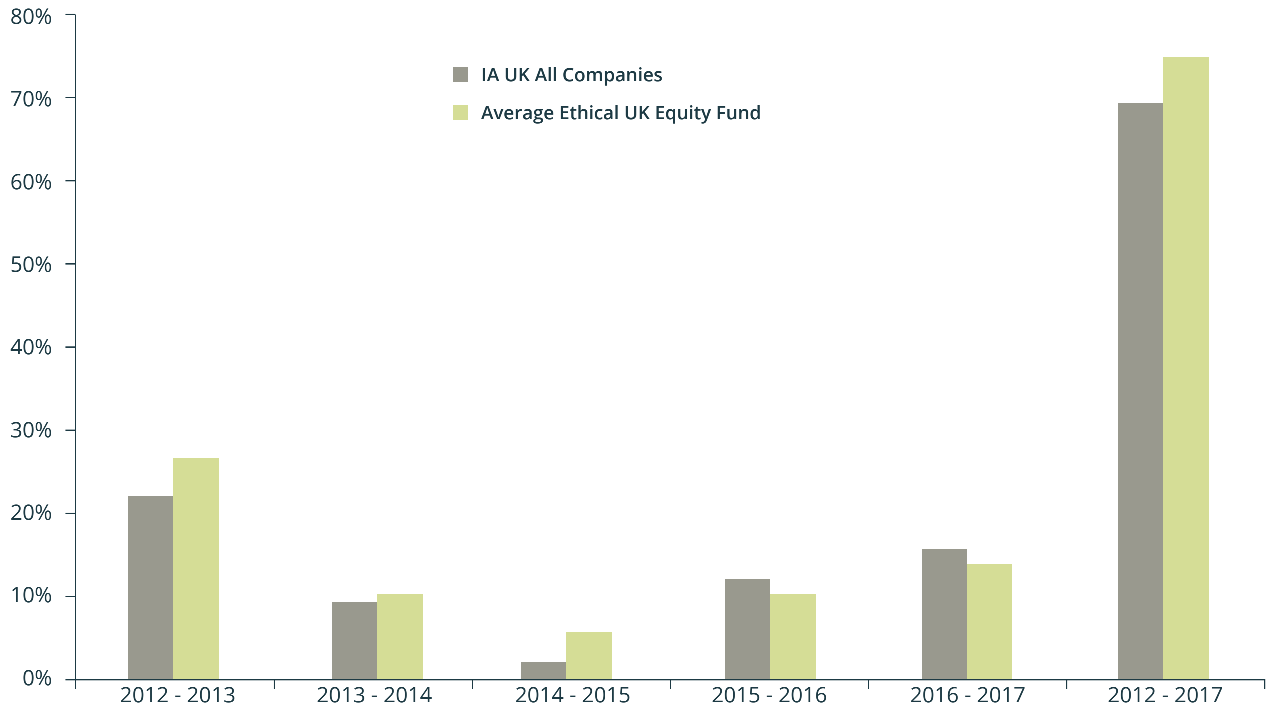
Performance review

"Positive impact need not come at the expense of financial returns, and if anything, investing for positive impact can improve returns."

Performance review

The performance of funds of ethically screened and sustainable funds overall continues to be competitive with comparable conventional funds. Sustainable global equity funds have underperformed over the last 12 months as might be expected from time to time, but the longer term trend remains intact. It is important to compare like with like, so we've analysed funds within their respective sectors, looking at the three of the most commonly used sectors – namely global equity, UK Equity and Sterling Corporate Bonds. We look at discrete annual periods to give a better picture of the consistency of performance, as well as the cumulative five-year performance. Green shading indicates outperformance of the sector average.

We've also compared the performance of those funds
rated three stars or higher to see how higher rated funds perform relative to conventional funds, and to ethical and sustainable funds as a whole. It is evident that positive impact need not come at the expense of financial returns, and if anything, investing for positive impact can improve returns.

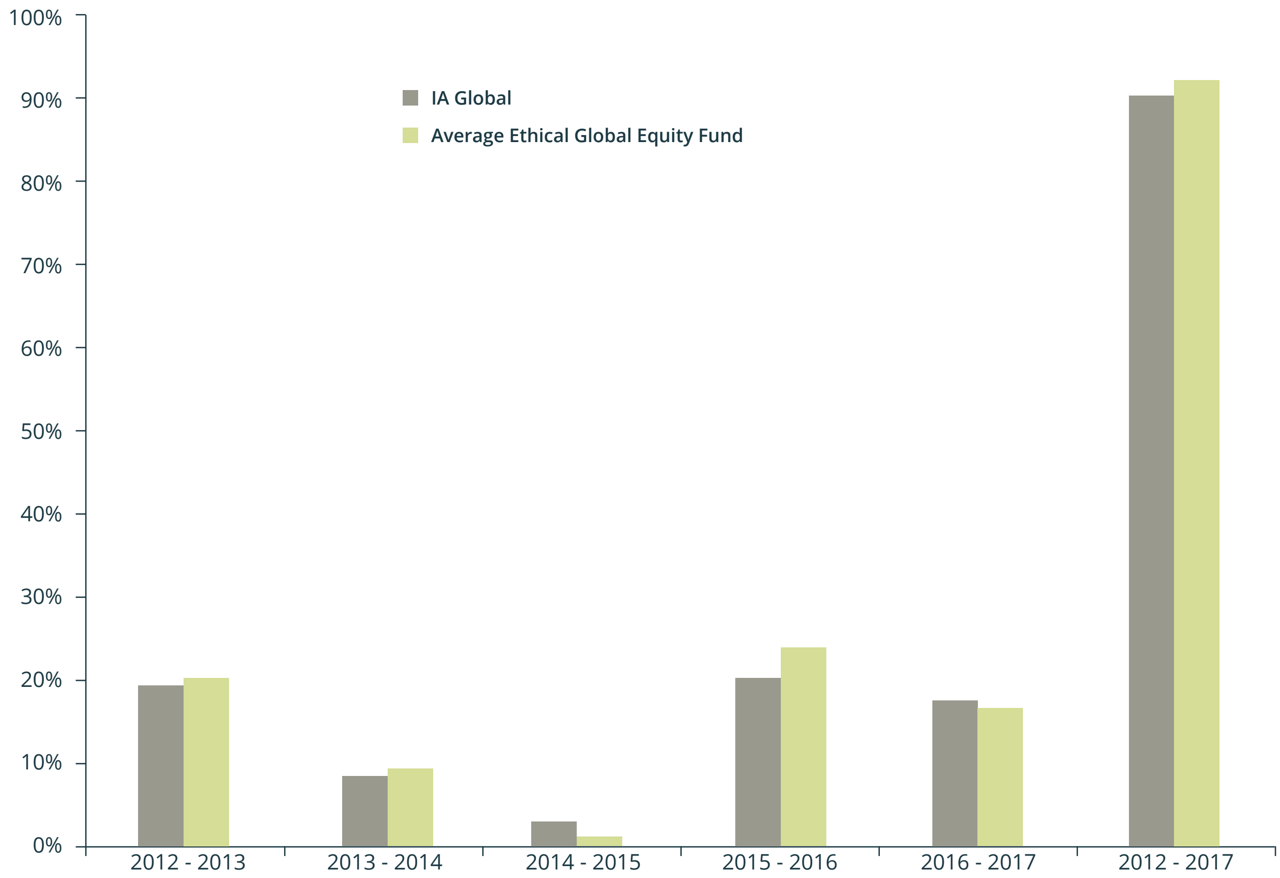


UK Equity

Fund	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2012 - 2017
Aberdeen Responsible UK Equity	17.19%	4.54%	-6.59%	16.04%	11.81%	48.49%
Castlefield BEST Income	16.82%	7.45%	6.47%	4.11%	5.90%	47.35%
Edentree Amity UK	23.59%	7.32%	7.35%	5.08%	8.31%	62.06%
F&C Responsible UK Equity Growth	22.60%	10.99%	3.27%	10.05%	13.95%	76.21%
Henderson Global Care UK Income	26.62%	12.05%	7.65%	9.19%	6.44%	77.51%
Jupiter Responsible Income	25.88%	8.09%	-0.36%	4.22%	9.16%	54.23%
Kames Capital Ethical Equity	28.30%	10.61%	9.02%	4.70%	6.87%	73.11%
Legal & general Ethical Trust	27.05%	9.50%	5.76%	4.04%	7.71%	64.90%
Liontrust SF UK Growth	27.63%	8.00%	11.19%	10.44%	18.36%	100.35%
Liontrust UK Ethical	32.10%	5.60%	11.40%	7.00%	17.30%	95.10%
Premier Ethical	36.66%	17.07%	8.62%	3.04%	17.22%	109.88%
Royal London Sustainable Leaders Trust	25.57%	10.45%	4.93%	14.01%	11.37%	84.80%
Royal London UK Ethical Equity		18.00%	0.14%	1.75%	11.33%	
Standard Life Investments UK Ethical	32.75%	6.17%	13.05%	-0.07%	21.76%	93.86%
Threadneedle Ethical UK Equity					14.10%	
Troy Trojan Ethical Income					6.47%	
UBS MSCI UK IMI Socially Responsible				12.45%	12.00%	
Unicorn UK Ethical Income					21.12%	
IA UK All Companies	23.72%	9.61%	1.24%	9.11%	13.87%	70.58%
Average ethical UK equity fund	26.37%	9.70%	5.85%	7.07%	12.29%	75.99%
Average 3 Star+ Fund	27.49%	8.24%	9.40%	7.93%	12.90%	83.76%
Average outperformance of ethical fund	2.65%	0.09%	4.61%	-2.04%	-1.58%	5.41%
Average Outperformance of 3 Star+ Fund	3.77%	-1.37%	8.16%	-1.18%	-0.97%	13.18%

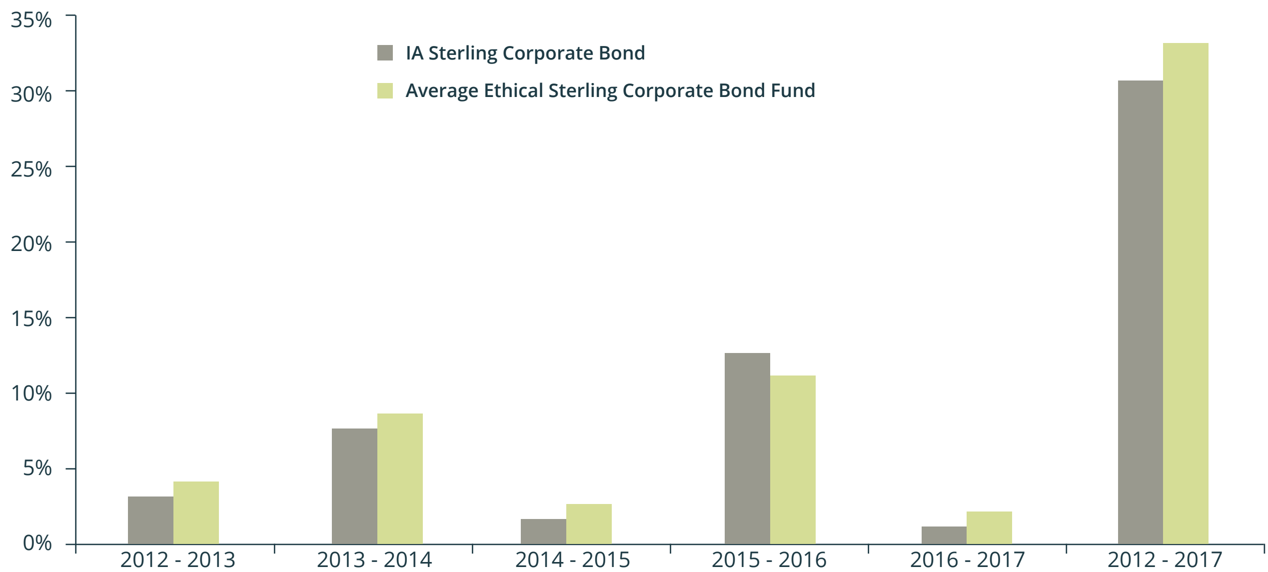
Global Equity Growth

Fund	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2012 - 2017
Aberdeen Ethical World Equity	12.00%	9.32%	-12.30%	22.76%	13.93%	50.19%
Davy Asset Management Ethical Equity				22.19%	13.66%	
EdenTree Amity International	16.53%	11.05%	-10.03%	22.57%	15.94%	65.45%
F&C Responsible Global Equity	20.19%	7.12%	9.54%	20.72%	19.12%	102.80%
Stewart Investors Worldwide Sustainability		4.86%	5.32%	32.67%	15.14%	
Henderson Global Care Growth	22.75%	13.64%	6.60%	19.91%	17.24%	109.60%
Impax Environmental Leaders					18.72%	
Impax Environmental Markets	22.36%	11.78%	-2.96%	33.83%	17.06%	107.95%
Jupiter Ecology	24.05%	7.70%	-1.21%	21.76%	15.16%	85.06%
Kames Capital Global Sustainability					22.43%	
Liontrust SF Global Growth	19.88%	10.82%	4.81%	20.86%	19.97%	101.90%
Old Mutual Global Investors Ethical	30.81%	6.77%	-2.19%	32.25%	10.96%	100.45%
Pictet Global Environmental Opportunities	16.68%	12.05%	2.76%	32.79%	19.37%	112.94%
Sarasin Responsible Global Equity	22.89%	7.43%	3.34%	17.85%	16.97%	88.06%
Triodos Sustainable Equity		10.40%	11.40%	16.50%	14.90%	
Triodos Sustainable Pioneer		25.30%	1.80%	20.30%	12.20%	
UBS MSCI World Socially Responsible	21.77%	10.61%	1.92%	26.63%	16.92%	103.26%
Vanguard SRI Global Stock	20.38%	12.07%	3.11%	24.26%	17.61%	103.29%
WHEB Sustainability	18.39%	11.79%	4.79%	25.36%	15.57%	100.92%
IA Global	19.94%	9.95%	2.79%	21.42%	17.88%	94.02%
Average Ethical Global equity fund	20.67%	10.79%	1.67%	24.31%	16.47%	94.76%
Average 3 Star+ fund	21.89%	11.11%	3.70%	25.18%	16.76%	102.70%
Outperformance of average ethical global fund	0.73%	0.84%	-1.12%	2.89%	-1.41%	0.74%
Outperformance of average 3 Star+ Fund	1.95%	1.16%	0.91%	3.76%	-1.12%	8.68%


100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
IA Global
Average Ethical Global Equity Fund
2012 - 2013
2013 - 2014
2014 - 2015
2015 - 2016
2016 - 2017
2012 - 2017

Sterling Corporate Bonds

Fund	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2012 - 2017
EdenTree Amity Sterling Bond	4.72%	10.31%	1.70%	6.23%	4.18%	30.02%
F&C Responsible Sterling Bond	1.84%	7.19%	2.47%	12.89%	-0.21%	26.00%
Kames Capital Ethical Corporate Bond	3.09%	7.35%	3.90%	11.10%	0.61%	28.53%
Liontrust SF Corporate Bond	4.60%	8.96%	2.85%	13.97%	1.54%	35.66%
Rathbone Ethical Bond	8.89%	10.60%	3.14%	8.52%	6.46%	43.50%
Royal London Ethical Bond	4.24%	9.55%	3.57%	11.90%	2.16%	35.21%
Royal London Sustainable Managed Income		7.78%	3.89%	12.47%	2.14%	
Sarasin Responsible Corporate Bond						
Standard Life Investments Ethical Corporate Bond	3.55%	8.35%	1.93%	13.22%	0.65%	30.33%
Threadneedle UK Social Bond			3.71%	13.27%	0.47%	
IA Sterling Corporate Bond	3.14%	7.90%	2.36%	12.53%	1.31%	29.87%
Average ethical sterling corporate bond fund	4.42%	8.76%	3.02%	11.51%	2.00%	32.75%
Average 3 Star+ Fund	5.53%	8.67%	3.50%	11.87%	2.24%	35.90%
Outperformance of average ethical bond fund	1.28%	0.86%	0.66%	-1.02%	0.69%	2.88%
Outperformance of average 3 Star+ Fund	2.39%	0.77%	1.14%	-0.66%	0.93%	6.03%



Data to 30 September 2017. Total return with net income re-invested. ***Source:*** *Fundslibrary*

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Q&A Adam Robbins, Triodos Investment Management

Triodos Investment Management

Q&A with Adam Robbins, Senior Investor Relations Manager, Triodos Investment Management

Who are you (fund management group)?

Triodos Investment Management is a globally active impact investor and a wholly-owned subsidiary of Triodos Bank NV. We are a catalyst for sectors that are crucial for the transition to a more sustainable and humane world. There are many investors out there who want to make their money work for lasting, positive change. Equally, we work with lots of innovative entrepreneurs and sustainable businesses having a positive impact. We work hard to connect these two groups, helping these sectors grow.

We have 25 years' experience in impact investing. Our investment teams have in-depth knowledge of key sectors such as Energy & Climate, Inclusive Finance, Sustainable Food & Agriculture, Arts & Culture, and Sustainable Real Estate. In addition to our direct impact investments in these areas, we also invest in listed companies with an above-average environmental, social and governance (ESG) performance. As of June 2017, our assets under management was EUR 3.3 billion.

Tell us a bit about yourself – what gets you out of bed in the morning?

Knowing that my role with Triodos Investment Management has a direct impact is a huge motivation, but sometimes it's also helpful that my 2-year-old daughter acts as a very effective alarm clock. I'm also a GBR Age Group duathlete, so will often be up at the crack of dawn either cycling or running – I find that training is an amazing way to start the day and clears my mind allowing to focus on work from the get-go.

What makes your funds distinctive?

Positive impact is embedded in everything we do, not just a mere add-on. You might say our funds differentiate on the level of focus and dedication. For instance, we have a team of 8 researchers who solely investigate stock listed companies that might be eligible for our Socially Responsible Investment (SRI) proposition. We engage with companies during the selection process and continue to do so once they have been selected, encouraging them to keep improving their sustainability activities. It is important to remember even just small changes in big companies can make a big difference.

What are the positive social and environmental impacts of your funds and how do you measure them?

As an impact investor, we know that finance is transformational, so we direct money to where it can benefit people and the environment over the long-term. Accordingly, the impact we are interested in is the effect of our investment on society and the environment. We realise that our role and efforts in this complex web of change can only be captured in quantitative metrics to a limited extent. Achieving our goals means moving beyond providing capital and requires a strong intention and a holistic, long-term approach. To fully communicate our vision and how we're delivering it, we share stories that provide the essential context and background for our activities. For that purpose, we have developed impact reports that assess the impact of our investments in a transparent and meaningful way.

How do you engage with the companies in which you invest?

A major factor in Triodos' SRI strategy is active engagement and dialogue with the companies we invest in. This activity raises awareness of sustainability, stimulates action within these enterprises, and ultimately creates lasting positive change. When Triodos Research considers a company for investment, we assess all aspects of a company's sustainability performance. As with all engagement activities, Triodos Research uses the selection phase to push the sustainability agenda within companies. Last year, we engaged with 215 companies and initiated in-depth engagement with 48, as highlighted in our 2016 Engagement Report. We're very proud that our response rate to these engagements was 91 percent. One area of concern for us is remuneration policies, especially C-suite compensation. As a result, we voted against 79 percent of AGM resolutions related to executive pay. We've seen positive results for this strategy: this year the British medical equipment producer Smith & Nephew contacted us to seek feedback on its new remuneration policy following the shareholder concerns raised at the 2016 AGM.

What's your biggest concern for the next year?

The urgency regarding the shortfall in attaining the Sustainable Development Goals (SDG's). The SDG's can only be achieved if impact capital flows to the right sectors. We know that investors want this to happen: the annual Triodos Bank UK Impact Investing survey released this month reveals that eight out of ten UK investors want to see a fairer and more sustainable society, while two-thirds would like their money to support companies that are profitable and making a positive contribution to society and the environment. However, 67 percent of investors have never been offered ethical or sustainable investment options. This is a major disconnect—people want their investments to be making a positive difference. It's imperative that as an industry we work to grow the assets being placed in Impact Investment so that the SDG's can be achieved. With the timeframe ever shrinking, this needs to be top of everyone's agenda for 2018.

Why should an investor buy the Triodos funds in preference to other sustainable funds?

Ultimately, that decision sits with the individual investor—there may be a broad range of reasons someone may have for investing. But an important indicator is the experience and track record of an investment manager. Triodos Investment Management has a strong track record in impact investing: it's the only thing we do, and we've been doing it well for a long time. We're fully compliant with the United Nations Principles on Responsible Investment and fulfil the transparency code as set by EUROSIF. We're a global leader in impact investment, as evidenced by being a founding member of the Global Impact Investing Network.

Is there a distinctive culture at Triodos and how is this reflected in the funds?

The culture within the entire Triodos Group is very distinctive, and unlike anywhere I have worked previously. It's amazing to work within an organisation with so many genuinely like-minded people whose values are so closely aligned. Our investment philosophy is very closely aligned with Triodos Bank's mission of using money to bring about positive change. As such, our funds, whether direct Impact Investment funds or SRI funds made up of traded shares, only support companies or projects that deliver social or environmental benefits.

What three things would you like your funds to be identified with?

1. Impact
2. Transparency
3. Engagement

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Sector spotlight: Sterling Corporate Bonds

Sector Spotlight – Sterling Corporate Bonds

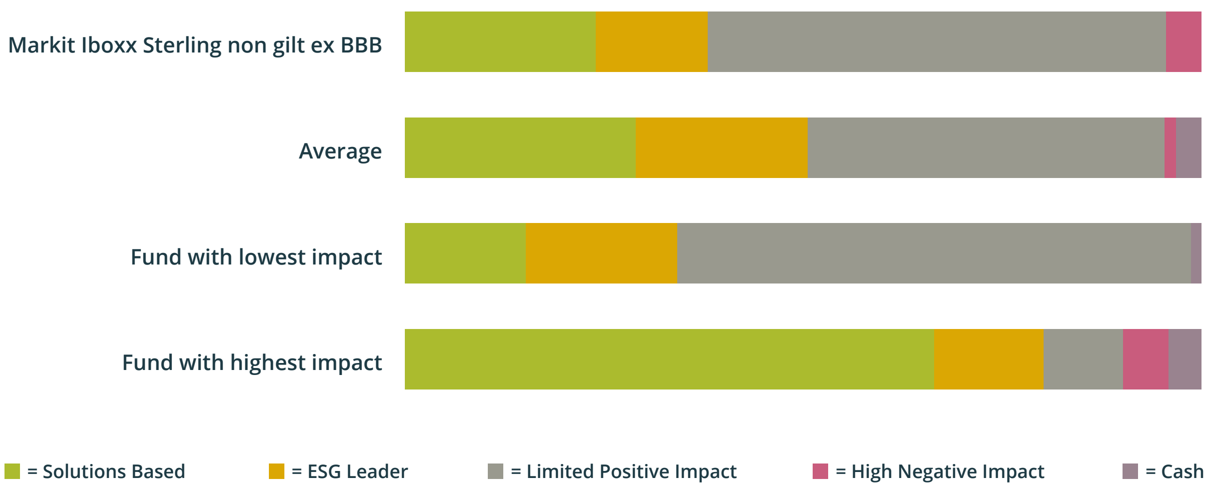
Fixed interest is the bedrock of most balanced portfolios and is therefore a key component of a sustainable approach to investment. There are a number of European bond funds but these are mainly denominated in Euros and for the retail investor, Sterling corporate bond funds are likely to be the main way of gaining exposure to fixed interest. These funds include Sterling denominated stock in companies outside the UK and may also include green bonds and debt issued by multilateral organisations like the European Investment Bank.

10 funds

£2.87 billion assets under management

2.7 average star rating

Each fund has been compared according to the 3D Investing classification system to see which funds have most positive impact. We have also compared the funds with the benchmark index to determine the relative impact with comparable unscreened funds.



The analysis is based on classifying each stock held by the funds according to its social impact:

Solutions Based – Core products and services are of direct social or environmental benefit (clean energy, resource efficiency, clean air and water, healthcare, education, enabling infrastructure, low carbon transport, safety, sustainable food and agriculture, social infrastructure and inclusive finance

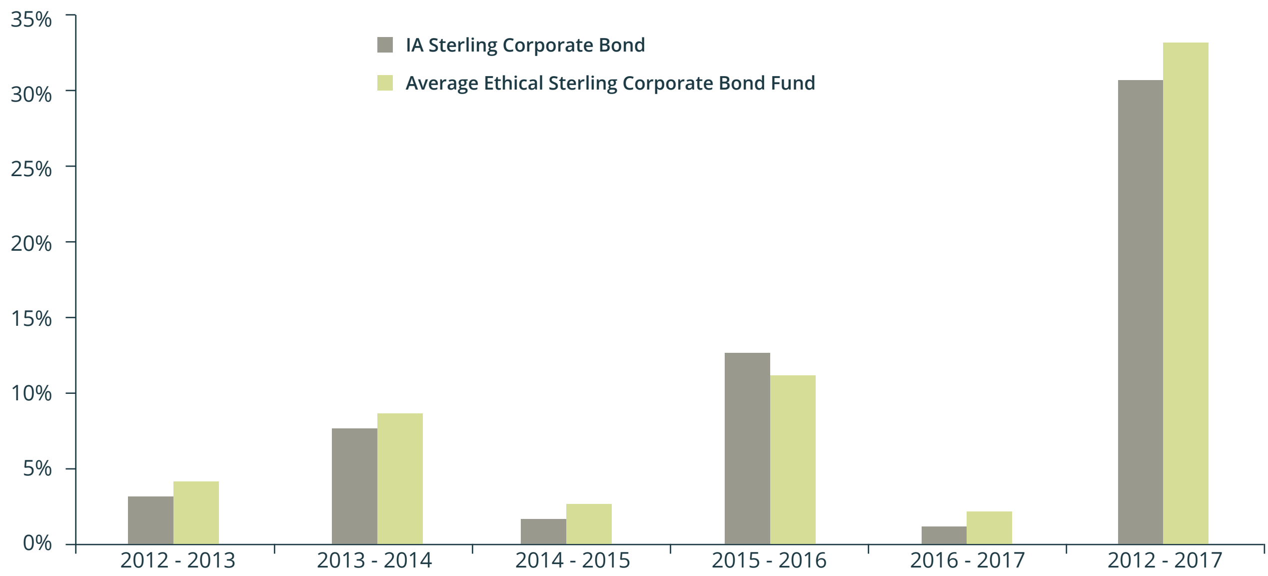
ESG Leader – Social and/or environmental practices are amongst the best in its sector

Limited Positive Impact – Core activity confers few clear social or environmental benefits

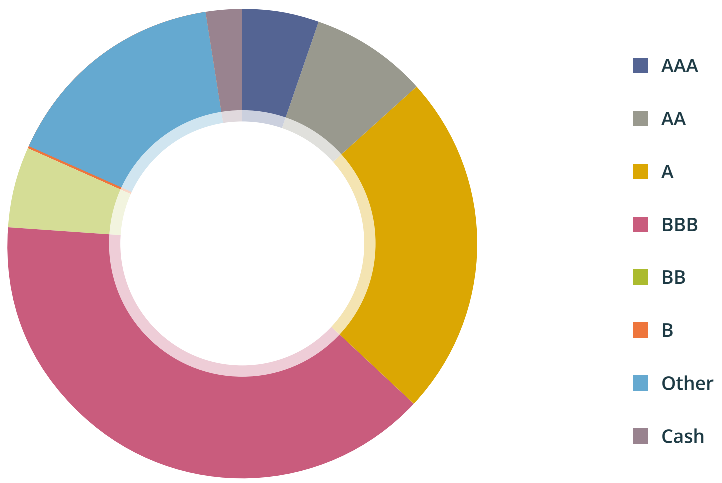
High Negative Impact – Stock has a major negative impact (include tobacco, mining, fossil fuel extraction, air transport, cement production, gambling and armaments, subject to widespread boycott)

It can be seen that although the average impact is more positive than that of the conventional benchmark, the difference isn't that pronounced. Most funds have a high weighting in financials and real estate with little clear positive social impact, with the overall approach being one of negative screening to exclude companies based on ethical criteria. The leading fund stands out for its strong positive focus, and in particular social housing.

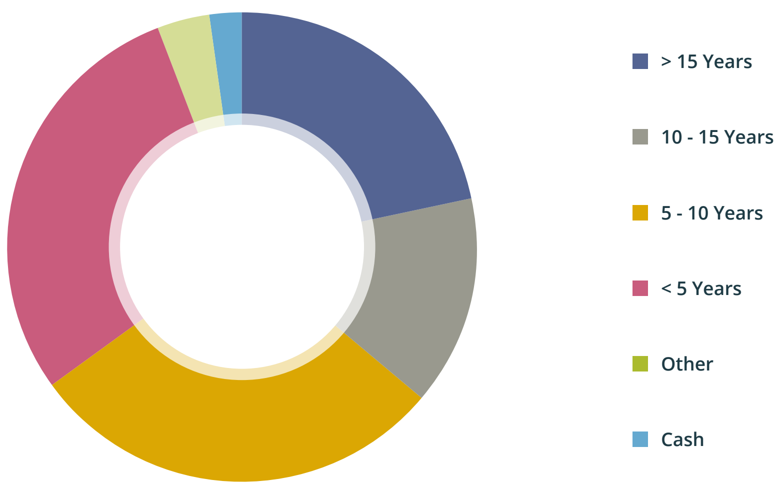
It is also evident that employing ethical or sustainability criteria imparts no discernible negative impact on performance. In fact, the average ethically screened Sterling bond fund has outperformed the average fund in its sector. Furthermore, funds with a rating of three stars or more have a better performance than the average ethical/sustainable fund, demonstrating that positive impact need not come at the expense of financial returns.



The funds predominantly invest in investment grade credit, particularly in the BBB/BB range, although there is a widespread allocation to unrated housing associations. The average maturity date of credit is at the longer end, but with a wide mix of duration.



Average credit quality for ethical/sustainable Sterling bond funds



Average duration for ethical/sustainable Sterling bond funds

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Q&A Bryn Jones, Rathbones

Fund Manager Q&A with Bryn Jones, Head of Fixed Income at Rathbones

Who are you (fund management group)?

Rathbone Unit Trust Management
Rathbone Unit Trust Management is a leading UK fund manager. We are an active management house, offering a range of equity and bond unit trusts and a multi-asset portfolio (consisting of four sub-funds) to meet your capital growth and income requirements.

Tell us a bit about yourself – what gets you out of bed in the morning?

The kids wake me up. Joking aside, I enjoy my job and the people I work with. Bond investing is enjoyable, the challenges it brings correlate to my long distance running. Patience and determination are important.
As a bond investor I often have to take the longer term view in order to benefit from investment strategies and be akin to the asymmetric return in bonds. The upside is limited but your downside is 100 per cent. Analysing the real world to monetise long term positives and avoid short term negatives are what ultimately drive me.

What makes your fund distinctive?

The investment process has been designed and managed to have a long term approach in investing coupled with the ability to take advantage of tactical opportunities. In particular the credit analysis process is the lynchpin to investing in credit and having a sound investment process is vital here. We constantly look at new ways to improve our processes including introducing more quantitative processes to our valuation techniques. The fund management team have regular meetings with Sales, the Chief Investment Officer and Marketing to ensure our process is aligned with investor requirements.

What are the positive social and environmental impacts of your fund and how do you measure them?

The fund's SRI style would typically be described as 'ethically balanced', applying both positive and negative screening criteria.

The positive element of the fund's ethical research process recognises key global sustainable development trends and identifies investee companies' exposure to these. Many of these trends overlap, but can be roughly divided into two groups: environmental sustainability and social development.

The fund is active across five categories; Financial Only, Ethical and Responsible, ESG/Sustainability Leadership, Thematic, and to a lesser extent Impact First. Using this framework, the fund's holdings are categorised based on whether their positives are primarily ethical (Responsible, ESG Leader) or linked to sustainability (Sustainability Features, Thematic).
Holdings classified as 'Financial only' have limited positive or sustainability attributes that may not be considered material enough to link the issuer to a particular positive ethical aspect.

Regardless of categorisation, all holdings are in compliance with the fund's exclusion and positive ethical criteria.

Across all categories, investments are expected to deliver market rate financial returns.

How do you engage with the companies in which you invest?

We define 'engagement' as the process whereby dialogue is entered into by investors with a company, or organisation, as a means of improving its behaviour with regard to environmental, social or governance policies and practices.

Rathbone Greenbank's ethical research team, which implements the fund's ethical screening policy, regularly engages with companies on many issues, including those whose bonds are held within the fund.

This will primarily be on behalf of its own private clients, a significant number of whom are also unit holders in the fund. Where corporate bond holdings in the fund overlap with Rathbone Greenbank's equity holdings, the team will engage with companies on behalf of all concerned parties.

In engaging with a company, Rathbone Greenbank will adopt some or all of the following methods:

1. Formal and informal correspondence or meetings with company representatives.
2. Collaboration with other members of the SRI community, e.g. through initiatives such as the PRI Clearinghouse.
3. Voting on Annual General Meeting (AGM) resolutions; attending AGMs to ask questions; using nominee shareholdings to table resolutions.

Engagement will be conducted in an open and constructive way and in a spirit of longer term partnership. It will be entered into on the basis of corroborated evidence or research which, in our opinion, is of a rigorous and independent nature.

As part of their ongoing due diligence and monitoring of current of potential future investments in the fund, Rathbone Ethical Bond Fund's fund managers also meet with the management of bond issuers and may conduct site visits.

What's your biggest concern for the next year?

My main concern would be an aggressive rise in rates. This could cause some marked to market pain in duration assets. A subsequent sell-off in credit, as a result of concerns about higher rates impacting margins would exacerbate my concerns, followed by selling and liquidity issues. However I would say this is not my base case.

What's been your most successful investment?

Selling my entire US bank exposure in May 2007 on concerns about US Housing was a successful trade. However, in hindsight I should have sold down all the risk assets in my portfolio. I had not expected it to be as bad as it got. Having the confidence to buy into financials post the Lehman's crisis is one thing that springs to mind as the most successful trade. Also selling my entire European exposure when there was a wobble in Greece in 2011 and have the poise to buy back in when Draghi stated he would do what ever it takes.

What's been your biggest investment disappointment?

This has to be selling Progress health on the day some news arose about a spat between the builders of the hospital and the hospital over fire safety issues; the builders had left a few years earlier and there was a subsequent change in fire safety laws. As the bonds were issued out of a Special Purpose Vehicle and the servicer was only passing through coupons, the decision by the hospital to stop paying the servicer concerned me. However, the spat was later sorted out and the bonds recovered.

What three things would you like your fund to be identified with?

1. Excellent performance
2. good risk adjusted returns
3. strong investment process with a sustainable ethical process.

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