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The Good Investment Review

#FindingGood

GOOD WITH MONEY

MORE MONEY, FEWER PROBLEMS

About Good With Money

Good With Money is a money website with a difference: it is all about how your money can do more good, as well as how you can be better at managing it. With blogs, webcasts, podcasts, downloadable guides and a weekly newsletter, you can stay up to date with the latest ways to line your pocket and look after the planet.

About 3D Investing

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

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

3D Investing is an evidence based approach that analyses the constituent holdings of each and every investment, so that 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. The evidence-based approach means that, not only can investors be assured of successful financial outcomes, but they can be equally confident in maximising the social impact of their portfolio.

We have 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. We attribute 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".

Who's who in the review

This review is a collection of market statistics, commentary and information about some of the best ethical and sustainable funds and fund managers in the UK. It is supported by sponsors – asset managers and investment platforms who support the work of the review by both contributing valuable insight and helping to promote it.

Sponsors

This publication would not be possible without the generous support of our sponsors and partners.

Rathbones Look forward

1805 PICTET Asset Management

IMPAX Asset Management

M&G INVESTMENTS

LIONTRUST

Aberdeen Standard Investments

Pennine WEALTH SOLUTIONS LLP

UBP Union Bancaire Privée

HERMES INVESTMENT MANAGEMENT

Triodos Investment Management

Contents

Foreword

By John Fleetwood,
founder and director of 3D Investing

Welcome to the seventh edition of the Good Investment Review - an overview of the sustainable and ethical investment industry with a focus on a different area in each issue. This time we consider climate change investment strategies and what options are available for investors seeking to use their money to counter climate change.

Aberdeen Standard Investments sets the scene in terms of making the transition to a low carbon economy and the challenges and opportunities this creates. M&G considers the role of the active investor in bringing about the necessary changes, whilst UBP examines the different responses needed in emerging and developed markets.

Liontrust unpacks what a zero emissions target will mean for individuals and companies. Going into more detail, Triodos highlights how three of their investee companies are making a positive impact in addressing climate change, whilst Rathbones also profiles three companies that are combatting climate change. Hermes focuses on one of their investments that has undergone a transformation in response to climate change.

Talking about climate change is one thing, taking action is another. Demonstrating environmental impact is vital to be able to compare investment funds on their contribution to climate change. Impax shares their thoughts on quantifying and disclosing the environmental benefit derived from portfolio companies' activities.

The fires in the Amazon have focused attention on the world's forests, and their role as carbon sinks. Pictet demonstrates the sustainability of timber as a material and its value as a sustainable investment.

Finally, Pennine Wealth Solutions demonstrates their wider impact through sponsorship and interaction with investors, as well as through the portfolios themselves.

Our sponsors all incorporate climate change policies in their investment strategies and are actively investing in companies that are providing solutions in the form of clean energy provision, energy efficiency, alternatives to carbon intensive agriculture and low carbon transport options. It's also good to see them collaborating on wider engagements that seek to make a change beyond the investments themselves.

As always, please contact us if you'd like to discuss any aspect of this Review.

John Fleetwood

John Fleetwood,
3D Investing Founder

6
3D market update

Assets under management (AUM) in the 3D universe of sustainable and ethical funds is now

£102.6 Billion

This represents a 16 billion increase since the last issue, an 18% increase over six months. This is representative of the surge in interest in ESG and impact investing over the last year.

264

3 funds have been removed from the universe and 34 have been added, with a net gain of 31 over the period. The three deleted funds are no longer available for retail investors or have been closed.

The vast majority of the fund additions are new launches, with considerable diversity evident in the type of funds coming to the market. Many of these are new offerings from fund managers who already run at least one ethical or sustainable investment fund. For example, BMO have adopted a thematic approach in both their Sustainable Opportunities and SDG Engagement funds, with the latter aiming to help deliver the UN Sustainable Development Goals through active engagement. Jupiter has widened the environmental remit of its Ecology range to focus on a broader sustainability issues and for the first time will produce a full impact report.

Following hot on the heels of its UK Sustainability Fund, Investec is launching a global OEIC fund wholly focused on environmental solutions. This is distinguished by very detailed carbon reporting, with a concentrated investment strategy based on investing in companies that are actively providing solutions to the challenges posed by climate change and other environmental threats.

Storebrand may be a less familiar name to UK investors, but it is the leader in sustainable investing in Norway and one of the largest asset managers in the region. It's ESG Plus fund is distinctive for the rigour of its exclusion screening on climate change criteria, couple with a tracking approach that seeks to follow the global equity index as closely as possible whilst meeting the stipulated exclusions. Not only do these include more obvious activities like fossil fuel producers, but they include industries that make a significant contribution to climate change – sectors like air transport or meat and dairy farming.

Tortoise is another new entrant in the UK market. This US fund manager recently bought Ecofin whose expertise is being deployed to run a water fund and a fund investing in companies 'making the transition' to a clean energy world.

There have also been a number of fixed interest fund launches, with increasing sophistication in the range of funds available. In particular two emerging markets bond funds have come to the market, namely the Standard Life Investments Emerging Market Debt Sustainable and Responsible fund and the M&G Emerging Markets Corporate ESG Bond. Both of these have exposure to sectors that have significant negative impacts, with a 'best of sector' approach being taken.

Two further renewable energy investment IPOs were made on the London Stock Exchange, adding to the UK yieldcos already listed in London. These focus on Europe and US solar respectively.

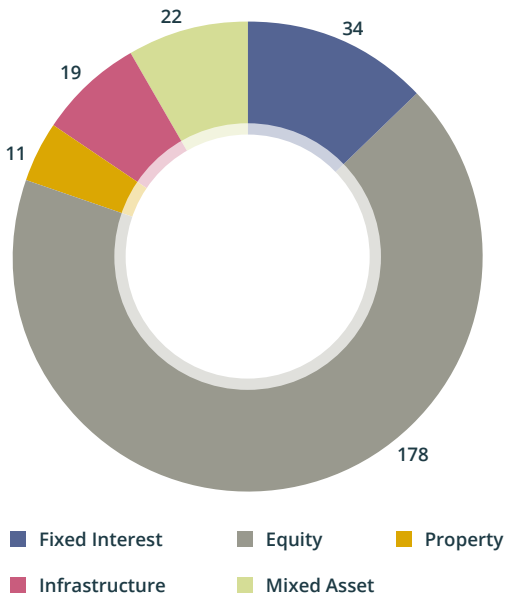
Foresight continues to build on its expertise in environmental infrastructure investment, with the launch of two new infrastructure funds, both of which operate as fund of funds investing in social and environmental infrastructure investment companies.

Finally, the Troy Trojan Ethical fund is proof of enduring demand for ethical exclusions. This is a traditional ethical fund with a range of exclusion criteria.

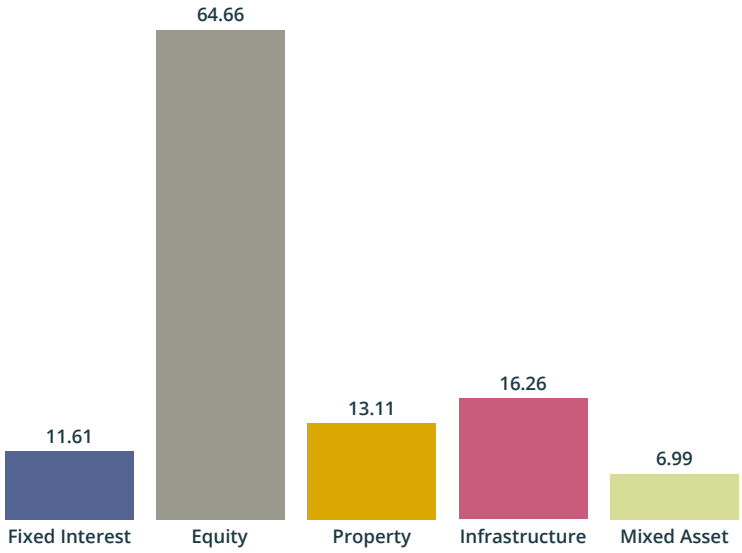
Fund Name	3D star rating
Aquila European Renewables Income	4
Aviva Sustainable Income & Growth	2
AXA Framlington Clean Economy	4
Baillie Gifford Responsible Global Equity Income	2
BMO SDG Engagement	4
BMO Sustainable Opportunities Growth	4
Carmignac Portfolio Emergents	2
Carmignac Portfolio Emerging Patrimoine	1
Carmignac Portfolio Grande Europe	3
Foresight Global Real Infrastructure	4
Foresight UK Infrastructure Income	4
GSI Global Sustainable Value	1
Investec Global Environment	5
Jupiter Global Sustainability	4
Kempen Euro Sustainable Credit	2
Kempen Global Sustainable Value Creation	3
Kempen Sustainable European Small Cap	2
Legal & General Future World Climate Change Equity Factors Index	1
Liontrust Monthly Income Bond	3
Liontrust Pan European Growth	4
Liontrust SF European Corporate Bond	3
M&G Emerging Markets Corporate ESG Bond	2
M&G Multi-Asset Sustainable Allocation	3
Newton Sustainable Global Equity	3
Newton Sustainable Real Return	2
Newton Sustainable Sterling Bond	2
RobecoSAM Global SDG Credits	1
Standard Life Investments Emerging Market Debt Sustainable and Responsible	2
Storebrand Global ESG Plus	3
Storebrand Global Solutions	4
Tortoise Energy Transition	3
Tortoise Global Water	4
Troy Trojan Ethical Fund	2
US Solar	4

The picture in terms of the distribution of funds by asset class is little changed. 67% of the funds remain invested in equity, but when considered by funds under management, this falls to 57% since property and infrastructure are more significant (25% between them).

Fund Distribution by No. of funds in Asset Class

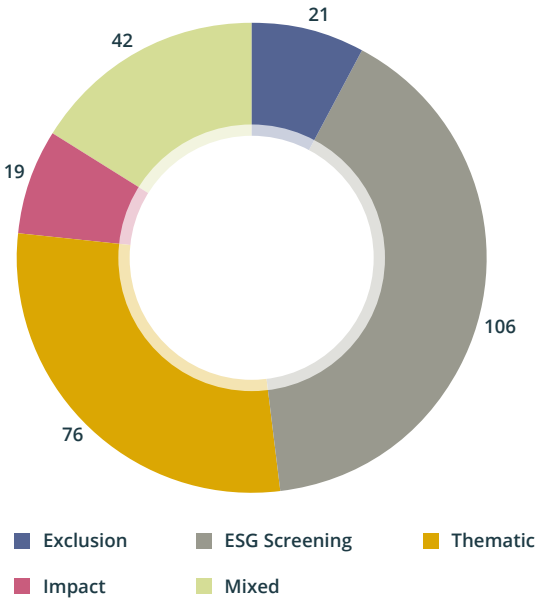


Fund Distribution by Asset Class (AUM £billion)

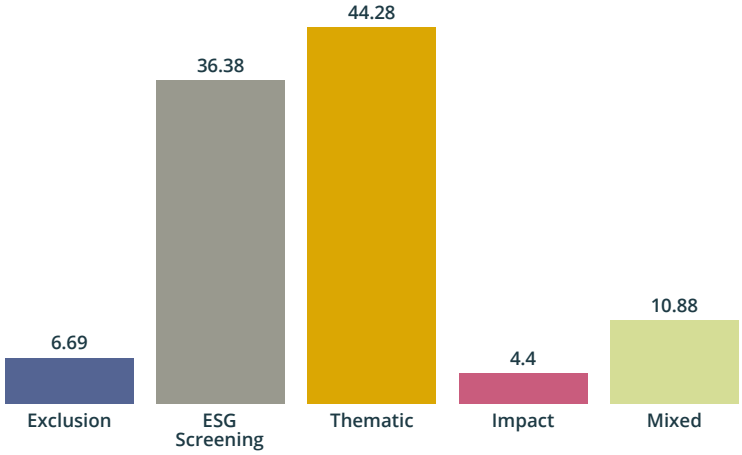


There is little change in the distribution of funds by approach. ESG screening and thematic investment are by far the most prevalent, both in terms of funds under management and by number of funds.

Fund Distribution by Approach (No. of 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. Impact – must be intentional and measure the impact as well as investing in companies that make a positive impact.

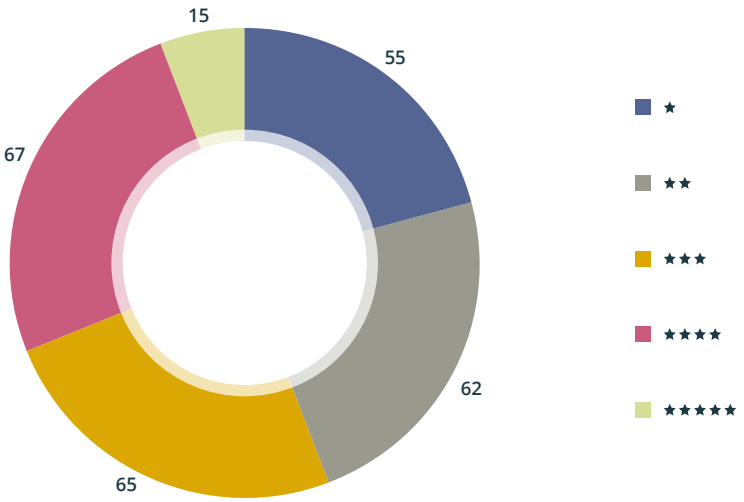
3D star ratings

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.

2.3

Median 3D star rating

44% of funds carry one or two star ratings, with around 25% of funds being rated at 3 and 4 stars respectively, and just over 5% being awarded the top rating.

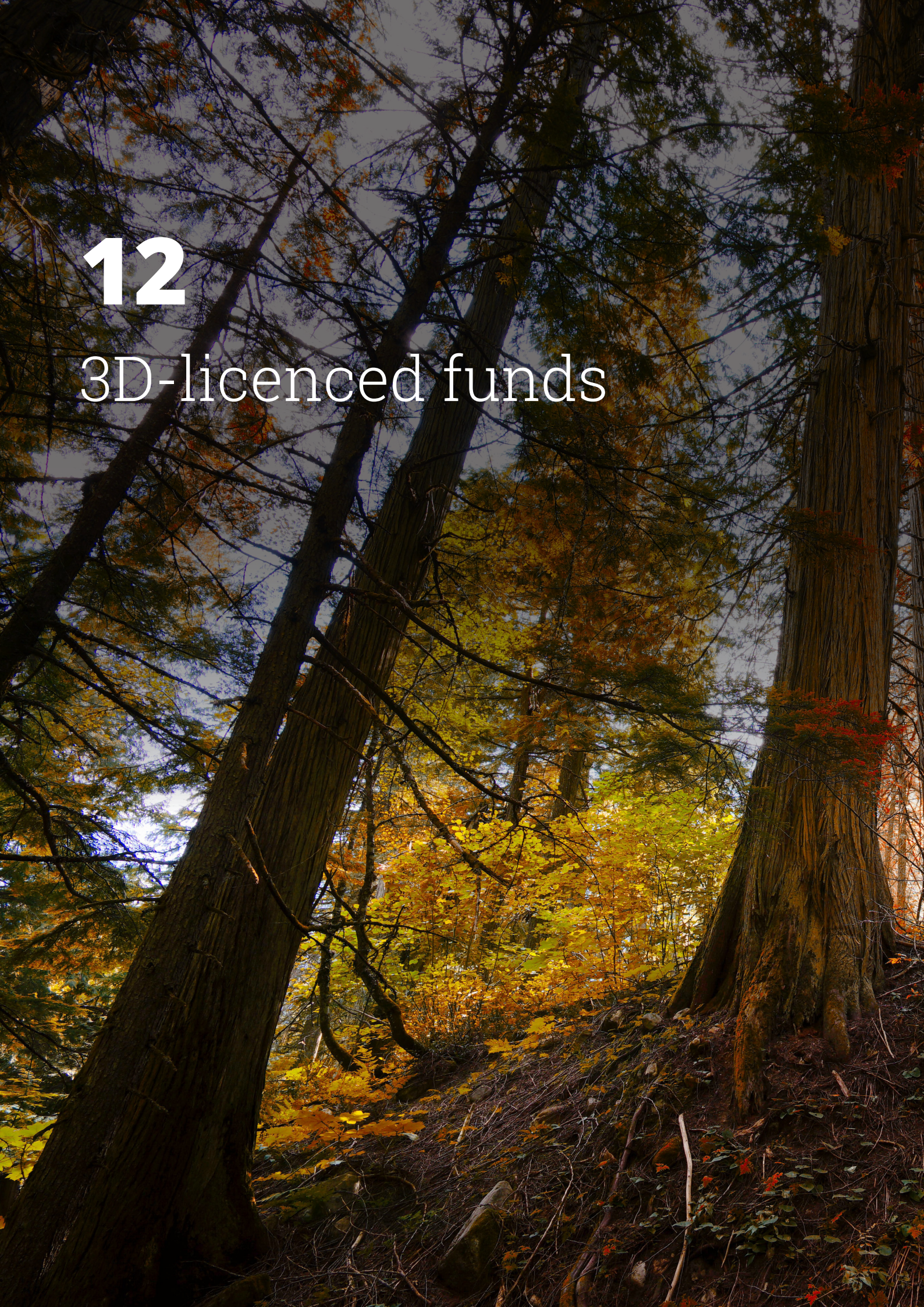


Star Rating Distribution (no. of funds)

The average star rating has risen significantly, largely due to a move to impact and thematic investing, as well as better standards of transparency. The major change has been in the number of 4 star rated funds, partly due to upgrading of existing funds and partly because of the launch of new funds that have been allocated a four star rating. Overall, there have been 15 upgrades and 1 downgrade.

Fund Name	3D star rating	Change
BMO Responsible Sterling Corporate Bond	2	↑
EdenTree Amity European	4	↑
EdenTree Amity Sterling Bond	3	↑
Guinness Sustainable Energy	4	↑
John Laing Environmental Assets	5	↑
Jupiter Responsible Income	3	↑
Kames Global Sustainability Equity	4	↑
Liontrust SF Absolute Growth	4	↑
Liontrust SF European Growth	4	↑
Liontrust SF Global Growth	4	↑
Liontrust SF Managed	4	↑
Nordea Emerging Stars Equity	2	↑
Pictet Clean Energy	4	↑
Sarasin Responsible Global Equity	3	↑
Stewart Investors Worldwide Sustainability	4	↑
UBS ETF (LU) MSCI Europe & Middle East S. R. UCITS ETF	2	↓

One of the things that we look for in a better rated fund is an impact report. These are still relatively few and far between, but its encouraging to see a significant increase in the number of funds producing impact reports. This has contributed to the upgrade of some of the funds listed above. Liontrust has produced an annual review of its Sustainable Future funds which incorporates impact data, whilst The Kames Global Sustainability Fund has issued an impact report for the first time, as has the Pictet Clean Energy Fund. It's also encouraging to see the John Laing Environmental Infrastructure Fund issue a Sustainability Report which considers ESG issues as well as impact data.



12
3D-licenced funds

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.

For more information on the star ratings visit www.3dinvesting.com/3d-star-ratings

3D-licenced funds

Although we rate funds without 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
Baillie Gifford Positive Change	3D Investing ★★★ www.3diavesting.com	A concentrated impact fund with sophisticated impact reporting and an exposure to emerging markets
Brown Advisory US Sustainability	3D Investing ★★★ www.3diavesting.com	One of only a few funds available to UK investors which invests wholly in the US.
Hermes Global Equity Impact Opportunities	3D Investing ★★★ www.3diavesting.com	8 core impact themes with incorporation of ESG and active engagement
Impax Environmental Markets PLC	3D Investing ★★★ www.3diavesting.com	A specialist, small & mid cap global environmental solutions fund
Investec UK Sustainable Equity	3D Investing ★★★ www.3diavesting.com	A UK equity fund that is differentiated by its' positive impacts.
Kames Global Sustainable Equity	3D Investing ★★★ www.3diavesting.com	This fund is distinctive for its focus on investing in positive change.
Liontrust Monthly Income Bond	3D Investing ★★★ www.3diavesting.com	A relatively high monthly income and demonstrates a preference for companies with strong ESG credentials.
Liontrust Pan European Growth	3D Investing ★★★ www.3diavesting.com	This fund is a leader amongst sustainable European equity funds and is the Euro denominated version of the fund.
Liontrust SF Absolute Growth	3D Investing ★★★ www.3diavesting.com	A growth fund with freedom to invest without reference to asset allocation benchmarks
Liontrust SF Cautious Managed	3D Investing ★★★ www.3diavesting.com	A mixed asset fund with a 60% allocation to global equities that benefits from good ESG management
Liontrust SF Corporate Bond	3D Investing ★★★ www.3diavesting.com	Like other ethical corporate bond funds, there is a high weighting in financials and a relatively low social impact but the fund benefits from strong ESG analysis.
Liontrust SF Defensive Managed	3D Investing ★★★ www.3diavesting.com	A mixed asset fund with a 45% allocation to global equities that benefits from good ESG management
Liontrust SF European Corporate Bond	3D Investing ★★★ www.3diavesting.com	One of only a few funds to provide exposure to European bonds with evidence of 'best of sector' ESG selection.
Liontrust SF European Growth	3D Investing ★★★ www.3diavesting.com	A leader amongst European equity funds
Liontrust SF Global Growth	3D Investing ★★★ www.3diavesting.com	A global equity fund which balances thematic investment with an ESG approach
Liontrust SF Managed	3D Investing ★★★ www.3diavesting.com	A mixed asset fund with a 20% allocation to fixed interest and the remainder in equities
Liontrust SF UK Growth	3D Investing ★★★ www.3diavesting.com	Some themes evident as well as a best of sector approach

Continued on next page

3D-licenced funds cont.

Fund	Star rating	Summary
Liontrust UK Ethical	3D ★★★☆	Similar to the SF UK Growth fund but avoids animal testing
M&G Multi Asset Sustainable Allocation	3D ★★★☆	An 'all in one' fund combing multiple assets with 30% dedicated to impact equities and the rest undergoing an ESG screen.
M&G Positive Impact	3D ★★★★	A concentrated impact fund with a bespoke impact reporting app.
Montanaro Better World	3D ★★★★	A global equity fund with 6 core themes and a focus on impact
Pictet Global Environmental Opportunities	3D ★★★☆	An environmental fund that seeks to keep within sustainable limits
Pictet Timber	3D ★★★☆	The only listed timber fund with credible ESG. Investments are held in timber or timber related companies.
Rathbone Ethical Corporate Bond	3D ★★☆☆	A UK corporate bond fund with rigorous exclusion criteria and a small amount in charity bonds
Rathbone Global Sustainability	3D ★★★☆	A high conviction fund that combines ethical screening with a thematic approach based on the Sustainable Development Goals
Sarasin Responsible Corporate Bond	3D ★★★☆	A UK corporate bond fund with a clear thematic approach
Sarasin Sustainable Equity - Real Estate Global	3D ★★☆☆	An open ended fund investing in global property shares with good ESG management
Standard Life Global Equity Impact	3D ★★★☆	Mixes ESG with a clear focus on positive impact in line with the UN Sustainable Development Goals.
Storebrand Global ESG Plus	3D ★★☆☆	An indexed global equity fund that incorporates rigorous climate change criteria
Triodos Sustainable Equity	3D ★★★☆	A global equity fund investing in large cap stocks with a 'best of sector' approach
Triodos Sustainable Pioneer	3D ★★★★	A thematic fund investing in multiple social & environmental themes
UBAM Positive Impact Equity	3D ★★★★	A concentrated impact fund that benefits from a partnership with the Cambridge Institute for Sustainability Leadership
VT Gravis Clean Energy	3D ★★★☆	A clean energy fund largely investing in clean energy infrastructure
Wellington Global Impact	3D ★★★★	One of the earlier impact funds with significant emerging markets exposure.
WHEB Sustainability	3D ★★★★	A thematic equity fund investing in sustainability themes with excellent impact reporting

The full rankings of funds assessed by 3D Investing is available for financial professionals through our partner Worthstone.

16

Financial performance

Fund performance

There's been little change in the overall performance data in terms of the relative performance of ethical and sustainable investment funds. Ethically screened and sustainable funds continue to demonstrate that adopting a sustainable or ethical policy need not be at the expense of financial returns, although as for the wider market, there is considerable discrepancy between funds. The data over the last 5 years is quite compelling. Of the 16 ethical UK equity funds monitored, 11 have outperformed the sector average (69%). This is replicated for global equity funds where 16 out of 23 ethical funds have outperformed (69%), and the case is even stronger for UK corporate bond funds where 8 out of 9 ethical funds have beaten the sector average over the last 5 years (89%).

We believe that it's 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 All Companies 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 3 Stars or higher to see how higher rated funds perform relative to conventional funds, and to ethical and sustainable funds as a whole. The evidence continues to show that positive impact need not come at the expense of financial returns, and if anything, investing for positive impact can improve returns.

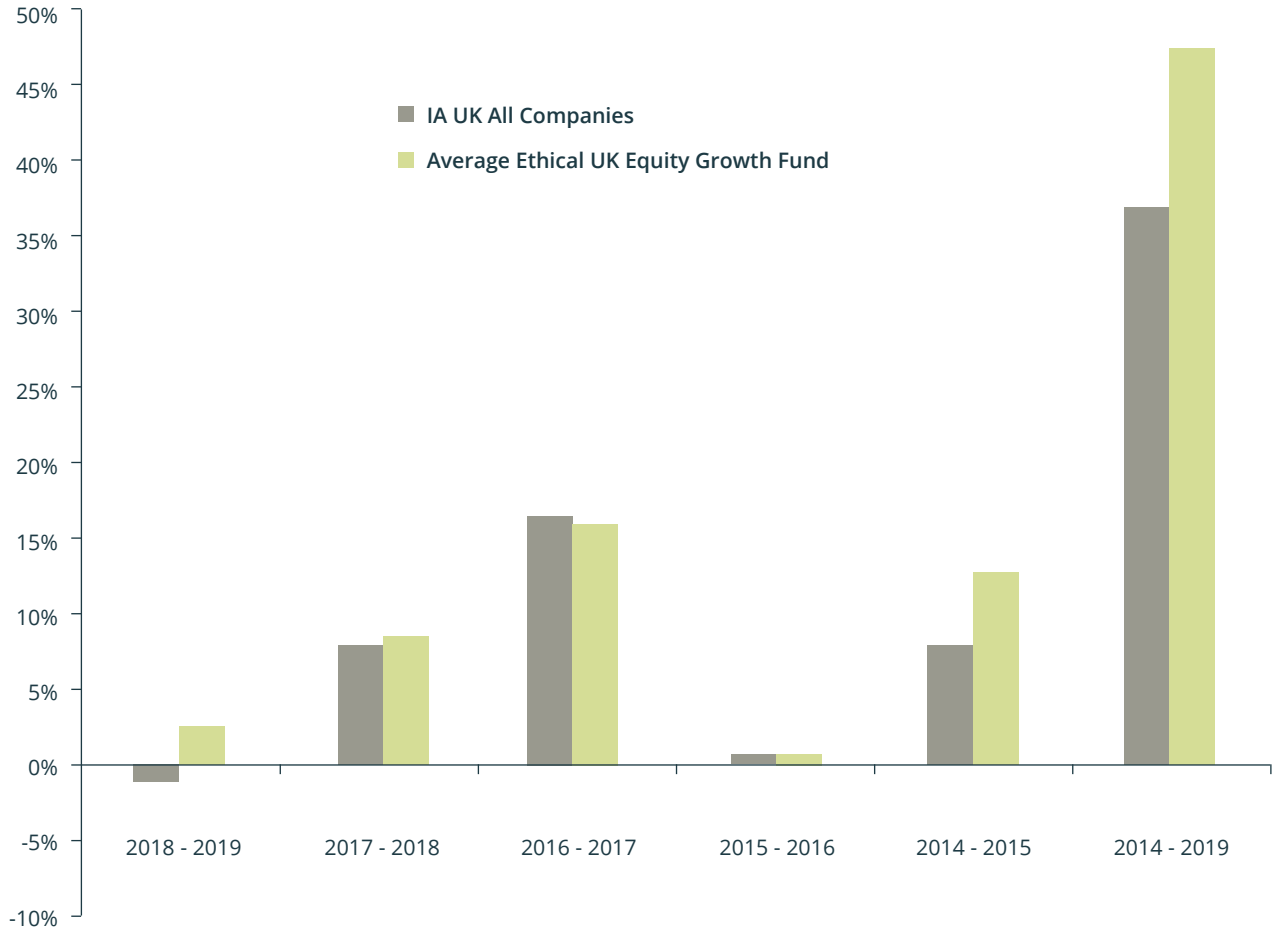
UK Equities

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
ASI Responsible UK Equity	7.09%	11.68%	15.95%	6.83%	2.48%	51.82%
ASI UK Equity Impact Employment	1.43%					
ASI UK Ethical Equity	-3.51%	10.72%	27.82%	-5.54%	17.17%	51.12%
BMO Responsible UK Equity	2.82%	12.42%	16.94%	3.11%	12.33%	56.56%
Edentree Amity UK	-2.16%	6.62%	13.66%	-0.82%	15.06%	35.32%
Family Charities Ethical	6.13%	5.38%	13.08%	1.76%	2.54%	31.96%
Janus Henderson UK Responsible Income	4.09%	4.89%	10.75%	2.27%	17.72%	45.58%
Jupiter Responsible Income	-0.81%	2.94%	12.68%	-3.46%	8.74%	20.78%
Kames Capital Ethical Equity	-3.81%	7.00%	10.60%	-1.88%	17.76%	31.53%
Legal & General Ethical Trust	2.53%	6.24%	11.82%	-3.08%	15.11%	35.89%
Liontrust SF UK Growth	7.05%	12.24%	18.76%	3.01%	17.96%	73.39%
Liontrust UK Ethical	9.20%	11.94%	21.07%	-1.65%	18.52%	72.50%
Premier Ethical	-4.12%	5.51%	25.31%	-4.83%	16.93%	41.06%
Royal London Sustainable Leaders Trust	11.42%	12.95%	12.81%	7.13%	16.03%	76.48%
Schroder Responsible Value UK Equity	-2.91%	14.02%	18.24%	1.37%	5.85%	40.45%
Scottish Widows Environmental Investor	7.74%	9.00%	11.63%	5.17%	7.27%	47.89%
Scottish Widows Ethical	5.75%	10.96%	12.47%	3.45%	5.54%	44.10%
Threadneedle UK Sustainable Equity	1.83%	5.78%	15.14%			
UBS MSCI UK IMI Socially Responsible	1.63%	6.20%	12.77%	4.93%		
IA UK All Companies	-1.14%	8.58%	16.67%	1.04%	8.42%	37.20%
Average Ethical UK Equity Growth fund	2.70%	8.69%	15.64%	1.05%	12.31%	47.28%
Average 3 Star+ Fund	4.01%	8.19%	14.98%	1.08%	15.67%	54.01%
Average outperformance of ethical fund	3.84%	0.11%	-1.03%	0.01%	3.89%	10.08%
Average Outperformance of 3 Star+ Fund	5.15%	-0.39%	-1.69%	0.04%	7.25%	16.81%
Average Outperformance of 3 Star+ Fund	1.53%	3.72%	-3.83%	3.48%	2.61%	12.24%

GREEN = OUTPERFORM SECTOR AVERAGE

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
IA UK All Companies	-1.14%	8.58%	16.67%	1.04%	8.42%	37.20%
Average Ethical UK Equity Growth Fund	2.70%	8.69%	15.64%	1.05%	12.31%	47.28%

The relative performance of ethical UK equity funds compared to the UK equity market as a whole remains very favourable, with the majority outperforming the average fund in the sector, especially over the last year. This continues the trend which has seen ethical funds outperform the sector in all but one of the last five years. The difference is even more marked for funds with a 3D Star Rating of 3 or more. Higher rated funds deliver a higher positive impact, so this positive correlation between performance and impact is especially notable.



Global Equities

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
AB SICAV I Sustainable Global Thematic Portfolio	13.80%	11.81%	23.52%	11.81%	18.75%	108.67%
ASI Global Ethical Equity	10.21%	8.11%	16.29%	12.37%	-3.32%	50.53%
Allianz Global Sustainability	16.09%	8.91%	16.66%	17.48%	6.93%	85.28%
Baillie Gifford Positive Change	10.22%	30.86%				
BlackRock SF Impact World Equity	11.07%	14.32%	17.21%			
BMO Responsible Global Equity	14.81%	14.40%	19.44%	15.03%	18.57%	113.98%
Davy Asset Management Ethical Equity	13.35%	14.56%	12.51%			
Dimensional Global Sustainability Core Equity	10.28%	12.45%	17.48%	16.56%	12.41%	90.88%
EdenTree Amity International	5.91%	6.30%	17.27%	14.63%	-0.52%	50.55%
FP WHEB Sustainability	7.98%	13.07%	13.23%	18.24%	15.55%	88.87%
GS Global Equity Partners ESG Portfolio	15.02%	10.56%	15.85%	9.42%	10.92%	78.80%
Hermes Global Equity ESG	9.50%	7.99%	20.55%	15.65%	13.10%	86.45%
Hermes Impact Opportunities	14.29%					
Impax Environmental Leaders	7.56%	9.72%	18.42%			
Impax Environmental Markets	8.46%	7.64%	18.94%	25.26%	4.24%	81.29%
Janus Henderson Global Sustainable Equity	15.68%	14.29%	18.45%	12.43%	16.23%	104.62%
JB RobecoSAM Global SDG Equities	15.25%					
Jupiter Ecology	6.47%	4.18%	15.43%	18.24%	5.56%	59.79%
Kames Capital Global Sustainability	19.78%	9.65%	19.35%			
Liontrust SF Global Growth	19.80%	13.66%	18.00%	12.42%	13.86%	105.67%
Montanaro Better World	10.66%					
Natixis Mirova Global Sustainable Equity	13.90%	13.61%	13.82%	15.44%	17.83%	100.32%
Quilter Investors Investors Ethical Equity	8.86%	5.17%	11.43%	25.67%	5.77%	69.57%
Pictet Global Environmental Opportunities	12.50%	10.41%	18.31%	21.05%	14.63%	103.92%
Rathbone Global Sustainability	11.65%					

Continued on next page

GREEN = OUTPERFORM SECTOR AVERAGE

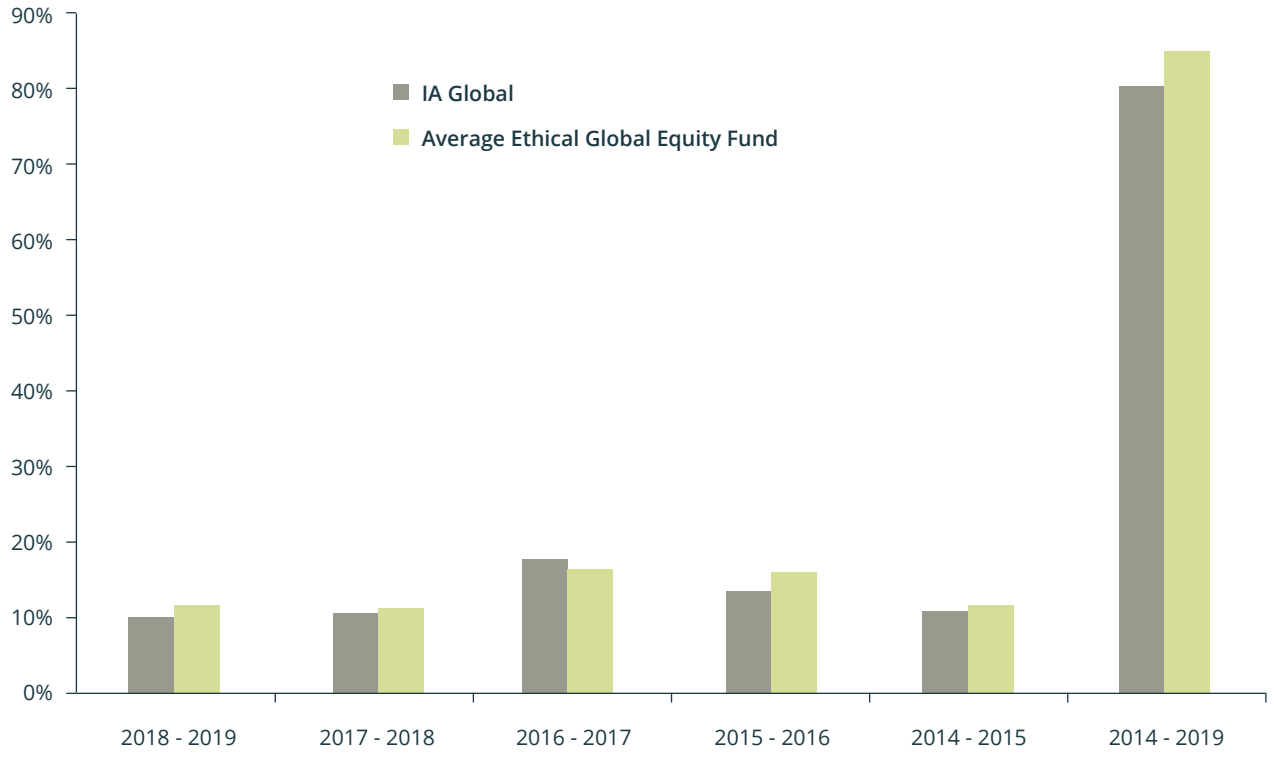
Global Equities cont.

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
Sarasin Responsible Global Equity	14.37%	10.15%	17.51%	11.36%	13.18%	86.58%
Schroder ISF Global Climate Change Equity	18.72%	13.47%	18.77%	15.61%	15.85%	95.81%
Sparinvest Ethical Global Value	1.98%	12.81%	16.67%	18.04%	4.42%	65.43%
Standard Life Investments Global Equity Impact	8.24%					
Stewart Investors Worldwide Sustainability	9.56%	7.24%	14.94%	26.04%	13.45%	93.11%
Triodos Global Equities Impact	13.83%	5.99%	12.54%	8.19%	22.78%	80.36%
Triodos Pioneer Impact	9.61%	5.47%	6.82%	13.29%	15.35%	61.36%
UBS MSCI World Socially Responsible	4.73%					
Vanguard SRI Global Stock	10.21%	11.68%	16.50%	16.30%	12.75%	88.03%
IA Global	9.99%	10.50%	17.78%	13.59%	10.79%	80.16%
Average Ethical Global Equity fund	11.60%	11.02%	16.52%	16.11%	11.66%	84.78%
Average 3 Star+ fund	12.07%	10.94%	16.39%	16.89%	13.19%	87.86%
Outperformance of average ethical global fund	1.61%	0.52%	-1.26%	2.52%	0.87%	4.62%
Outperformance of average 3 Star+ Fund	2.08%	0.44%	-1.39%	3.30%	2.40%	7.70%

GREEN = OUTPERFORM SECTOR AVERAGE

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
IA Global	9.99%	10.50%	17.78%	13.59%	10.79%	80.16%
Average Ethical Global Equity fund	11.60%	11.02%	16.52%	16.11%	11.66%	84.78%

The average ethical global equity fund has outperformed the IA Global average in all but one of the last five years, and has delivered a particularly strong performance over the last year. Even though some of the environmentally focused funds struggled in relative terms, 65% of ethical global funds outperformed the sector average in the year to 31 July 2019. There is little difference between funds rated 3 Stars or more and those with lower ratings.



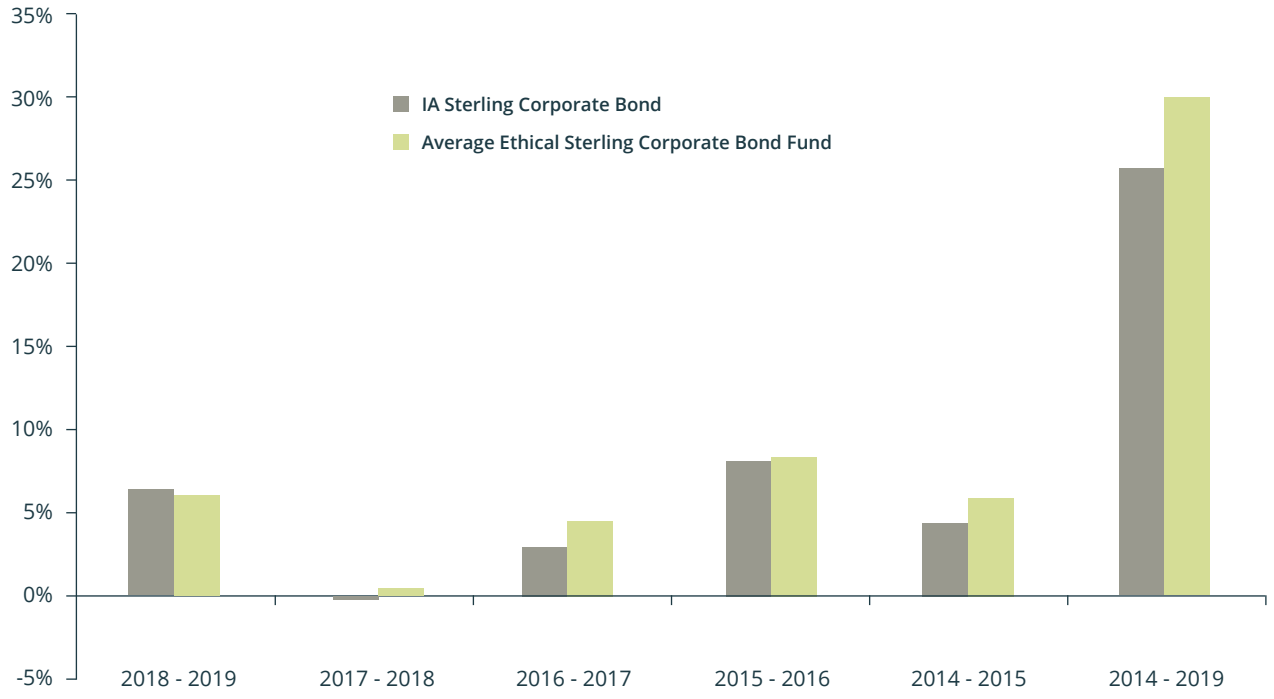
Sterling Corporate Bonds

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
ASI Ethical Corporate Bond	7.71%	-0.60%	3.25%	10.71%	5.64%	29.30%
BMO Responsible Sterling Bond	7.21%	-0.15%	2.48%	10.84%	6.28%	29.24%
EdenTree Amity Sterling Bond	4.81%	1.67%	7.36%	4.76%	4.96%	25.80%
Kames Capital Ethical Corporate Bond	6.67%	0.12%	3.28%	9.06%	7.22%	28.99%
Liontrust SF Corporate Bond	7.06%	-0.16%	6.78%	9.91%	6.41%	33.49%
Rathbone Ethical Bond	7.13%	1.43%	9.26%	7.48%	6.46%	35.85%
Royal London Ethical Bond	7.39%	1.44%	5.22%	9.83%	7.68%	35.56%
Royal London Sustainable Managed Income	7.23%	0.86%	4.35%	9.78%	7.17%	32.77%
Sarasin Responsible Corporate Bond	7.60%	-0.57%				
Threadneedle UK Social Bond	4.68%	0.18%	3.04%	10.87%	6.65%	27.77%
IA Sterling Corporate Bond	7.02%	-0.01%	3.26%	8.93%	4.85%	26.19%
Average Ethical Sterling Corporate Bond Fund	6.75%	0.42%	5.00%	9.25%	6.50%	30.97%
Average 3 Star+ Fund	6.61%	0.37%	5.33%	8.94%	6.36%	30.57%
Outperformance of average Ethical Bond Fund	-0.27%	0.43%	1.74%	0.32%	1.65%	4.78%
Outperformance of average 3 Star+ Fund	-0.41%	0.38%	2.07%	0.01%	1.51%	4.38%

GREEN = OUTPERFORM SECTOR AVERAGE

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
IA Sterling Corporate Bond	7.02%	-0.01%	3.26%	8.93%	4.85%	26.19%
Average Ethical Sterling Corporate Bond Fund	6.75%	0.42%	5.00%	9.25%	6.50%	30.97%

Although the average ethical UK corporate bond fund marginally underperformed the sector over the last year, this was skewed by two funds that significantly underperformed the sector average. In fact 7 out of 10 funds (70%) outperformed the sector average over this period. The longer term returns for ethical corporate bond funds are very strong, with funds outperforming in each of the preceding annual periods. There is little difference in performance between funds with a higher 3D rating and those with a lower rating.



All data to 31 July 2019. Total return with net income re-invested. Source: FE Analytics

25

Feature Article: Climate Change Investing – An Overview

Climate Change Investing – An Overview

In recent times, climate change has taken centre stage, at least when we're not talking about the never-ending 'B' subject. It wasn't always like this. I'm old enough to remember studying the topic as a very small part of a Geography degree in 1986. Back then it was very much considered to be a theory, with industry taking scant notice. How times have changed. The worst case scenarios have consistently been exceeded and there is a strong consensus about the threat of global warming, if not the policy response. Most large companies are reporting on their emissions and many have taken significant action to address the risks posed by climate change. These are very real, particularly for energy intensive companies which are currently heavily reliant of fossil fuels. Energy is such an integral part of the supply chain that there are few companies that won't be impacted by the transition to a low carbon economy. It should come as little surprise, therefore, that climate change has become an increasingly popular theme for investment funds. But what are the options for investors wanting to use their money to combat climate change, and how can they distinguish between those that pay lip service and the real deal?

The reality of climate change - the floods of 2015

Climate Aware Investing

The majority of funds treat climate change as a risk to be factored into investment decision making. We might call this 'climate aware' investing. Whilst this has some impact, and has led to important engagement and disinvestment from carbon-exposed companies, it has limitations since many funds continue to hold fossil fuel stocks regardless. For example, one manager espousing an ESG policy analysed the risk of continuing to hold an Indian cement producer. This company is an intensive user of dirty coal, but over a three year period, the investment manager concluded that this didn't pose a major financial risk to the company and continued to hold it. This is a prime example of why we take a somewhat sceptical view of ESG unless real world, systematic change can be demonstrated.

Funds with a focus on Climate Change

Fortunately, there are a growing number of funds that have a focus on climate change. A few of these call themselves 'climate change' funds, but these demonstrate great variability, from funds that include major fossil fuel companies, to others that adopt a rigorous exclusion policy on fossil fuels. The majority invest in multiple themes, some exclusively environmental and many in both social and environmental solutions. These seek to invest in companies that make a positive contribution to addressing climate change and other global challenges.

Focus of Fund	Number of Funds	Assets under Management
Climate Change	4	£622 million
Clean Energy	18	£8.821 million
Environmental (multiple themes)	24	£8,906 million
Social and environmental	43	£16,390 million
Other	1	£397 million

UK registered funds focussed on the theme of climate change in part or whole. Source: 3D Investing

There are also a significant number of funds that have a single focus on clean energy. The majority of these are so-called 'yieldcos' – companies that generate predicable income streams from operational solar and wind projects. Recently these have been augmented by investment companies investing in energy storage schemes which are an important part of the move to a low carbon economy.

Avoiding fossil fuels

Climate change funds largely avoid investing in fossil fuels, as do other funds with exclusion criteria, but care needs to be taken in determining exactly what is excluded. Climate change activists have traditionally focussed on divestment from fossil fuels, but what exactly does this mean and is it enough?

Most funds with an exclusion policy on fossil fuels avoid oil and gas exploration and development, but what about power producers that source energy from fossil fuels including coal? Gas is also portrayed as a 'transition fuel' and many ethical funds invest in gas distribution believing this to be a necessary part of the transition to a low carbon economy. Funds also seek to have exposure to oil through proxy stocks such as oil service companies that supply drilling equipment, oil rigs or other support services specifically for the extraction of oil, but how sustainable is this? These companies are equally dependent on the oil industry as exploration and development companies.

Taking the argument further, your portfolio may be free from direct investment in fossil fuels, but the indirect impacts may be equally significant. Carbon intensive industries such as cement and steel production are heavily reliant on intensive use of fossil fuels, as is the air transport industry. The meat and dairy industry also has a huge carbon footprint, so avoidance of the sector is consistent with a low carbon strategy.

Intensive consumers of fossil fuels are inconsistent with a low carbon investment strategy

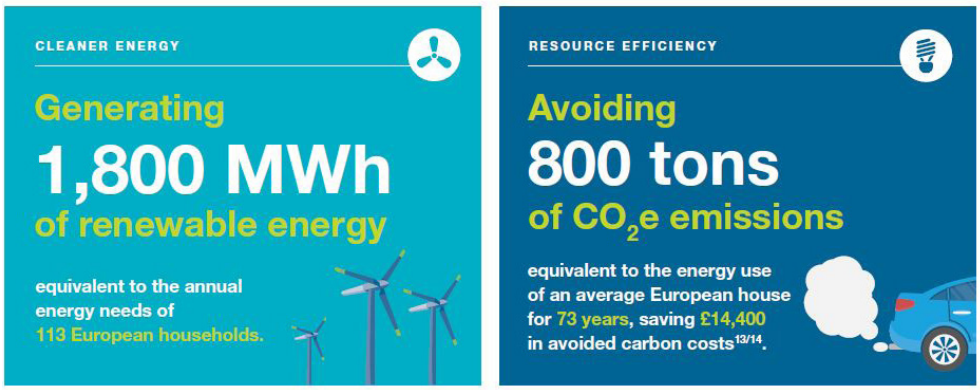
More than carbon

It's also true that carbon isn't the only issue. If you're concerned about the climate it's quite likely that you're also concerned to avoid companies making products with negative social and environmental impacts such as military weapons or tobacco. And equally, you can make positive impacts in other areas like investing in healthcare, resource efficiency and air quality. The multi thematic funds offer such solutions.

Determining Impact

One of the most critical aspects of investing from a climate change perspective is to be able to see the overall contribution of your investments to tackling climate change – is it positive overall, and if so, what is the net benefit? Quoting examples of investments in solar and wind is all well and good, but this can be misleading if the portfolio as a whole makes a negative contribution to climate change.

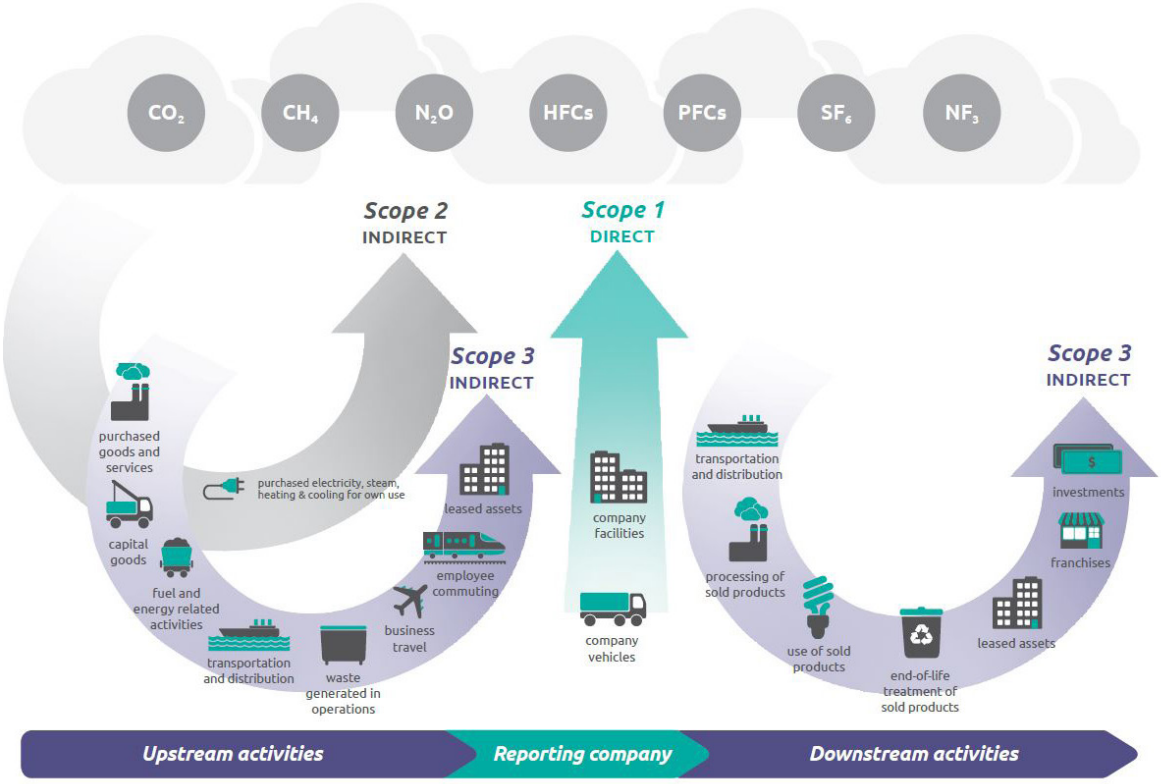
Owning £1m of The FP WHEB Sustainability Fund during 2018 was associated with:



Reporting on outputs and outcomes. Source: WHEB Sustainability Fund Impact Report 2018

There two main ways in which funds report on their climate change impacts. The first is to state the amount of clean energy generated by companies in which the fund invests, normalised in proportion to the size of the investment made. This output can then be related to an outcome – CO2 emissions avoided.

This is relatively straightforward as the data is widely available. Assessing the overall carbon footprint of a portfolio is much more complex, since data is very patchy. Most funds that report on their carbon emissions tend to base their reporting on Scope 1 and 2 emissions, since the data is relatively easy to access. Without going into the technicalities, these are the direct emissions of the company and the indirect emissions associated with electricity and heating energy purchased by the company (see diagram below). These emissions are clearly attributable to the company and under their control. Less easy to attribute and identify are the Scope 3 emissions, which is why many funds choose to limit the reporting to Scope 1 and 2, but this paints a very incomplete picture, since these are usually the greatest share of the carbon footprint. In some cases they can account for up to 90% of the total carbon impact. For example, the vast majority of an oil company's emissions are related to the use of its oil by third parties, but this is not reflected in its Scope 1 and 2 emissions data. So really we should be looking for data that captures these emissions, because otherwise we might come to a very incomplete, and potentially misleading, conclusion.



Source: GHG Protocol

Care must also be taken in comparing a fund's carbon footprint with an index as many funds do. Not only does this exclude Scope 3 emissions, but it doesn't take account of differences in the sectoral allocation. Although the data may tell us that Fund A has a lower carbon footprint than its benchmark index, this may simply reflect a difference in different exposures to carbon intensive industries. It doesn't tell us whether companies held in the portfolio manage their carbon footprint better than other companies in their industry. It simply gives a picture of the overall carbon intensity of the fund.

In summary, the ideal would be to identify the net emissions of the fund including the Scope 3 emissions. This involves subtracting the fund's carbon emissions from the carbon avoided to show the net carbon avoided. This relies on credible data being available which is currently questionable. Nevertheless, Investec Asset Management have pioneered such reporting with their Global Environmental strategy.

Key strategy outputs

Carbon reporting (# of companies reporting)

Scope 3 All categories **16%**

Scope 3 Some categories **16%**

Scope 1 & 2 **52%**

Carbon avoided total **28%**

Renewable energy produced in this Strategy

34.7 gwh

Carbon emissions can be offset by investing in this Strategy

4.93mt average carbon emitted per person per year

7,043 Cost to offset

Strategy intensity per $m revenue***

6,320 Carbon avoided − (**472** Scope 1 & 2 + **1,368** Scope 3) = **4,480** Net carbon avoided

Strategy carbon total (mt)

Gross carbon avoided		Scope 1 & 2		Scope 3	
Strategy total*	$1m invested**	Strategy total*	$1m invested**	Strategy total*	$1m invested**
115,336	1424	8,644	107	49,961	617

Strategy total* **56,730** — Net carbon avoided — $1m invested** **700**

Source: Investec Asset Management Global Environment Report 2018

Engaging for impact

Engagement is also a key part of investing for change. Climate change is a global issue requiring global action, so collaboration is critical. This includes the financial community which has an opportunity to demonstrate leadership in joint initiatives to bring about wider changes that individual fund managers will be unable to effect on their own. This includes initiatives such as the Carbon Disclosure Project (CDP) and the Institutional Investors Group on Climate change (IIGCC). CDP is an international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. The latter works with business, policy makers and fellow investors to help define the investment practices, policies and corporate behaviours required to address climate change. Such collective action complements direct engagement with investee companies.

It can be seen that, although there are a number of serious issues that need addressing, the options for the investor wanting to use their money to make a positive impact on climate change are far more varied than simply avoiding fossil fuels or investing in clean energy. Carbon data is improving rapidly and a climate-positive portfolio is very much a practical proposition today.

32

Aberdeen Standard Investments

Investing in a changing climate

Aberdeen Standard Investments

Investing in a changing climate

By Eva Cairns,
ESG Investment Analyst

Our climate is changing. In recent years, we have seen an increase in costly extreme weather events such as storms, wildfires and floods. These have coincided with the hottest years on record. The need for action is clear. As asset managers, we have a vital role to help address these problems. This presents challenges – but also a wealth of opportunities for investors.

A huge task ahead

A growing population is causing rising demand for energy and food. At present, that means burning more fossil fuels. This comes with an increase in greenhouse gas emissions (GHG), a major cause of rising temperatures. GHG emissions hit a record high in 2018. As they continue to rise in many regions, the fallout could intensify.

In an attempt to tackle the crisis, 180 nations signed the Paris Agreement in 2016. This accord pledges to limit temperature rise "well below" 2°C of pre-industrial levels, and ideally within 1.5°C.

To achieve this, however, global emissions must decline by 45% in 2030, and reach zero by 2050. With current policies, we are on track for over 3°C warming by 2100.[1]

The consequences for failing to meet this goal were laid bare by the Intergovernmental Panel on Climate Change. In its Special Report on Global Warming of 1.5°C, it detailed the environmental, social and economic damage we can expect if we don't take more ambitious action. It made for sobering reading.

Natural disasters in 2017 caused overall losses of US$340 billion.[2] This was the second-highest annual loss ever and almost double the previous year's level. If this continues, businesses will experience more frequent and severe physical impacts across the whole supply chain. This will include damage to infrastructure and disrupted operations, water stress, poor harvests and more expensive assets and commodities.

Challenges and opportunities

To address the issue, the world needs to transition to a low-carbon economy in a meaningful way. Nations will have to dramatically reduce the level of fossil fuel in the energy mix. Many have already started to do so. In China, for example, 20% of energy is due to come from non-fossil fuel sources by 2030.[3] Similar polices are in place in the EU and UK.

However, the transition presents challenges. Companies and economies will face major costs during this time. Transition risks are becoming more material as countries step-up actions to reach Paris agreement goals. Risks include those around policy such as rising carbon prices; stranded asset risk, where carbon-intensive fossil fuels become obsolete; and reputational risk – businesses that fail to demonstrate action will incur public and shareholder censure.

But the transition also brings opportunities. Considerable sums of private capital are needed to cover the shortfall in investment required for the shift towards a low-carbon economy. The International Energy Agency (IEA) estimates that achieving a Paris-compliant energy transition requires around US$3 trillion in investment every year.[4] The rewards for investment into low-carbon energy sources and technologies are therefore considerable. Areas of focus include: renewable energy, energy efficiency & storage and electric vehicles. Then there is the production of new low-carbon fuels such as hydrogen and, potentially, carbon removal solutions.

As asset managers, we have a critical role to play in providing finance for the transition to a low-carbon economy. We also have a responsibility to all our clients to consider how climate change will impact the value of their investments.

For our part, assessing the risks and opportunities of climate change forms a core component of our investment research and approach to environmental, social and governance (ESG) integration. Through engagement, we also seek to steer companies towards ambitious targets and sustainable low-carbon policies. Further, we collaborate with others, such as the Institutional Investors Group on Climate Change, to help effect change and support better disclosure.

Final thoughts...

Climate change is one of the most significant challenges of the 21st century and has big implications for investors. Countries have started to act. The energy transition is underway in many parts of the world. We are seeing policy changes, falling costs of renewable energy and a change in public perception. But we all need to do more to meet the targets set out in the Paris agreement. While challenging, this will create huge opportunities for businesses, economies and investors. The price for inaction, however, will be immeasurable.

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[1] Special Report on Global Warming of 1.5°C, IPCC, October 2018

[2] NatCat Service, MunichRe, accessed July 14 2019

[3] An interactive map of all climate related legislation is provided by the Grantham Institute of Climate Change and the Environment: http://www.lse.ac.uk/GranthamInstitute/countries/

[4] International Energy Agency (IEA). World Energy Outlook 2008, https://www.iea.org/weo2018/scenarios/

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35

M&G Investments

Actively investing in the transition to a low carbon economy

M&G INVESTMENTS

Actively investing in the transition to a low carbon economy

By Ben Constable-Maxwell, Head of Sustainable and Impact Investing at M&G Investments

Whether it's the rising number and intensity of hurricanes or floods, forest fires or droughts, it is increasingly untenable to ignore the causes and consequences of climate change.

Arguably there is no more critical challenge facing global society. The effects of global temperatures rising to 1.5 degrees Celsius above pre-industrial levels, as projected by the International Panel on Climate Change, are severe. At two degrees, the impact looks grave.

It is not only the health of our planet at risk from rising carbon emissions, but also our financial wellbeing. Despite the scale of the challenge, I am buoyed by the contribution that investors can make by channelling resources and exerting their influence.

The power of persuasion

Active investors like M&G have long held company management to account on corporate strategy and governance. In the same way, we can hold feet to the fire on climate change.

Companies need to properly understand the risks, and I believe it is the role of responsible investors to persuade and cajole their management to make positive changes. Frank discussion about the risks that climate change poses to a company – for instance, if rising sea levels might inundate its coastal assets – can shape opinions and strategy.

When it comes to lending sufficient weight to the management of climate risks, an important step is disclosure. The Taskforce for Climate-related Financial Disclosures (TCFD) has developed a framework for consistent climate-related financial risk disclosures, upgrading the importance of climate reporting by requiring its integration within financial accounts.

We also want to see ambitious targets and metrics to ensure companies make tangible progress towards mitigating risks. Another vital step is linking executive remuneration to climate-related goals. Rewarding progress and aligning incentives makes them more likely to be achieved.

Shaping a sustainable transition

I believe the transition to a lower carbon economy will be more effective if incumbent companies are coaxed into playing an active part.

Their scale means they are well-placed to deliver a positive impact. For instance, if a global car maker can halve carbon emitted from the 10 million vehicles it makes a year, its environmental benefits could far outweigh those of a manufacturer of 1,000 zero-emission cars a year.

Leading companies which spearhead and mainstream sustainability in their sectors can deliver terrific impact. Take Ørsted, for example. The Danish energy company is at the forefront of society's transformation towards renewables, having once been a fossil fuel-focused business. Today, Ørsted has built more offshore wind farms than any company worldwide and has committed to being coal-free by 2023, when it will have reduced its carbon emissions by 96% compared to a decade ago.

Where leading companies can evolve and tap into trends like rising demand for green electricity, their shareholders can aspire to achieve sustainable financial returns and contribute to a demonstrably positive impact for the climate.

Keeping up the pressure

While the shift away from a carbon-intensive economy may appear incremental, I am confident that we are on the cusp of companies accelerating their progress, spurred by legislative, normative and economic pressure.

Good intentions are reflected in the number of companies committed to a trajectory that limits the global temperature rise to less than two degrees Celsius above pre-industrial levels – a goal of the international Paris Agreement on climate change.

Investors are right to support companies that take steps towards combatting climate change, but it is also right to expect material progress. If companies fail to act, investors have a responsibility to use all tools at their disposal.

The threat of divestment can be an effective one. It has certainly moved the dial on corporate attitudes, but it is not a panacea. Using ownership and stewardship as instruments – exerting pressure alongside other shareholders on companies to decarbonise – can be more powerful.

Investors with more than US $34 trillion in assets under management have signed up to the Climate Action 100+ initiative to ensure the world's largest corporate greenhouse gas emitters take action on climate change. After engagement with Shell in 2018, the oil major not only committed to set carbon emissions targets, but linked executives' long-term incentive plans to meeting them. BP has committed to align its capital expenditure strategy with the Paris Agreement.

The environmental risks of climate inaction are evident. Where companies do not act, they will not only expose themselves – and their investors – to financial losses, but they will miss opportunities for success that lie in tackling this challenge.

38

UBP

A pragmatic approach to the carbon reduction effort – the very different roles of Emerging and Developed markets

A pragmatic approach to the carbon reduction effort – the very different roles of Emerging and Developed markets

By Victoria Leggett, Head of Impact Investing, and Portfolio Manager, and Mathieu Negre, EM Impact Portfolio Manager and Analyst.

UBP

UNION BANCAIRE PRIVÉE

The Paris agreement sets ambitious targets for carbon emission reductions at the global level, but it doesn't say much about how those efforts should be shared among nations. High-income countries (HICs) represent a disproportionate part of global emissions, and should be expected to reduce them faster. The good news is that many HICs have already started this process.. It would be unreasonable to expect Low- and Middle-Income countries (LMICs) to make similar efforts.. They are responsible for a much lower share of historic emissions and also, as carbon emissions correlate partly with income levels, they have a much smaller footprint.

This regional disparity is significant. The average person in North America and Western Europe is emitting respectively 22.5 and 13.1 tonnes of CO2 every year[1]. This represents 3.6 times and 2.1 times the global average, which itself is almost 5 times what is currently estimated as the sustainable level. In Africa, the average person is emitting 1.9 tonnes of CO2, 30% of the global average and "only" 1.5 times the estimated sustainability level. This discrepancy explains why some studies have estimated that the 10% richest individuals are responsible for 49% of all global emissions[2].

Should we then conclude that the carbon reduction effort will only fall on HICs? It's true that there is much that can be achieved from rich countries drastically reducing their emissions. However, unlike the HICs, Low income countries typically have growing populations (and carbon emissions). Furthermore, the disparity lies not just between HICs and LMICs, but within them. Urban areas in some developing countries have footprints to rival the USA. Our solution to the carbon problem must therefore be more nuanced and as investors, we must adapt our criteria depending on the circumstances.

This is particularly relevant for those investors using the Sustainable Development Goal (SDG) framework. In Developed Markets, carbon stability should be the minimum threshold to invest in a project that does not target the climate issue directly. One recent U.S. name addition to UBAM - Positive Impact Equity, illustrates this point. This company is developing a proprietary plastic recycling technology that could make an important contribution to the circular economy (SDG 11, 14 & 15). However, it is a vital part of the investment thesis that this technology is itself low-emission and that, in its effort to support the circular economy, the company is contributing to carbon reduction through its revenue streams. Had this not been the case, we would not have invested.

In Emerging Markets, the same strict approach cannot be applied as emissions will increase in some countries or areas as they develop further, and we should prioritize, in some sectors, mitigation efforts over outright reduction. As a contrasting example, UBP has considered investing in companies which lend to communities with low access to credit in rural India. Some of those lenders offer asset-backed loans, and the asset pledged is almost always a fossil fuel vehicle. The carbon impact of such an activity is undoubtedly negative. But it supports economic growth in communities whose carbon footprint is a fraction of the global average. We estimate that they emit, at most, 20% of the global average emissions per capita, and a lot of progress is still to be made in those communities on other SDGs such as poverty reduction or reduced inequalities. All in all, we concluded that such companies have a net positive impact.

We could find other examples that would test the limits of this approach. What applies to Indian farmers does not necessarily apply to richer countries or segments of populations. Should we encourage a similar business model for Chinese urban working classes? (We think not.) Should rural areas benefit from the same lenience in Chile, South Africa or South Korea? (In a nutshell: no, yes and no.) As Impact Investing develops globally, we will surely encounter many similar dilemmas, for which different institutions will have different answers. For now, we think that a differentiated approach on the topic of carbon emissions is essential if we are to achieve societal as well as environmental goals. However, differentiation doesn't mean an absolution of responsibility. Investors, countries and companies must recognise that moving to a less carbon intensive growth model will impact profitability everywhere. Those that are trying to build a sustainable business should adapt their strategy now.

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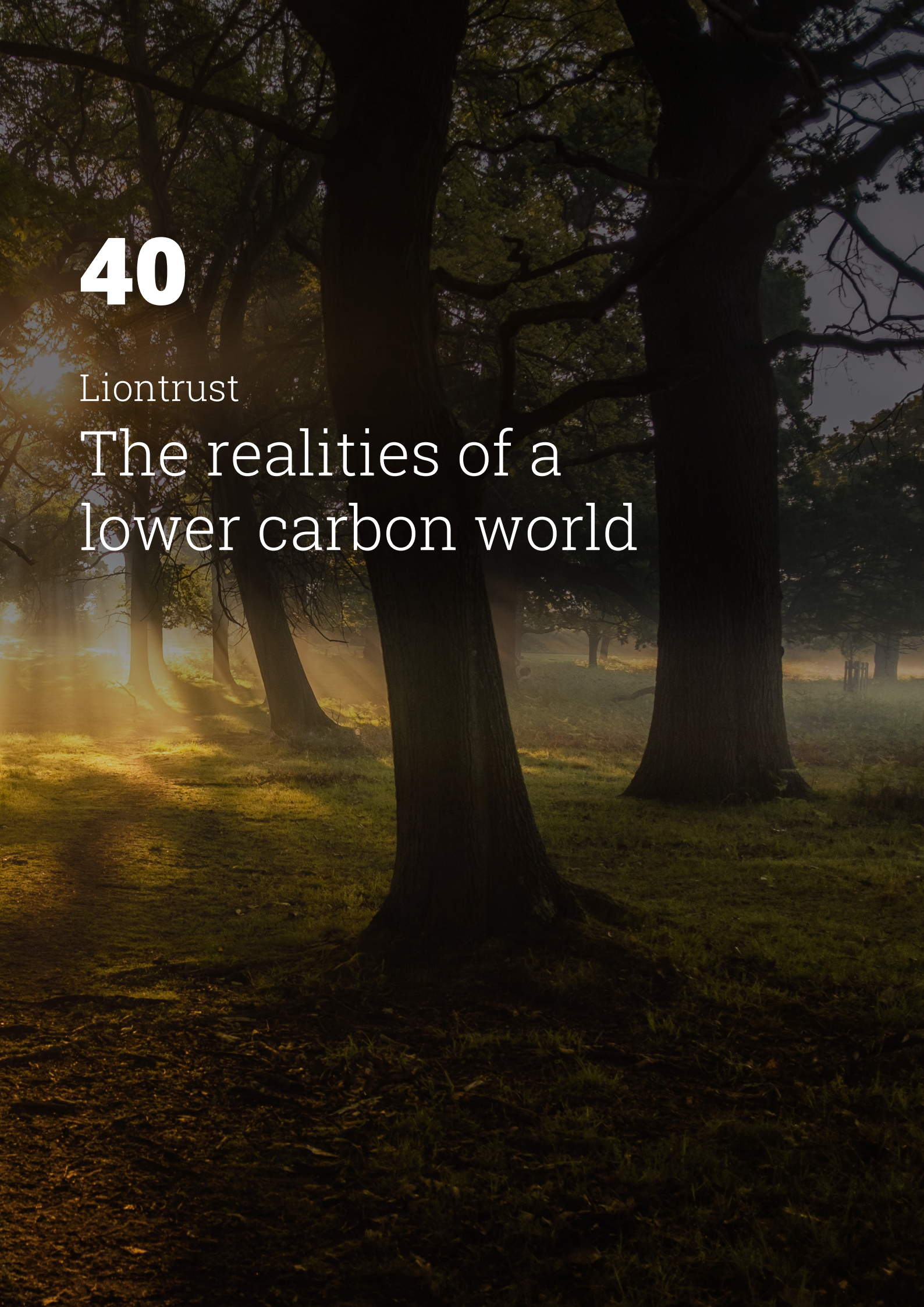
[1] All emissions data at the regional level are from "Carbon and inequality: From Kyoto to Paris." L Chancel, T Piketty - Paris School of Economics, 2015.

[2] Extreme Carbon Inequality, Oxfam Report, December 2015.



40

Liontrust

The realities of a lower carbon world

LIONTRUST

The realities of a lower carbon world

By Mike Appleby, Investment Manager on the Liontrust Sustainable Investment team

Climate change remains a hugely emotive topic around the world, with awareness and activism both surging in recent months. But while many might be aware of the Paris Agreement to limit global average temperatures and the UK's recent pledge to be carbon neutral by 2050, it remains to be seen how far these goals are understood in practical terms.

We have looked to see what this net zero emissions target means for the average person in the UK, who directly emits 10 tonnes of carbon dioxide a year. Broken down, approximately 5.7 tonnes of this is from transport, 2.7 tonnes from heating with natural gas and a further 1.6 tonnes from the electricity used in the home. If people are so minded, there are a few simple steps to reduce these figures almost immediately.

Taking electricity first, moving to a 100% renewable provider (of which there are a growing number in the UK) can be done instantaneously and, for the most part, for the same price as existing tariffs. This ensures all the electricity people need is supplied to the grid via renewable sources and moving to such a provider reduces the annual emission by 1.4 tonnes.

On the heating side, ensuring homes are properly insulated can cut another 0.5 tonnes off that annual emission level – and while this work will mean an initial outlay of a few hundred pounds, the saving on future heating bills should more than offset that in fairly short order.

Coming finally to the transport question, electric vehicles (EVs) will become significantly cheaper as all the main car manufacturers bring more affordable EVs to market in the next few years. The charging infrastructure is also being expanded at pace. As these two barriers to adoption are reduced, we believe EVs will take a meaningful share of the car market. Moving to an EV shaves a further 1.7 tonnes off the annual level, and again, while there is a cost question at the purchase stage, there are considerable ongoing savings versus running a petrol or diesel car.

According to data from British Gas, for a small family hatchback over 10,000 miles, the average price per mile is 4.1 pence for an EV versus 18p for a petrol car, while a large diesel vehicle is considerably more expensive. Figures do vary according to car model and various other factors (including charging at home versus a public point).

A final measure is cutting down airline flights where possible and, as a last resort, offsetting the impact where you have to travel, which can take another 1.7 tonnes off the total. There are two main types of offsetting projects: investing in renewable energy projects or for the more horticulturally minded out there, either stopping existing trees being cut down or planting new ones.

If we take all these measures together, it is easy to more than halve the average person's direct carbon emissions in the UK. In this example, it removes a total of 5.4 tonnes off the average annual emission of 10 – and with the possible exception of changing cars, these are all steps that can be taken in a few days, without excessive cost and with very little discernible impact on our daily lives.

Looking at the wider picture, getting to zero emissions requires halving current global emissions by 2030, halving again by 2040 and then halving/offsetting the rest by 2050. To be clear, current regulatory demands would produce nowhere near that kind of reduction and we predict much tighter global policies on emissions in the years ahead.

This is likely to create opportunities for companies on the right side of this energy transition, including those providing renewable energy, smartening our ageing grid infrastructure and providing more efficient transport, as well as waste sorting, treatment and recycling and innovations to reduce the carbon intensity of industrial processes.

In contrast, companies that produce carbon-intensive products or services will increasingly find themselves on the wrong side of regulation. In electricity generation, we see huge risks to coal, for example, which is effectively dead as it is the most carbon-polluting way to generate electricity.

Wind and solar are now the cheapest ways to generate electricity in many countries, including the UK, and this should logically translate into even higher demand for renewables: it not only makes sense economically but is also the answer to reducing the carbon intensity of the electricity we use. We believe the magnitude and pace of this change is underestimated and will be a major driver of investment returns over the next decade and beyond.

Key Risks

Past performance is not a guide to future performance. Do remember that the value of an investment and the income generated from them can fall as well as rise and is not guaranteed, therefore, you may not get back the amount originally invested and potentially risk total loss of capital. The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term. Some of the Funds managed by the Sustainable Future Equities team involve foreign currencies and may be subject to fluctuations in value due to movements in exchange rates.

44

Triodos Bank

Lifting the lid on impact investments

Triodos Investment Management

Lifting the lid on impact investments

In an increasingly crowded marketplace, how can the real impact of investments be assessed?

We frequently hear about new social and environmental challenges that the world is facing. From loss of biodiversity to social inequality, we can trace many problems back to an economic system that is focused solely on output and growth.

Conscious of the potential harm in pursuing growth for growth's sake, investors are increasingly keen to ensure their investments are not harming the planet. Environmental, social and governance (ESG) funds – where managers assess companies against these criteria – have risen in popularity. According to the Investment Association, UK investors directed £234 million into ethical funds in just one month in June 2019.

However, with the growing awareness and popularity of ethical investing, some would-be investors are looking to take an extra step to ensure that their money is supporting only the companies actively trying to make the world a better place.

Dame Elizabeth Corley is chair of the newly formed Impact Investing Institute. She says: "The impact investing market has grown rapidly in the UK and around the world. Investing for positive impact goes beyond avoiding harm and mitigating risks, and is at the centre of a wider movement towards more responsible investing." But how can positive change be assessed?

Triodos Investment Management, the fund management side of Triodos Bank, has identified six global trends and challenges, derived from the United Nations Sustainable Development Goals. All companies within the impact funds that invest in listed equities and bonds must contribute to areas identified for growth, which include sustainable food and agriculture, renewable resources, social inclusion and the circular economy.

Dick van Ommeren, managing director at Triodos Investment Management who is responsible for the impact equities and bonds funds, explains: "While it's a good start to withdraw investment from companies that are negatively affecting the planet, it's only through impact investing that we can support the innovative businesses that are truly tackling global issues.

"We can't achieve a more sustainable future alone, so we collaborate with the companies we invest in to promote and encourage sustainable practices. We work together to help increase their positive impact and use our shareholder voting rights to ensure that decisions around financial profit are not made at the expense of people or planet.

> *"With so many options now on the market, it's key for potential investors to dig deeper into what an investment labelled as 'green', 'ethical' or 'responsible' actually offers. We believe impact investing can, and should, help us transition to a sustainable future."*

Examples of companies currently in the global Triodos Impact Equities Funds

First Solar

First Solar is a leading global provider of photovoltaic (PV) solar systems. Its thin film PV technology has approximately half the carbon footprint of conventional crystalline silicon PV modules – using less energy, water and semiconductor material during manufacture.

Central Japan Railway (JR Central)

Central Japan Railway (JR Central) is the second largest railway operator in Japan, connecting some of the country's largest cities. The company is actively reducing emissions from the transport industry – compared to an airplane on the same route, its train will produce 92% less carbon emissions per seat, but still compete on time and price.

Kingspan

Kingspan manufactures, distributes and sells building materials. The company is a global leader in high-performance insulation, which has a positive impact on lowering energy consumption. In 2018, its insulation systems saved over 192 million MWh of energy and 38 million tons of CO2 emissions.

47

Rathbones

Investing in climate action stocks

Rathbones
Look forward

Investing in climate action stocks

By David Harrison, Fund Manager, Rathbone Global Sustainability Fund

There is no doubt that climate change is one of the most important environmental challenges we face today. Despite efforts to combat pollution and carbon emissions, the past 20 years have been punctuated by record-high temperatures, devastating hurricanes and melting glaciers and ice caps.

The Rathbone Global Sustainability Fund aims to create long-term value by investing in companies that display strong environmental, social and governance policies and practices. One aspect is that its managers aim to determine if a company is successful at translating aspirations into tangible results. To measure this, the team has mapped the 17 United Nations Sustainable Development Goals (SDGs) to eight broad themes in which the fund invests, one area of focus is on companies that are making a positive impact on climate change. Each of the companies discussed represents an investment opportunity that offers the benefits of a successful long-term business strategy and a solid market position, in addition to putting sustainability at the heart of what they do.

Here's an example of three of the companies currently within our portfolio, market leaders in their respective fields, who are not only combatting climate change but are strong investment opportunities in their own right.

Water heating and purification

Life depends on water, but the way it is used is frequently inefficient. Companies that can develop more efficient water heaters and purification systems can therefore fall under the sustainability theme. The first example is a company which specialises in residential and commercial water heaters and boilers; a market leader in energy efficient water heaters in the US. Over 60% of its revenues stem from the US residential and commercial market, although it is seeing revenue growth in China, where it offers a premium product. It can be slightly cyclical (sensitive to changes in the economic cycle) at times, but continual investment in research and design, as well as a move into water purification, add a degree of resilience.

The company's products help to reduce energy consumption and are highly recyclable. Moreover, its water treatment initiatives help to improve access to fresh water, which can be problematic in some regions of the world.

Building energy efficient spaces

Companies that provide products for constructing more efficient homes and buildings can be strong investment opportunities. Based in Ireland, my next example of a company we hold in the fund manufactures insulation and other solutions that make buildings water and weather tight. As a business that services the construction industry, it is somewhat cyclical in nature, but the fact it is well-managed and invests in innovation means that it is an attractive long-term holding.

What sets this company apart from its competition is its focus on sustainability as well as its strong business model and discipline on pricing. It operates in the premium end of the market and sells on the rationale that the efficiency gains its products offer will pay for themselves. This is a company that counts large construction firms as its customers, yet it refuses to commodify its products simply to bring revenue through the door.

It can be difficult to find businesses in the building materials sector that are acting on climate change, and this is one of the rare few that are. It continually invests in technology so that its products help achieve greater energy efficiency in addition to improving safety and fire protection characteristics.

Renewable power generation

Wind turbines have long been the poster child of renewable energy, but only recently have their costs fallen below that of gas and coal, making it a much more attractive proposition. Lastly, this company we own is seen as a market leader for onshore wind farms, earning a solid margin and building strong relationships with utility companies around the world. It is disciplined on pricing and has a strong franchise, and benefits from not only being a turbine supplier, but also a service and maintenance provider across the market.

While this business may face some volatility as government subsidies decrease, it is a leader in the renewable energy sector and has a strong business model. It is protected by high barriers (costs and other obstacles) to potential competitors entering the wind energy market, and is well placed to capitalise on the growth of this market. With wind power being seen as a critical asset as the world moves away from carbon-based energy, this company is a good fit for the fund's climate action investment theme.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in the context of the constitution of the fund and in no way reflects an investment recommendation.

Past performance should not be seen as an indication of future performance. The value of investments may go down as well as up and you may not get back your original investment.

50

Hermes

Investing in a low carbon future: a case study

HERMES
INVESTMENT MANAGEMENT

Salesforce: investing in a low-carbon future

By Louise Dudley, Portfolio Manager, Global Equities

Salesforce has cut its net greenhouse gas emissions to zero and delivered a carbon-neutral cloud. In this case study, we examine the company's strong corporate governance and environmental policies and consider what this means for its potential as a long-term investment.

Carbon crackdown

Salesforce is working to minimise its impact on the environment. A quarter of its revenue is aligned to SDGs seven (affordable and clean energy) and 13 (climate action). It recently made headlines when it achieved net-zero greenhouse-gas emissions and a carbon-neutral cloud.

The firm's reach means that it has the power to reduce the impact that both it, as a company, and its customers have on the planet. Last year, Chief Executive Marc Benioff said he was committed to achieving 100% renewable energy for the company's operations. Statements like this suggest that Salesforce's commitment to mitigating the effects of climate change is credible.

Change in the air: TCFD

As part of our analysis of Salesforce's ESG characteristics, we have assessed its disclosures on areas recommended by the Task Force on Climate-related Financial Disclosures (TCFD), an initiative backed by the Financial Stability Board.

The TCFD's recommendations aim to help companies disclose climate-related risks to investors and other stakeholders. As of July 2019, Hermes was one of 810 organisations pledging support for the TCFD.

We have focused on two TCFD recommendations: governance, as well as metrics and targets (see chart). We think that governance is particularly important as good corporate oversight tends to lead to outperformance on environmental and social factors. It is also one of the key fundamentals we assess in a company.

Governance
The organisation's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

Risk management
The processes used by the organisation to identify, assess, and manage climate-related risks

Metrics and targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: Taskforce on Climate-related Disclosures, as at July 2019

Salesforce's disclosures on governance address TCFD recommendations. The company says that there is oversight of climate-related issues at board level: a subcommittee of the board of directors meets regularly to review ESG issues.

The company also performs well on metrics and targets. At the end of the last fiscal year, it announced it was halfway towards achieving 100% renewable energy in its data centres and offices.

Bullseye: metrics and targets

Salesforce has ambitious targets, which demonstrate it is committed to combating the effects of global warming. It has:

- Participated in a wide range of environmental working groups and coalitions.
- Completed a climate-change risk assessment covering a below 2°C scenario.
- Increased disclosure of environmental information in public filings.
- Acquired third-party verification for its Scope 1, Scope 2 and Scope 3 reported emissions.
- Set a science-based, absolute emissions target.
- Committed to using 100% renewable energy by 2022.
- Set a goal for 50% of its suppliers to set emissions-reduction targets by 2025.

Blue-sky thinking

There is always room for improvement. While Salesforce encourages its suppliers to set emissions-reduction targets, it could play an even more active role in persuading them to decarbonise. Salesforce could also disclose more details about how it does this, and in the process shed light on how it is able to use its prominent position to influence others.

It is currently voluntary to follow the TCFD's recommendations, but in 2020 the Principles for Responsible Investment will make it mandatory for signatories to report certain indicators (although it will be voluntary to disclose them).

Green growth

We believe that Salesforce is leading the way with its climate-related disclosures and we think that this should support its business going forward. Establishing sound environmental policies and making use of renewable sources also mean it is better prepared for a low-carbon future with potentially higher and more volatile energy costs.

Ahead of the cloud

Salesforce leads the way in the rapidly evolving software industry and its expansion plans should help it continue to do so in the years ahead. While Salesforce faces challenges, it has responded in a timely manner to new data-privacy legislation.

Most importantly, it has reacted constructively to the greatest challenge of today – climate change. The company has demonstrated that it is willing to work to combat the effects of global warming, while encouraging its suppliers and customers to do the same. This makes Salesforce particularly well positioned to flourish in a low-carbon future.

[1] 2018 Annual report, FY18 Stakeholder Impact Report, CDP Climate Change 2018 Report, Step Up Commitments

[2] Scope 1 emissions are directly from owned or controlled sources. Scope 2 emissions come indirectly from the generation of purchased energy. Scope 3 emissions are all the indirect emissions (not included in scope 2) from a company's value chain (both upstream and downstream).

[3] A science-based target is in line with the scale of reductions required to keep the increase in global temperatures less than 2°C above pre-industrial temperatures.

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54

Impax

Quantifying and disclosing environmental benefit

IMPAX Asset Management

Quantifying and disclosing environmental benefit

Impax Asset Management's Meg Brown shares her thoughts on quantifying and disclosing the environmental benefit derived from portfolio companies' activities.

Impact investing is gaining momentum, especially in liquid asset classes. Many investors are not only interested in making superior, long-term, risk-adjusted returns, but also in ensuring that and understanding how their investments have a positive impact on the environment.

Impax has published a report quantifying and disclosing the environmental benefit derived from portfolio companies' activities for five consecutive years and, in our experience, clients clearly find it helpful to understand the link between our investments in companies delivering environmental products and services and the environmental outcome of their business activities.

As interest amongst investors in measuring the positive impact of their investments has grown, techniques and methodologies have proliferated. Alongside excitement over how impact metrics can help individual investors connect with their savings, there is growing confusion over greenwashing and questions on what these numbers really mean. Delivering meaningful impact reporting is a complex process that requires specialist expertise to understand and scrutinise the data involved.

We report on metrics which naturally emerge from our investment philosophy, whilst also identifying three external frameworks which we consider to be the most insightful in terms of putting portfolio companies' impact into a meaningful context. This year we focused on three metrics:

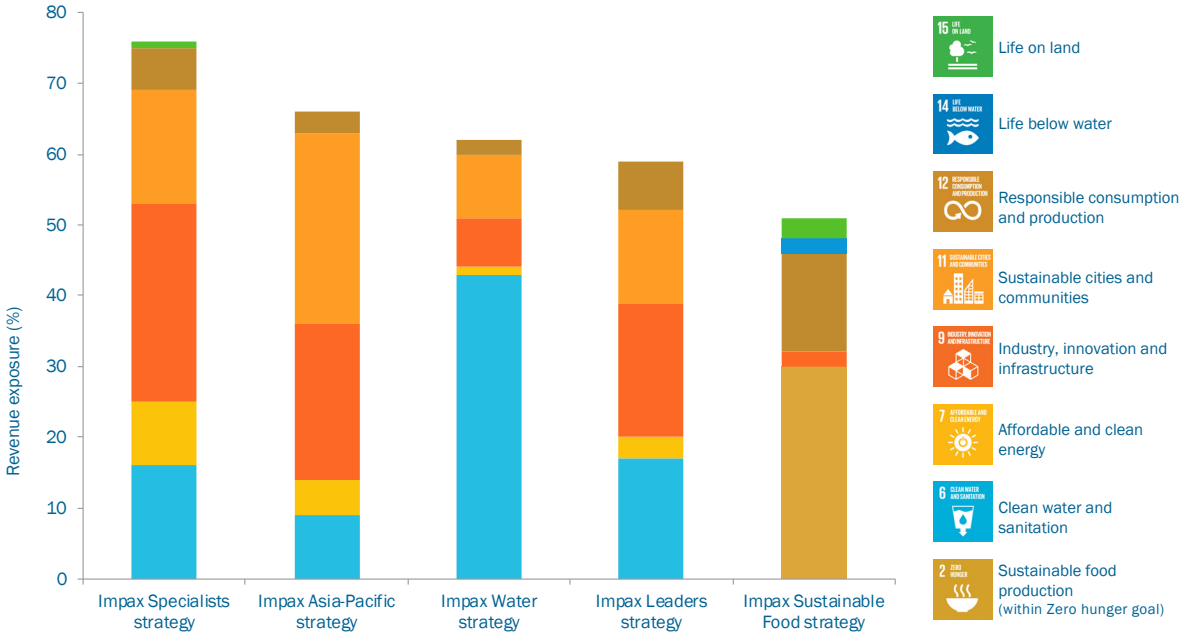
1 CO2 avoided in context of the Paris Agreement

The 2015 Paris Agreement commits the 185 countries which have ratified the climate treaty to hold the rise in average global temperatures to no more than 2°C above pre-industrial levels. Scientific advice from the Intergovernmental Panel on Climate Change (IPCC) has recommended a more ambitious target of 1.5°C. To achieve these goals and prevent catastrophic climate change, the current world economy will need to undergo a radical decarbonisation over the next 20-30 years. Our research estimates that $10m of investment in the global economy today would lead to emissions of between 800 and 1,700 tonnes of CO2 each year for a 2°C scenario and 700 and 1,500 tonnes of CO2 each year for a 1.5°C target. Comparing the net CO2 outcome of portfolio companies' activities with the current economy and 'Paris aligned' economy demonstrates the impact that they are having on delivering the transition to a lower carbon economy, putting the CO2 metric into context.

2 The UN Sustainable Development Goals (SDGs):

The SDGs, agreed in 2015, comprise a series of 17 sets of targets to be met by 2030. A growing number of asset owners are seeking to assess how their investments contribute to the SDGs, as a means of measuring their impact. A mapping exercise can show how strategies align with these goals.

Mapping Impax strategies to UN Sustainable Development Goals



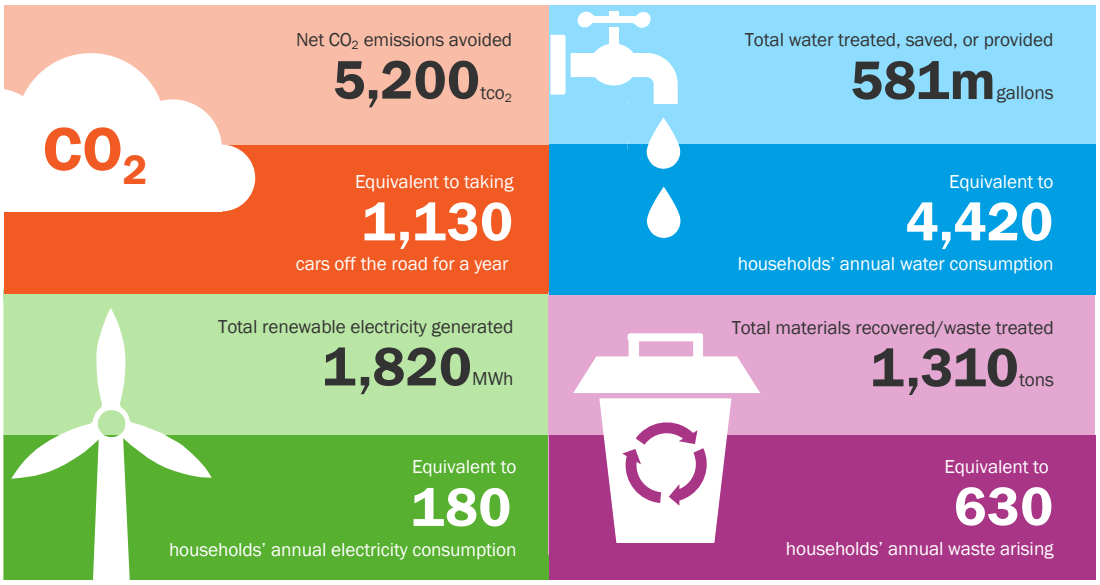
Source: Data as at 31 December 2018. Figures are based on Impax internal data.

1

3 Investment product context using the Impact Management Project framework (IMP):

Asset owners and fund selectors often ask where strategies sit within the growing universe of impact branded financial products. The IMP is an industry initiative to create consensus among enterprises and investors on how to measure and manage impact by proposing common frameworks for describing positive impact at individual investment as well as fund level. Anonymised case studies can set out the positive impact of portfolio companies in line with the IMP's '5 dimensions of impact' framework. In addition, mapping each strategy to the IMP's Investor's Impact Matrix can help asset owners and fund selectors understand their impact characteristics.

Specialists strategy - environmental impact of US$10m investment



Source: Impax Asset Management.

Past performance of a strategy is no guarantee as to its performance in the future. Impact of US$10m invested in the strategy for one year. Based on most recently reported annual environmental data for holdings in the Impax Specialists strategy as at 31 December 2018. Impax's impact methodology is based on equity value.

1

When we first started impact reporting few of the companies in which we invest had the systems in place to capture and report the data we sought. Today, while data quality varies, it is improving. The improvements in the data available means it is important impact reporting methodologies adapt with the change to ensure they clearly demonstrate the positive impact of investments.

Ultimately our portfolio managers invest to maximise risk-adjusted financial returns – not to maximise the impact metrics that we track. Nonetheless, most of the impact metrics that we track have improved year-on-year supporting our conviction that it is possible to deliver competitive financial returns by addressing the world's pressing sustainability challenges.

Looking ahead to the next five years, for investors like Impax committed to investing in the transition to a more sustainable economy it is important to remain dedicated to investing the time and resources required to demonstrate as clearly as possible the positive impact of investments alongside continuing to work hard to maximise returns for clients.

58

Pictet

Timber: sustainable material, sustainable investment

PICTET 1805 Asset Management

Timber: sustainable material, sustainable investment

By Chistoph Butz, Fund Manager of the Pictet Timber Fund

Trees that kill their attackers.

It sounds like science fiction, but it's actually scientific fact.

Researchers investigating the mysterious death of hundreds of kudu in South Africa in the 1990s made a startling discovery: the antelopes were killed by the acacia trees that form part of their regular diet.

It turned out that, to protect themselves from the voracious animals, the acacias flooded their leaves with lethal quantities of poisonous tannins; they also spewed ethylene gas into the air to warn nearby trees of the impending danger.

The antelopes' experiences hold important lessons for humanity. If we continue to mismanage and mistreat the world's forests, we could suffer the same fate as the kudu.

According to the UN Food and Agriculture Organization, industrialised farming and urbanisation have shrunk the world's forests by 129 million hectares in the past 25 years, an area equivalent to the size of South Africa.

The amount of carbon stored by the world's forests has consequently fallen by almost 11 gigatonnes, equivalent to about a third of the amount generated by human activities, causing a sharp rise in the concentration of planet-warming carbon dioxide (CO2) in the atmosphere.

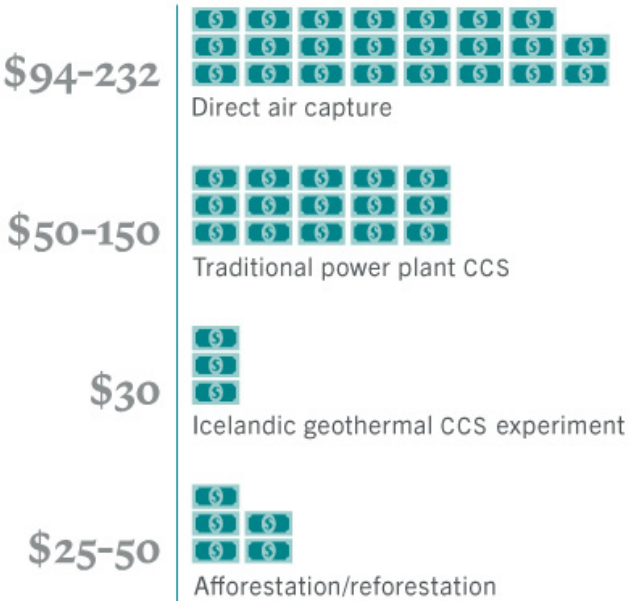
With the world struggling to limit global warming and slash carbon emissions, our failure to use timber wisely becomes ever more absurd.

Trees can be our greatest ally in halting global warming and environmental degradation.

With the right technology, wood's carbon-storage properties can be harnessed across a wide range of everyday activities – including construction, textile manufacture, food packaging and food preparation.

And demand for such tech is sure to grow, not least because changing consumer tastes and tighter regulations are forcing manufacturers to cut plastics use and switch to sustainable alternatives.

This, in turn, should boost demand for sustainable wood products, creating attractive opportunities in timber-related investments.



400 million years of experience

Trees boast of 400 million years of experience in capturing carbon, in a manner that is cheaper and more stable than some of the newer technologies such as Carbon Capture and Storage (CCS).

According to various academic studies, the levelised cost of carbon capture from reforestation is estimated at USD25-50 per tonne of CO2 captured, lower than that of direct air capture or large-scale CCS plants.

Every cubic metre of wood used as a substitute for steel or aluminium reduces carbon emissions in the atmosphere by an average of 0.9 tonnes.

Even when the cost of processing and transporting wood is taken into account, its carbon footprint is negative over its entire lifecycle. A study undertaken in Germany found that the fossil fuel energy required to process and transport wood amounts to just 15 per cent of the total amount of energy that's locked within it.

Timber's investment potential

Already a versatile renewable product, new technology is making timber even stronger, more durable and as fire-resistant as steel, boosting its credentials as a sustainable alternative to a wide variety of materials.

This has important implications for investors. Technology has turned timber into a dynamic, rapidly-growing industry that encompasses not only containerboard, paper, and pulp but also clothing, packaging, personal hygiene and real estate.

In timber-related industries, one of the fastest-growing engineered wood products is cross-laminated timber (CLT) – a building panel made of sawn, glued and layered wood.

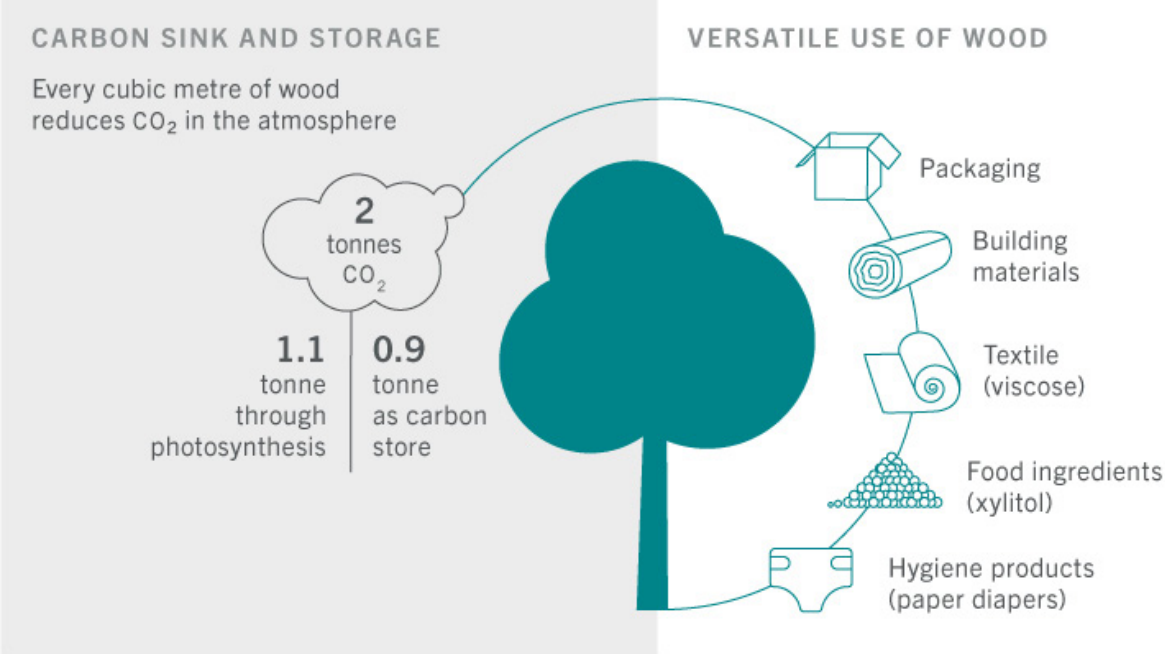
CLT is expected to expand to a USD2.3 billion industry globally by 2025 from the current USD670 million, an annual increase of some 15 per cent.

But timber's renaissance doesn't stop at buildings.

Some firms are manufacturing innovative textile fibres from refined wood pulp or dissolved wood pulp to produce viscose, tencel and other substance. Thanks to growing demand from emerging economies, the wood-based fibre market is expected to grow 5-6 per cent per annum between 2017 and 2022.

Elsewhere, xylitol – a popular artificial sweetener made from refined wood fibre -- is set to grow into a USD1 billion market by 2023, compared with just USD115 million five years ago.

Taking all of this into account, timber offers a compelling and diverse set of investment opportunities. It may only be a matter of time before timber becomes ubiquitous.



61

Pennine Wealth Solutions

Positive Pennine: Building up a storm

Pennine
WEALTH SOLUTIONS LLP

Positive Pennine: Building up a storm

By George Critchley, Senior Partner at Pennine Wealth Solutions

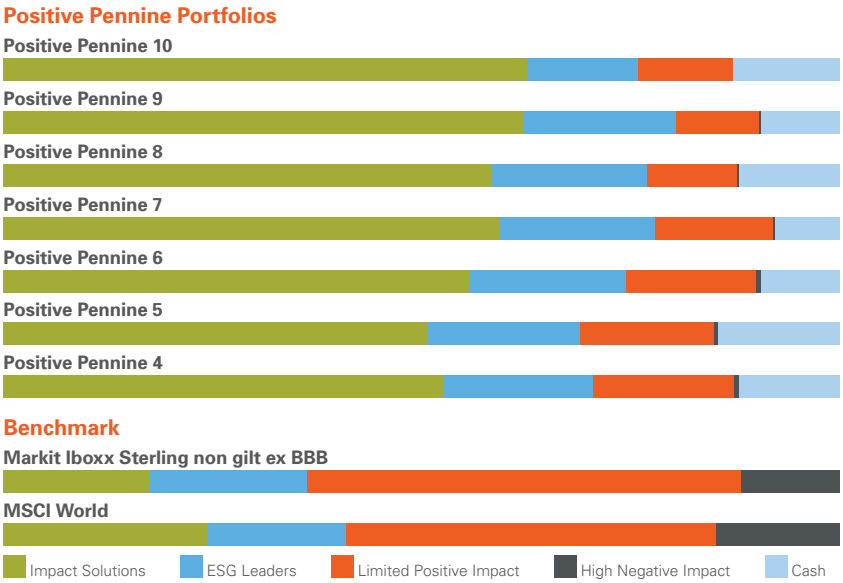
Twenty years ago Riverdance took the entertainment world by storm. In 2020 a new dance show is aiming to wow UK audiences. EMERALD STORM will tour from July through to late autumn, including a spell in the West End. So what, you might say.

EMERALD STORM is an Irish Dance show, developed for modern times. Created by Slamdunk Entertainments and Promoted by The Strictly Theatre Company it will entertain tens of thousands. The shows background theme is CLIMATE CHANGE www.emeraldstorm.net

The POSITIVE PENNINE PORTFOLIOS created by discretionary fund managers Pennine Wealth Solutions (PWS) are to sponsor this new theatre show. Marketing Manager at PWS Jayne Raven says " I saw the first run of EMERALD STORM at my local theatre, I loved it, all the audience loved it. To spread the word of positive investing via sponsorship in this way is very exciting. A marketing managers dream."

Now with a 3 year track record, the POSITIVE PENNINE portfolios are attracting many hundreds of new investors. So what is the integrity of their offering?

John Fleetwood the creator of the GOOD INVESTMENT GUIDE prepares the universe of investments that POSITIVE PENNINE utilise. "It doesn't get any better than this" says Helen Lupton, Compliance Partner for PWS. "John Fleetwood, the original founder and chair of the Ethical Investment Association is steeped in knowledge within this discipline."



So how can POSITIVE PENNINE demonstrate the portfolios performance? Sean Fisher, Business Development Manager explains. "From the beginning, we realised investors need 2 sets of data In addition to the usual financial figures we have added a guide to the ESG and Impact each portfolio has. We find with our investors it's not just one but both sets of data, that are critical. This chart shows the sort of information we provide."

Quarterly, adviser and their client investment seminars have been run by PWS for 8 years now. Each year 400 attendees listen to how their money is being managed. "The audience is being attracted in from a huge area, "says Sean. "The investor can look into the whites of the eyes of their manager, and ask any questions they like. It keeps our investment managers on their toes. These events are hugely popular." "As a DFM we become very close to our ultimate clients in terms of understanding their views and thoughts."

"We qualified for our GOOD EGG AWARD back in 2017" says Jayne Raven. "We felt it was important to be judged by an external body and receive external accreditation. Many of our supporting Independent Financial Advisers and Investors want to understand what this accreditation means, and who are the awarding body. Since the award, our Positive Pennine Portfolios have grown assets under management by three times. We have to thank GOOD WITH MONEY for encouraging the right qualities within investment firms."

Pennine Wealth Solutions are also very active in their local area in giving back to the community from which they get their support. They have been joint founder sponsors, for the past 5 years, of the Lancashire Last Choir Singing competition. Each year this event for Junior School children has attracted 60-75 choirs. Heats and a final around the county have attracted over 10,000 children and been watched by many more parents. "We have definitely done our bit" says Jayne. However, more is to come?

"In October 2019 we are announcing our financial support for Brian House," says Jayne. "This children's hospice, located on the Fylde coast, has stirred our hearts. We have created a formula to link our investment turnover to a monthly payment to Brian House. We anticipate an increasing turnover will give increasing contributions. We hope this can help the hospice for many years to come."

Find out more about this small DFM with a big heart, visit or website www.positivepennine.co.uk or speak to Sean on 0844 7707721 or 07583 241668.

www.3dinvesting.com

www.good-with-money.com