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The Good Investment Review

#FindingGood

3D investing
Powered by Ethical Money

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

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Foreword

By John Fleetwood,
founder and director of 3D Investing

Welcome to the sixth edition of the Good Investment Review. The review provides an overview of the sustainable and ethical investment industry as well as insight into specific areas. In this issue we focus on impact investing – a term that has become common parlance, but which has perhaps begun to be misused. We look at what impact investing means to us and review the options in listed funds.

Part of the definition of impact investing is that it must be intentional and measurable. Aberdeen Standard discuss what this means for them, whilst WHEB demonstrate how they measure and deliver impact. By way of example, Liontrust consider the impact of materials and how we can do more with less. On the theme of measurability, Hermes are trialling a new framework for assessing how companies contribute to society and the environment which they discuss in an article on the Future-Fit framework. Talking of the future, Impax look forward to the future for sustainable investing and what this might hold.

Impact investing is undergoing significant growth and since the last Review we have seen a significant increase in the number of licencees of the 3D Star Rating. To some extent, this reflects the growing number of impact funds, as well as increasing recognition of the value of the rating. One of these new partners is M&G which is a familiar name in the investment world with a long heritage, but until recently had little presence in the impact investing world. M&G's commitment is, however, very clear as our interview reveals. UBP may be a less familiar name, but likewise, has made a significant investment in their Positive Impact Equity Fund about which you can read in our Q&A.

Another recent entrant is the Rathbones Global Sustainability fund which was launched last year. Whilst we liked the combination of ethical screening and a clear thematic approach, we felt that Rathbones could do more to demonstrate the social and environmental impact of its investments. We were therefore delighted when Rathbones responded positively to our request for publishing justifications for each stock held in the portfolio. Rathbones detail their approach in this Review.

Existing partner Pictet has also bolstered the Environmental and Social Governance (ESG) reporting of its timber fund and makes the case for investing in timber in this Review. Natural capital is one of the core themes for impact investors, and wood is a major part of this, so we welcome funds like this that not only invest in the sector, but integrate ESG into the investment process.

One of the main barriers to impact investing has been the financial adviser, not only because of scepticism, but also due to lack of knowledge and tools. Pennine Wealth Solutions set out six steps for IFAs to embrace impact investing, both as a challenge and as a helpful framework.

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

John Fleetwood,
3D Investing Founder

Meeting growing demand with truly sustainable supply

Rebecca Jones, editor of Good With Money

It is a permanent point of pain that, when someone asks: 'but where do I find sustainable investments?' we still can't answer with the same clarity as we can for where to find the highest paying cash savings account, for example. We lack a large-scale searchable database for Good investing, which is ultimately hindering the growth of the most important area of personal finance today.

With no little amount of pride, though, I can say that today the Good Investment Review is as Good as it gets. And that's pretty damn Good.

It has been our privilege to work with 3d Investing over the years to put this review together, which we believe is the definitive guide to the best sustainable investment funds on the UK market today. Crucially, this is both in terms of credibility and performance, with 3d's ratings system ensuring that no greenwashers make it through the net.

This, as John has already highlighted, is the next big challenge for the industry. Long-term eco-warriors and Good money advocates like us can celebrate the booming interest in this area of investment. After so many years of marginalisation the investment industry is finally admitting that ethical and sustainable investing is not a niche area interesting only to religious moralists and charities.

Indeed, investment houses across the globe are coming to realise that dormant interest in this area is of Titanic proportions – especially among so-called millennials about to inherit A LOT of money from their baby-boomer parents. Moreover, the numbers are starting to speak for themselves. As previous editions of this review plus numerous studies from heavy-hitting analysts like MSCI and Oxford University show, investing for Good can actually make you more money than investing in oil and gas, big banks and tobacco.

Oddly enough, it turns out that avoiding companies causing problems for our environment and society is potentially less lucrative than focussing on those that solve problems for us. To use a well-known Americanism: 'go figure.'

"investment houses across the globe are coming to realise that dormant interest in this area is of Titanic proportions"

Industry scrabbling to keep up

Accordingly, many of the biggest asset managers have been scrabbling to launch products for this market, some slapping an 'ethical' or 'environmental' or 'responsible' label on anything that doesn't invest in tobacco and chemical weapons (fossil fuel and mining firms, money laundering banks and mega-corporate giants knowingly killing customers with their products are all fine, though).

And so, it is our job as the media within this industry to not only call this out when we see it but to actively promote those investment houses and funds that are truly doing Good things with their investors money. The Good Investment Review is intended to do just that: it is designed to be THE go-to guide for anyone interested in investing ethically, sustainably, or for impact.

If it's doing its job, within this review you should be able to find the exact fund that matches your investment requirements, which you can then easily invest in through a low-cost platform or your broker. For more on that, you can visit www.good-with-money.com where we have a range of guides to help you get started with the best types of mainstream investment accounts available, particularly the Stocks and Shares ISA, Lifetime ISA and Innovative Finance ISA. See our Guides section for more.

As in so many areas of personal finance, it really is only a lack of financial education that is holding this industry back. If every Briton with a workplace pension were to realise their pension pot was being invested, and invested in Exxon Mobil, for example, and then do something about that, well: the world would change overnight. Until then we hope this review will provide much needed guidance and inspiration to those that want to do Good With Money. And that's a lot of us.

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3D market update

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

£86.6 Billion

This represents a lower figure than the £90 billion of the last issue. This is mainly because we have continued to remove a number of funds from the 3D universe of funds on a re-appraisal of their eligibility for inclusion (see below). The funds removed have a combined fund size of £9.3 billion. On a like-for-like basis, the funds under management in the 3D universe have risen by £5.9 billion.

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13 funds have been removed from the universe and 25 have been added, with a net gain of 12 over the period.

Funds removed from the 3D universe

Fund Name	Fund Size (million)
BBGI	£731.0
Empiric Student Accommodation	£597.0
GCP Student Living	£630.0
iShares Global Timber & Forestry UCITS ETF	£57.7
iShares Global Water UCITS ETF	£486.0
MedicX	£0.0
Pictet Biotech	£1,020.0
Pictet Health	£436.0
Pictet Robotics	£4,071.0
RobecoSAM Sustainable Global Equities	£35.2
Triodos Microfinance	£314.8
VT Gravis UK Infrastructure Income Fund	£321.0
Woodford Patient Capital Trust	£680.0
	£9,379.7

The universe has been rationalised by removing thematic funds that do not seek to make a positive impact or to realise outcomes in line with the UN Sustainable Development Goals (SDG's), or else don't employ any form of Environmental, Social and Governance (ESG) screening. This largely involves healthcare, infrastructure, property and technology funds which were formerly included on the basis of their investments which could be seen as making a positive social or environmental impact.

However, without incorporating ESG or making reference to outcomes, we feel that the funds don't really form part of an ethical and sustainable funds universe. There are significant ethical issues associated with these sectors and without addressing these, there may be major negative social and environmental impacts.

Furthermore, not all funds in these sectors were included and as thematic investment grows in popularity, a stronger policy was needed. We have therefore tightened the criteria to require some form of explicit ESG capability, sustainability policy or targeted outcomes. Clean energy/technology funds have been retained as these have a much clearer positive impact.

One fund (RobecoSAM Sustainable Global Equity) has been liquidated, whilst the Triodos Microfinance Fund has been removed from the universe as it is not easily available for retail investors. MedicX has been taken over by primary Healthcare Properties which is also part of our universe.

Many of the funds added are recent launches which represents quite a burst of activity. In particular, a number of impact funds have been launched, including the M&G Positive Impact and UBAM Positive Impact funds featured in this review. These are distinguished from thematic funds by their intentionality to make a positive social or environmental impact and to measure this impact.

The Investec UK Sustainable Equity fund is a significant addition to the fund universe, being the first UK equity fund to seek and report on its positive impacts.

European fund managers Pictet and RobecoSAM have added to their thematic ranges, whilst Pictet has also launched a sustainable global bond fund. There are a lot of things we like about the Sustainable Credit fund, but regretfully, it has a major exposure to fossil fuels.

Two recent fund launches by US managers Alliance Bernstein and Brown Advisory invest wholly in the USA, both with sustainability mandates.

There have also been two additions to the ever-growing number of 'yieldcos' – investment trusts that generate high levels of income from a portfolio of physical assets such as renewable energy projects or properties. In this case, Gresham House Energy Storage and the SDCL Energy Efficiency Income funds invest in battery storage, a key part of the move to clean energy.

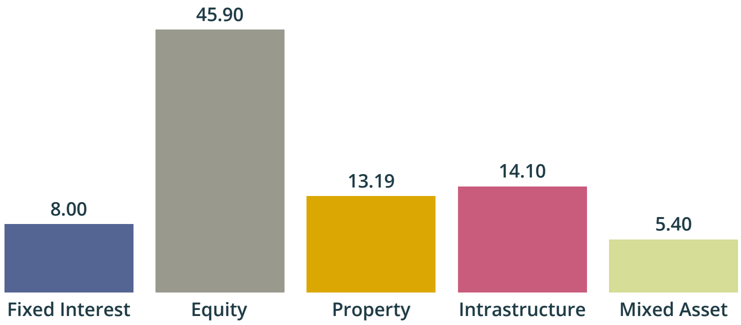
Funds added to the 3D universe

Fund Name	3D star rating
AB Sustainable Global Thematic	3
AB Sustainable US Thematic	2
Brown Advisory US Sustainable Growth	4
DPAM Bonds Emerging Markets Sustainable	2
Gresham House Energy Storage	4
Investec UK Sustainable Equity	4
iShares J.P. Morgan ESG $ EM Bond UCITS ETF	1
iShares MSCI EM IMI ESG Screened UCITS ETF	1
iShares MSCI EMU ESG Screened UCITS ETF	1
iShares MSCI Europe ESG Screened UCITS ETF	1
iShares MSCI Japan ESG Screened UCITS ETF	1
iShares MSCI Japan SRI	2
iShares MSCI USA ESG Screened UCITS ETF	1
iShares MSCI USA SRI UCITS ETF	1
iShares MSCI World ESG Screened UCITS ETF	1
M&G Positive Impact	5
NN (L) Global Equity Impact Opportunities	4
Nordea Global Climate and Environment Fund	3
Pictet Global Sustainable Credit	2
Pictet SmartCity	3
RobecoSAM Global Small Cap Equities	2
RobecoSAM Smart Mobility	3
SDCL Energy Efficiency Income Trust	4
Stewart Investors Indian Subcontinent Sustainability	3
UBAM – Positive Impact Equity Fund	5

Stewart Investors have run an Indian subcontinent fund for some years, but have now formally recognised the sustainability strategy of the fund by renaming the fund. This is the only sustainable investment fund that we know of that focusses on this market.

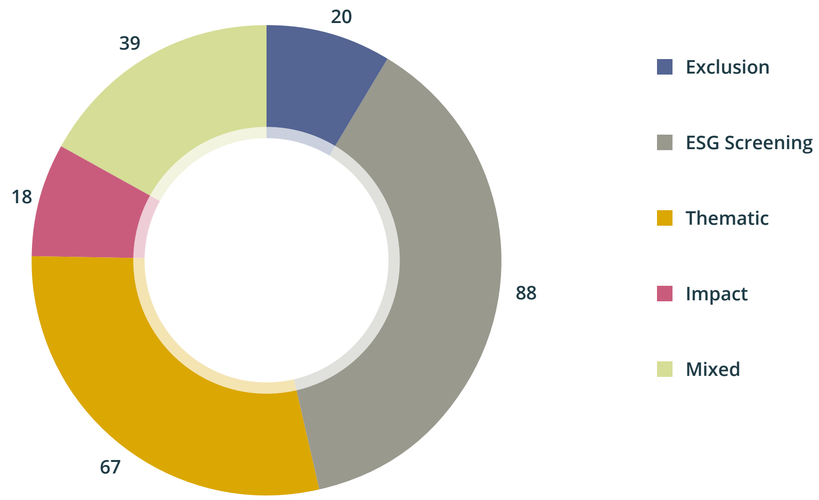
The picture in terms of the distribution of funds by asset class is little changed. About two thirds of the funds remain invested in equity, but when considered by funds under management, property and infrastructure are more significant.

Fund Distribution by Asset Class (AUM £billion)



When looking at the overall approach taken by funds, funds using ESG screening or a thematic approach dominate. We've added another category – impact investing – which we formerly included in thematic investing. This requires a fund to be intentional and to measure the impact as well as investing in companies that make a positive impact.

Fund Distribution by Approach (No. of funds)



Approaches:
Exclusion – avoiding companies on the basis of pre-determined ethical criteria.
ESG Screening – Consideration of ESG factors in assessing companies.
Thematic – focus on investment in environmental or social themes

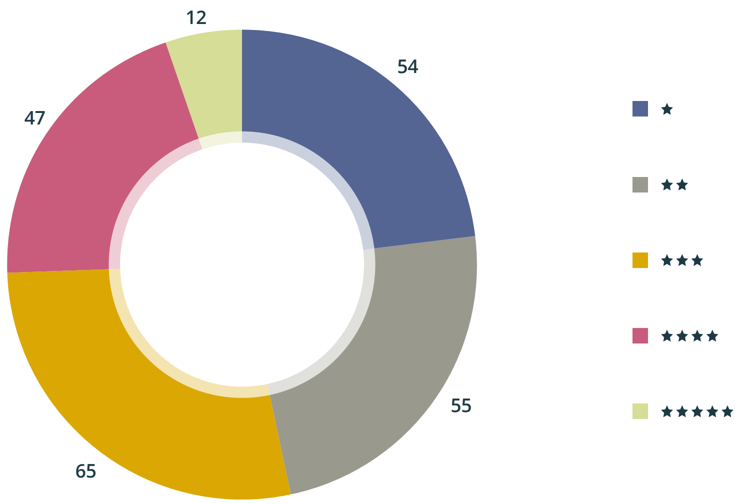
3D star ratings

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.

2.6

The average 3D star rating

The distribution of funds is little changed with just under half of all funds in the universe being rated two stars or less, with positives outweighing negatives for the remainder, and four or five star funds being restricted to the top 25 per cent.



Star Rating distribution (no. of funds)

Overall, the average star rating has risen, largely due to a move to impact investing and better standards of transparency. There have been 22 upgrades and 8 downgrades. We especially welcome the impact reporting of two green bond funds which has meant that we could upgrade their ratings. The Lombard Odier Climate Bond and AXA WF Planet Bonds funds have started to report publicly on the use of the bonds, which allows us to determine the actual impact. It is impossible to discern the impact in many green bond funds because the managers simply publish the names of the companies issuing the bonds (many of which have no obvious positive impact).

The Pictet Timber fund has also been upgraded to 4 stars by virtue of its much improved ESG reporting which enables the determination of the positive impact of stocks held in the portfolio. Similarly the Rathbone Global Sustainability Fund has met our request for an impact justification for all holdings in the portfolio, and this has resulted in an upgrade of the fund to four stars. Articles on these funds appear elsewhere in the review.

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.

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

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3D-licenced funds

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	★★★	A concentrated impact fund with sophisticated impact reporting and an exposure to emerging markets
Brown Advisory US Sustainability	★★☆	One of only a few funds available to UK investors which invests wholly in the US.
Hermes Impact Opportunities Equity	★★★	9 core impact themes with incorporation of ESG and active engagement
Impax Environmental Markets PLC	★★★	A specialist, small & mid cap global environmental solutions fund
Investec UK Sustainable Equity	★★☆	A UK equity fund that is differentiated by its' positive impacts.
Liontrust SF Absolute Growth	★★☆	A growth fund with freedom to invest without reference to asset allocation benchmarks
Liontrust SF Cautious Managed	★★☆	A mixed asset fund with a 60% allocation to global equities that benefits from good ESG management
Liontrust SF Defensive Managed	★★☆	A mixed asset fund with a 45% allocation to global equities that benefits from good ESG management
Liontrust SF European Growth	★★☆	A leader amongst European equity funds
Liontrust SF Global Growth	★★☆	A global equity fund which balances thematic investment with an ESG approach
Liontrust SF Managed	★★☆	A mixed asset fund with a 20% allocation to fixed interest and the remainder in equities
Liontrust SF UK Growth	★★☆	Some themes evident as well as a best of sector approach
Liontrust UK Ethical	★★☆	Similar to the SF UK Growth fund but avoids animal testing
M&G Positive Impact	★★★	A concentrated impact fund with a bespoke impact reporting app.
Montanaro Better World	★★★	A global equity fund with 6 core themes and a focus on impact
Pictet Global Environmental Opportunities	★★☆	An environmental fund that seeks to keep within sustainable limits

3D-licenced funds cont.

Fund	Star rating	Summary
Pictet Timber	★★★★☆	The only listed timber fund with credible ESG. Investments are held in timber or timber related companies.
Rathbone Ethical Corporate Bond	★★★☆☆	A UK corporate bond fund with rigorous exclusion criteria and a small amount in charity bonds
Rathbone Global Sustainability	★★★★☆	A high conviction fund that combines ethical screening with a thematic approach based on the Sustainable Development Goals
Sarasin Responsible Corporate Bond	★★★★☆	A UK corporate bond fund with a clear thematic approach
Sarasin Sustainable Equity - Real Estate Global	★★★☆☆	An open ended fund investing in global property shares with good ESG management
Standard Life Global Equity Impact	★★★★☆	Mixes ESG with a clear focus on positive impact in line with the UN Sustainable Development Goals.
Triodos Sustainable Equity	★★★★☆	A global equity fund investing in large cap stocks with a 'best of sector' approach
Triodos Sustainable Pioneer	★★★★★	A thematic fund investing in multiple social & environmental themes
UBAM Positive Impact Equity	★★★★★	A concentrated impact fund that benefits from a partnership with the Cambridge Institute for Sustainability Leadership
VT Gravis Clean Energy	★★★★☆	A clean energy fund largely investing in clean energy infrastructure
Wellington Global Impact	★★★★★	One of the earlier impact funds with significant emerging markets exposure.
WHEB Sustainability	★★★★★	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.

17 Financial performance

Fund performance

As we keep saying, the performance of funds of ethically screened and sustainable funds overall continues 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.

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

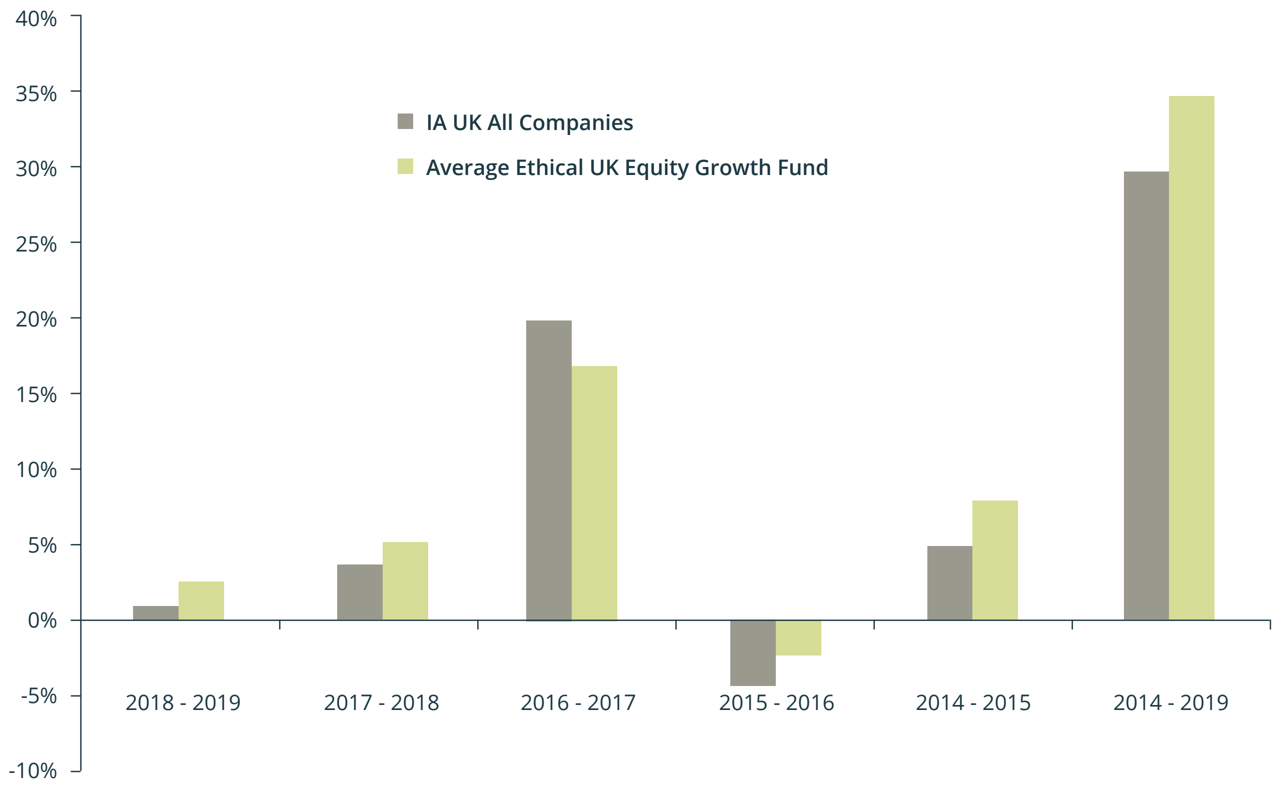
Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
Aberdeen Responsible UK Equity	6.69%	4.64%	26.39%	-4.99%	4.83%	40.54%
Castlefield BEST UK Opportunities	3.81%	4.10%	10.47%	-2.47%	7.49%	25.14%
Edentree Amity UK	-0.94%	5.11%	11.77%	1.44%	7.54%	26.95%
BMO Responsible UK Equity	4.35%	8.89%	18.57%	-1.19%	9.75%	46.11%
Family Charities Ethical	5.37%	-0.81%	21.21%	-7.11%	6.88%	25.77%
Janus Henderson UK Responsible Income	3.22%	3.12%	11.40%	0.78%	13.97%	36.18%
Jupiter Responsible Income	-1.18%	0.45%	13.91%	-4.55%	5.82%	14.21%
Kames Capital Ethical Equity	-5.42%	6.02%	8.80%	1.17%	7.56%	18.71%
Legal & General Ethical Trust	3.95%	3.18%	10.94%	-1.67%	10.86%	29.70%
Liontrust SF UK Growth	4.50%	10.69%	19.45%	-0.80%	8.41%	48.61%
Liontrust UK Ethical	4.60%	12.30%	15.12%	-0.40%	8.65%	46.34%
Premier Ethical	-4.83%	9.77%	15.32%	1.80%	7.44%	31.78%
Royal London Sustainable Leaders Trust	7.93%	6.81%	20.14%	-1.25%	14.16%	56.12%
Schroder Responsible Value UK Equity	6.38%	3.60%	22.71%	-4.07%	5.30%	36.62%
Scottish Widows Environmental Investor	6.97%	3.20%	18.62%	-6.39%	3.22%	26.54%
Scottish Widows Ethical	3.39%	7.05%	18.48%	-6.37%	2.33%	25.62%
Standard Life Investments UK Ethical	-3.15%	14.71%	17.20%	1.26%	2.34%	34.95%
Standard Life Investments UK Equity Impact Employment	3.77%					
Threadneedle Ethical UK Equity	2.20%	4.19%	15.79%			
UBS MSCI UK IMI Socially Responsible	1.42%	1.98%	18.49%	-1.69%		
IA UK All Companies	1.06%	4.35%	19.36%	-3.40%	5.59%	28.39%
Average Ethical UK Equity Growth fund	2.65%	5.74%	16.57%	-2.03%	7.44%	33.52%
Average 3 Star+ Fund	2.59%	8.07%	15.53%	0.08%	8.20%	40.63%
Average outperformance of ethical fund	1.59%	1.39%	-2.79%	1.37%	1.85%	5.13%
Average Outperformance of 3 Star+ Fund	1.53%	3.72%	-3.83%	3.48%	2.61%	12.24%

GREEN = OUTPERFORM SECTOR AVERAGE

This review provides general information only. It is not financial advice. If you invest in any of the products mentioned in this review, you do so at your own risk. Capital is at risk and past performance is not a guide to future performance.

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
IA UK All Companies	1.06%	4.35%	19.36%	-3.40%	5.59%	28.39%
Average Ethical UK Equity Growth Fund	2.65%	5.74%	16.57%	-2.03%	7.44%	33.52%

The relative performance of ethical UK equity funds compared to the UK equity market as a whole has been very favourable on the whole, with the majority outperforming the average fund in the sector. 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.



Global Equities

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
AB SICAV I Sustainable Global Thematic Portfolio	3.65%	11.40%	35.51%	-3.97%	20.48%	81.04%
Aberdeen Ethical World Equity	1.14%	5.72%	34.40%	-9.76%	12.23%	45.55%
Allianz Global Sustainability	4.45%	3.47%	31.58%	2.04%	13.06%	64.07%
Baillie Gifford Positive Change	5.63%	36.67%				
BlackRock SF Impact World Equity	4.32%	5.05%	35.21%			
BMO Responsible Global Equity	5.18%	8.41%	34.11%	-0.51%	22.32%	86.09%
Davy Asset Management Ethical Equity	7.04%	3.42%	28.85%			
Dimensional Global Sustainability Core Equity	4.33%	3.17%	35.73%	-1.18%	18.49%	71.06%
EdenTree Amity International	-4.19%	6.92%	30.06%	-4.44%	10.98%	41.30%
FP WHEB Sustainability	-0.70%	10.19%	30.25%	-1.47%	17.58%	65.12%
GS Global Equity Partners ESG Portfolio	7.96%	2.05%	31.53%	-5.17%	15.58%	58.82%
Hermes Global Equity ESG	0.53%	4.61%	33.80%	-0.98%		
Hermes Impact Opportunities	7.48%					
Impax Environmental Leaders	3.51%	4.94%	38.72%			
Impax Environmental Markets	2.24%	5.61%	35.35%	2.18%	5.32%	57.27%
Janus Henderson Global Sustainable Equity	2.23%	12.49%	32.26%	-4.20%	19.18%	73.66%
JB RobecoSAM Global SDG Equities	11.08%					
Jupiter Ecology	-3.58%	5.21%	28.61%	-2.02%	9.87%	40.45%
Kames Capital Global Sustainability	1.27%	11.05%				
Liontrust SF Global Growth	10.80%	10.02%	30.76%	-2.00%	14.95%	79.56%
Montanaro Better World						
Quilter Investors Investors Ethical Equity	-1.50%	1.35%	34.96%	1.10%	8.95%	48.41%
Pictet Global Environmental Opportunities	0.53%	11.20%	34.39%	-2.46%	18.08%	73.05%
Rathbone Global Sustainability						
Sarasin Responsible Global Equity	2.74%	8.28%	33.46%	-5.37%	17.62%	65.25%

Continued on next page

GREEN = OUTPERFORM SECTOR AVERAGE

Global Equities cont.

Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
Schroder ISF Global Climate Change Equity	3.79%	10.62%	33.42%	-2.40%	11.21%	66.26%
SJP Sustainable & Responsible Equity						
Sparinvest Ethical Global Value	-1.09%	3.27%	36.60%	1.95%	8.64%	54.53%
Standard Life Investments Global Equity Impact	-1.03%					
Stewart Investors Worldwide Sustainability	5.65%	3.07%	34.25%	1.82%	18.02%	75.66%
Triodos Sustainable Equity	4.74%	4.33%	22.15%	-1.45%	20.03%	57.91%
Triodos Sustainable Pioneer	-2.69%	8.49%	16.17%	0.54%	9.83%	35.43%
UBS MSCI World Socially Responsible	2.18%					
Vanguard SRI Global Stock	4.16%	2.61%	35.25%	-1.16%	20.02%	71.49%
Wellington Global Impact	1.55%	11.15%				
IA Global	2.46%	5.63%	29.56%	-2.43%	13.30%	55.00%
Average Ethical Global Equity fund	2.92%	7.67%	32.30%	-1.77%	14.88%	62.48%
Average 3 Star+ fund	2.59%	9.56%	31.25%	-1.30%	15.05%	62.69%
Outperformance of average ethical global fund	0.46%	2.04%	2.74%	0.66%	1.58%	7.48%
Outperformance of average 3 Star+ Fund	0.13%	3.93%	1.69%	1.13%	1.75%	7.69%

GREEN = OUTPERFORM SECTOR AVERAGE

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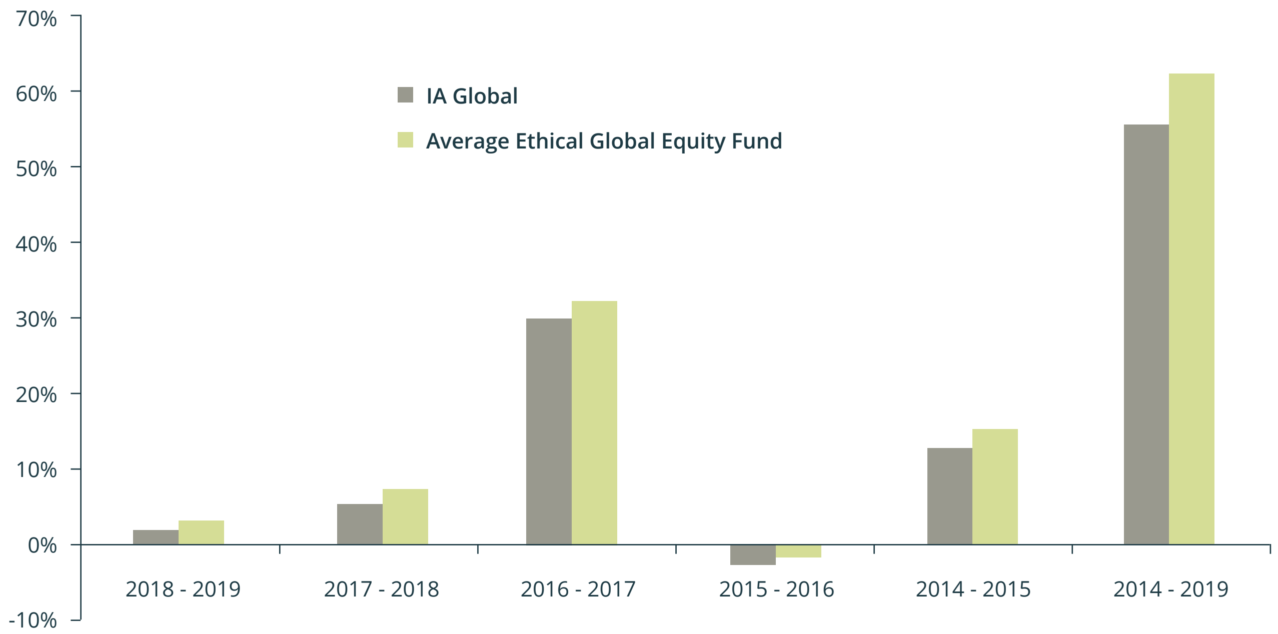
Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
IA Global	2.46%	5.63%	29.56%	-2.43%	13.30%	55.00%
Average Ethical Global Equity fund	2.92%	7.67%	32.30%	-1.77%	14.88%	62.48%

The average ethical global equity funds has outperformed the IA Global average in each of the last five years, quite a remarkable statistic. There is little difference between funds rated 3 Stars or more and those with lower ratings. The picture is a little more mixed over the last year, but still more ethical funds have outperformed comparable conventional funds than have underperformed.



Sterling Corporate Bonds

Fund	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2013 - 2018
EdenTree Amity Sterling Bond	1.54%	5.39%	7.67%	-1.72%	7.39%	21.61%
BMO Responsible Sterling Bond	2.06%	1.78%	8.45%	-0.84%	9.89%	22.79%
Kames Capital Ethical Corporate Bond	1.95%	1.50%	8.34%	0.12%	9.28%	22.68%
Liontrust SF Corporate Bond	1.23%	3.77%	12.80%	-2.58%	10.03%	27.01%
Rathbone Ethical Bond	2.09%	6.27%	10.46%	-1.25%	10.06%	30.26%
Royal London Ethical Bond	2.70%	3.74%	9.65%	-0.59%	10.82%	28.69%
Royal London Sustainable Managed Income	2.81%	2.57%	9.87%	-1.30%	10.47%	26.32%
Sarasin Responsible Corporate Bond	2.29%	1.45%				
Standard Life Investments Ethical Corporate Bond	1.58%	2.13%	10.13%	-1.92%	9.40%	22.59%
Threadneedle UK Social Bond	1.78%	1.48%	8.61%	0.75%	9.63%	23.91%
IA Sterling Corporate Bond	1.95%	2.38%	9.26%	-1.18%	9.13%	22.98%
Average Ethical Sterling Corporate Bond Fund	2.00%	3.01%	9.55%	-1.04%	9.66%	25.10%
Average 3 Star+ Fund	2.03%	2.84%	10.02%	-0.85%	9.89%	26.04%
Outperformance of average Ethical Bond Fund	0.05%	0.63%	0.29%	0.14%	0.53%	2.12%
Outperformance of average 3 Star+ Fund	0.08%	0.46%	0.76%	0.33%	0.76%	3.06%

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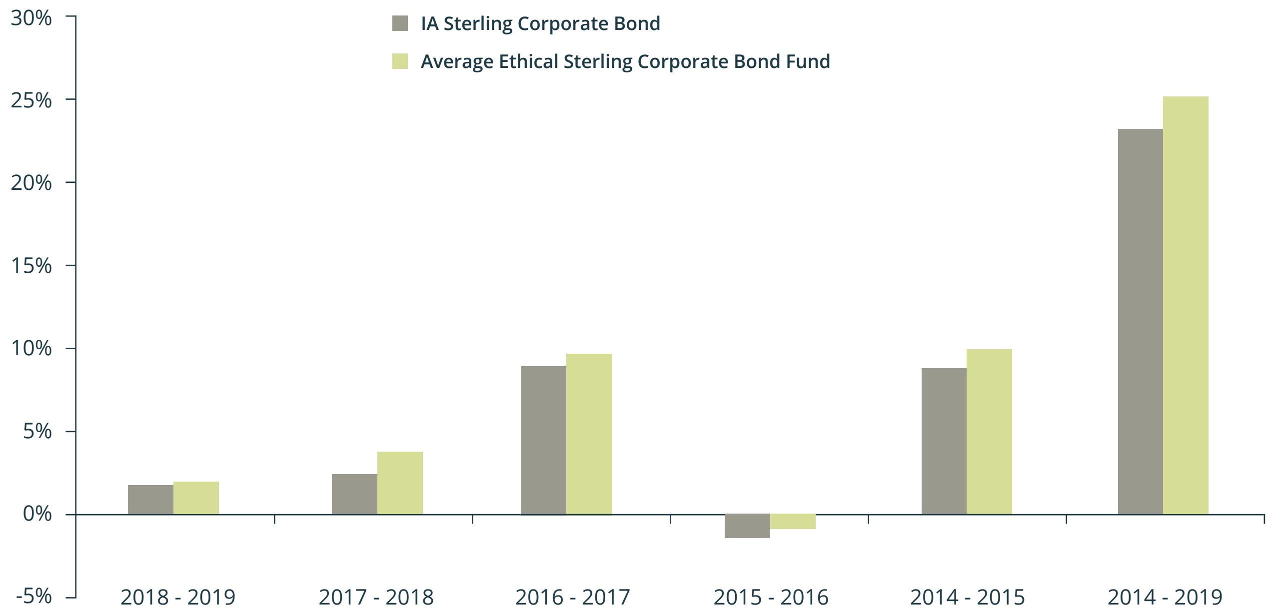
Fund	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015	2014 - 2019
IA Sterling Corporate Bond	1.95%	2.38%	9.26%	-1.18%	9.13%	22.98%
Average Ethical Sterling Corporate Bond Fund	2.00%	3.01%	9.55%	-1.04%	9.66%	25.10%

The average UK ethical corporate bond fund has also outperformed the sector in each of the last 5 years, again with little difference between funds with a higher 3D rating and those with a lower rating.



Data to 15 March 2019. Total return with net income re-invested. Source: FE Analytics

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Feature Article: investing for impact

Investing for impact

What do you think of when you hear the term, 'impact investment'? Something that makes a profound and marked difference? Maybe an investment in a social enterprise addressing a serious societal issue, or a start-up company disrupting a whole industry, but you're less likely to think of a multi-billion pound insurer or a fossil fuel based power producer. Just what we mean by 'impact investment' matters. It has become the new buzzword in the ethical / sustainable / socially responsible investing world, adding to the confusing lexicon of terms.

> *impact investments are "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."*
>
> **Global Impact Investor Network**

So what is 'impact investment'? GIIN, the Global Impact Investor Network, defines impact investments as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." The end result is the provision of capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education. The practice of impact investing is further defined by the following four core characteristics:

Intentionality - An investor's intention to have a positive social or environmental impact through investments is essential to impact investing.

Investment with return expectations - impact investments are expected to generate a financial return on capital or, at minimum, a return of capital.

Impact Measurement - A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field.

Range of returns and asset classes - impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity.

Delivering impact through public equity markets

Traditionally, impact investment was taken to mean unlisted investments with a clear social or environmental purpose. This is still largely the case, but the situation is changing, with public equity being included in the asset mix. This raises questions of whether trading on listed markets adds anything, how is impact measured, and what activities make a positive impact?

Most money invested in public markets is invested via 'secondary trading', meaning the shares are bought from other investors rather than contributing new capital to the company. However, without the ability to offer liquidity via a public market, it would make it problematic to raise primary capital on private markets. It is also the case that many 'impact' investors hold investments for a much longer time than the typical conventional investor, treating the investment as just that – an investment, not a trade. Furthermore, the scale of the challenges demands public as well as private markets.

According to GIIN, the total size of the impact market is $114 billion, whereas the size of world's stock markets is $69 trillion. If these markets could be mobilized, the total impact could be many times greater, even if the intensity of the impact were lower. Asset manager WHEB notes that investments at the most intense end of the scale are usually relatively small, whereas other investments can be deployed at much larger scale, even if the intensity of impact is lower.

Impact is about outcomes not inputs

There are 235 funds in our universe of funds with some form of ethical or sustainable investment policy and which are open to UK retail investors. Many of these state a positive investment policy with an aim of investing in companies that make a positive social or environmental impact. Yet most of these are NOT impact funds, the focus being on discretionary criteria which don't have to be met and not the outcomes.

"The BlackRock Impact World Equity Fund seeks to achieve exposure to equity securities with a measurable positive societal impact"

Investments include: - Exxon Mobil (oil), Philip Morris (tobacco), Amazon (tax avoidance)

A typical statement might read, "we aim to invest in companies which benefit the environment and society ... ". Note that this is an aspiration, and the reality is often disappointing, with a low percentage being invested in companies with a direct positive impact.

The tendency is to look at HOW companies operate rather than WHAT they produce – inputs instead of outputs. This isn't denying the importance of ethical criteria, but in the context of impact investing, they are a prerequisite not an endpoint to ensure that the negative impact of a stock doesn't outweigh any positive impact.

Similarly, ESG or responsible investment funds aren't true impact funds. They likewise focus on inputs and the way in which companies operate rather than the positive impact of their products or services. There is no provision of capital to address the world's most pressing challenges as in GIIN's definition above, nor is there systematic measure of impact.

Going by the definition of impact investing, it's even questionable whether thematic funds investing in clean energy, water and environmental technologies are true impact funds. Most of these fail the intentionality and measurement tests, since they base the fund on the type of corporate activity rather than the impact. For example, the iShares Clean Energy ETF states that it 'seeks to track the investment results of an index composed of global equities in the clean energy sector' and reports on how much of the fund is invested in clean energy companies. It doesn't seek an impact in terms of generating clean energy and doesn't report on how much clean energy is generated for a given investment in the fund.

By way of contrast, other funds seek to invest in solutions to the sustainability challenge and report on the actual impacts they are making. As well as reporting in depth on their investments, engagement activities and integration of ESG, some have calculated the amount of renewable energy generated, waste water treated and CO2 avoided, which is associated with a given investment.

Impact can be delivered in different ways

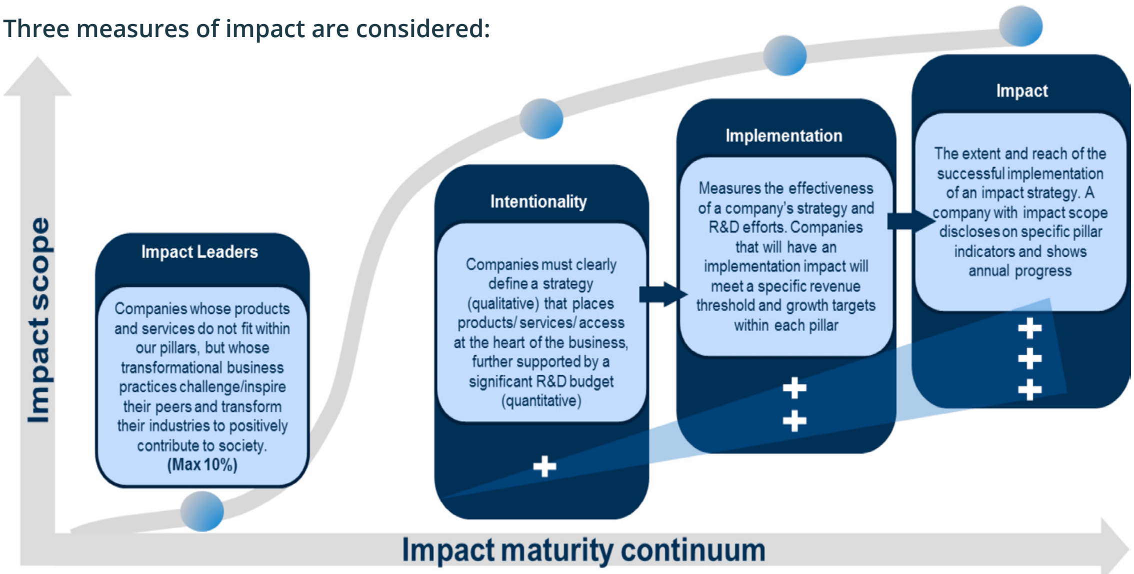
Important thought it is, this is a one-dimensional way of looking at impact investing. Impact can also be achieved through engagement. Impact investors (directly or through delegated agents) tend to take on a stewardship role, engaging with investee companies to improve corporate sustainability and ethics, as well as business performance. This extends impact beyond that of the enabling of beneficial products and services, to improvements in corporate behaviour.

Two more recent funds, The Standard Life Global Equity Impact and Hermes Impact Opportunity funds, also incorporate ESG into their investment process and seek to influence companies for the better through active engagement. Both funds adopt eight impact themes for investment but go beyond a simple thematic approach.

Hermes' engagement strategy seeks to mitigate the negative impacts of portfolio companies and to maximize the positive impacts of these companies to create a positive feedback loop.
Standard Life highlights another aspect of impact investment - that of differing levels of impact maturity within companies. The Global Equity Impact Fund assesses each stock and classifies them as below. This allows the fund to engage with companies at different stages of their journey toward delivering positive social impact.

Impact maturity stages

Three measures of impact are considered:



Source: Aberdeen Standard Investments

It's important to recognize that there are many ways to deliver impact and even funds that we wouldn't regard as impact funds can deliver impact. For example, the Rathbone Ethical Bond Fund invests more than £10 million in charity and high social impact bonds, which make a huge difference to these smaller organisations with a high intensity of social impact. So although this investment represents less than 1% of the total fund size (and therefore couldn't be classed as an impact fund), it is very significant to the charities and social purpose organisations in which the fund invests.

At the moment, the scale is still very small, but we are just at the start of the journey. From our universe of 235 funds, we've identified 17 funds that we consider to fit the definition of an impact fund. These largely constitute global equity funds, along with three bond funds and a social housing trust.

Fund Name	Asset Class	Region	Investment Theme	3D star rating
AXA WF Planet Bonds	Fixed Interest	Europe	Environmental	4
Baillie Gifford Positive Change	Equity	Global	Multi Thematic	5
Civitas Social Housing	Property	UK	Property	5
FP WHEB Sustainability	Equity	Global	Multi Thematic	5
Hermes Impact Opportunities Equity	Equity	Global	Multi Thematic	5
Impax Environmental Markets Fund	Equity	Global	Environmental	5
Investec UK Sustainable Equity	Equity	UK	Multi Thematic	4
Lombard Odier Climate Bond	Fixed Interest	Global	Environmental	4
M&G Positive Impact	Equity	Global	Multi Thematic	5
Montanaro Better World	Equity	Global	Multi Thematic	5
NN (L) Global Equity Impact Opportunities	Equity	Global	Multi Thematic	4
Standard Life Global Equity Impact	Equity	Global	Multi Thematic	4
Threadneedle UK Social Bond	Fixed Interest	UK	General	4
Triodos Sustainable Equity	Equity	Global	Multi Thematic	4
Triodos Sustainable Pioneer	Equity	Global	Multi Thematic	5
UBAM – Positive Impact Equity Fund	Equity	Europe	Multi Thematic	5
Wellington Global Impact	Equity	Global	Multi Thematic	5

Most of these funds have been launched in the last three years, which is testament to the move toward impact investment.

Creating impact portfolios

Given the range of impactful funds available on public markets including equities, fixed interest, real estate and infrastructure, it's clearly possible to construct a balanced portfolio with the aim of achieving impact across the whole portfolio. This needn't necessarily be limited to funds which we've classified as impact funds, as long as the intentionality, impact measurement and focus on impact are applied to the portfolio as a whole. The main problem is the lack of comparable data in assessing impact, which means that the portfolio manager needs to develop their own data set to report on impact. The definition of what constitutes an impactful product or service is critical to avoid everything and anything being classified as having a positive impact. For example, most investors are likely to agree that investing in solar power makes a positive environmental impact, but any bank operating in emerging markets, or airports, or roads? It is not the case that every stock in every fund has a positive impact, and it's important to identify the extent of any compromises.

At 3D Investing, we've chosen to identify those stocks whose positive impact is limited, as well as companies that exhibit leadership in Environmental and Social Governance (ESG) but whose core services or products don't deliver solutions to social or environmental challenges. The extent of any allocation to these solutions is therefore clear.

In summary …

There are a growing number of public equity funds that fully meet the most widely accepted definition of an impact fund and these have the capacity to deliver positive social impacts on the scale necessary to meet the most pressing global challenges. These funds make it possible to run portfolios that enable an investor to use all of their assets to deliver impact. However, we need to be careful how we use the term 'impact investment' in the public equity markets. Intentionality, definition and measurement of impact are critical if we are to avoid the term becoming another confusing terminology in the ever increasing lexicon of social investment.

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Aberdeen Standard Investments

Identifying intentionality and measuring impact

Identifying intentionality and measuring impact

By Sarah Norris,
Fund Manager at Aberdeen Standard Investments

The Rockefeller Foundation first coined the term impact investing in 2007, putting a name to investments made with the intention of generating not only financial return but also measurable social and/or environmental impact.

While this definition has become accepted as an industry standard, there are multiple ways to approach an impact strategy. Impact investing is very much a style rather than asset class and can be applied to equities or credit; public or private markets. But it is the focus on intentionality and measurement that is the most important distinction between impact investing and other forms of values-based investing.

The United Nation's Sustainable Development Goals underpin our framework and help guide our capital allocation to the most pressing global issues. From the 17 SDGs, we identified eight 'pillars' or themes and we aim to invest in assets that deliver products or services that align to one of these pillars.

How do you identify social or environmental impact?

We believe the key facets of impact investing are that investments must be intentional and measurable. Our process employs a development "theory of change" model, looking at an asset's inputs, activities, outputs, outcomes, and impacts in three "impact maturity" stages: intentionality, implementation, and impact. These stages build upon one another, and we expect to see companies at the 'intentionality' stage mature to 'implementation' and finally to 'impact'.

'Intentionality' is a company's recognition of a particular social or environmental issue and investment to deliver products and services in response. We undertake contextual and needs-based analysis to understand the unique nature of the social and environmental issues in a particular region, such as a funding gap for micro-enterprises in South East Asia. We then evaluate company-specific 'inputs' such as strategy and investments and how they address the environmental and social issues in the regions in which they operate.

Companies that mature from 'intentionality' to 'implementation' have progressed from 'input' to 'activity' in our theory of change model. The strategy to address a global issue and investment to deliver products and services has 'matured' to meet revenue and growth rate thresholds we have set for each pillar.

Finally, a company that has matured to the 'impact' stage of our model is able to report on the data points and deliverables its products and services have achieved; such carbon emission reduction or total number of people provided with access to energy. Outcomes are the consequences of these results and in listed equities we have found companies are less advanced in reporting outcomes their products and services achieved.

How do you measure impact?

To measure impact, we collect data from company annual reports, conversations with company management teams and we send out an annual survey to all companies we believe align with our impact pillars. We then present the data we collect at a fund level to report headline figures, at a pillar level providing regional context, and as a case study for specific examples.

Taking financial inclusion as an example, we report total number of underserved adults provided with banking services by holdings. At a pillar level, we look at this data in a regional context, to understand where banking services were created, what rates are charged and financial literacy programmes are provided, and how this corresponds to the need in a country. For example, in Turkey, roughly half the adult population lacks access to basic financial services. Companies in the fund created over 780,000 new accounts in Turkey which is 8.5% of all accounts created in Turkey between 2014 and 2017.

A case study we would highlight is the microfinance lender ASA International. ASAI recognises that financial services can help low-income households generate income, build assets and, to that end, aims to create what it calls a 'cycle of wealth'. Using World Bank data to identify those countries with lowest penetration of financial inclusion ASAI specifically offers services to female micro-entrepreneurs. Our measure of intentionality is ASAI's regular benchmarking of the rates it charges against equivalent providers such as non-governmental organisations. Fair rates and financial literacy programmes as well as payment plans have yielded strong results, with default rates significantly below competitors and a customer retention rate of 78% in 2017. ASAI currently has over 2.1 million customers across South East Asia and Africa and has engaged with its clients' communities, coordinated knowledge sharing and business development to bring access to financial services they likely would not have had otherwise.

There is no consensus on how to measure and report on impact, and because each impact framework is different, each impact report will be different. We aim to offer a comprehensive report that reflects industry best practice as it evolves.

If you would like to see the latest annual impact report for our Global Equity Impact Fund, click here.

Risk warning - Before investing, investors should consider carefully the investment objective, risks, charges, and expenses of a fund. This and other important information is contained in the prospectus and KIID document.

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WHEB

Impact investing in practice

Impact Investing in Practice

By Libby Stanley,
Business Development Manager at WHEB

The market for impact investments is growing fast. The number of articles, conferences and products that focus on creating a positive impact on society and the environment is rapidly increasing. The Global Impact Investing Network (GIIN) estimates the current size of the global impact investing market to be $502 billion[1].

However, there remain some tensions around the definition of an impact investment. With the raft of new impact funds being launched, there is a growing variety of ways in which asset managers are approaching impact investing.

WHEB's investment strategy has more than a thirteen year track record and the mission of our business is to advance sustainability and create prosperity through positive impact investments. For WHEB this isn't just another product line, it is what defines us.

All our investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. This is the basic definition of Impact investing that you will find on the GIIN website[2]. As the world transitions towards a more sustainable economy, companies that enable this shift are likely to experience significant structural growth. Growth derived from the positive impact of our investments is at the root of our ability to generate attractive financial returns.

So how do we do impact investing in practice? The initial screen we use when we are considering a stock for investment is to work out whether the company's products or services have a positive impact on the environment and/or society. If the answer is yes, the stock qualifies for our investment universe. There are currently around 1000 stocks in our universe. The stock will also need to fit in to one of our investment themes. There are five environmental (cleaner energy, environmental services, resource efficiency, sustainable transport and water management), and four social themes (education, health, safety, and well-being).

We have been using these investment themes since the inception of the strategy in 2005. Our themes naturally fit in with the 17 UN Sustainable Development Goals (SDGs) and the WHEB investment strategy directly helps achieve seven of the SDGs. Please see our Impact Report for further detail[3].

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Once a stock enters our investment universe, the next step is detailed thematic research and further screens on the quality of the company. At this stage we also look at ESG factors. At WHEB, ESG research is not done by a separate team nor is it outsourced to a third party. All members of the investment team undertake ESG research alongside their financial analysis. WHEB's approach to ESG is very much 'built in' rather than 'bolt on'. We believe that this more holistic assessment and understanding of potential investments provides a stronger basis on which to shape our opinion on valuation and risk.

Engagement and voting are another essential part of our impact investment process. The way in which a company's management responds to specific challenges raised through the engagement process can reveal a great deal about that company's attitude to its stakeholders, risk and other issues. We seek to vote on all our active positions in the fund and use a proxy voting agent to assist us in scrutinizing ballots at company meetings. Through our reporting, engagement also connects investors to the companies they hold via our fund, and know that we are working on their behalf to make companies more responsible in the way they do business.

The final part of WHEB's approach to impact investing is how we measure and report on the positive environmental and social impact of our investments. Over the past five years, we have developed our own methodology[4] and designed an 'Impact Calculator'[5] to help investors in our strategy understand what their money is working towards achieving in the real world. For example, £20,000 invested in the FP WHEB Sustainability Fund (as of Dec 2017) has helped generate 13 MWh of renewable energy, avoided 36k litres of water use and saved £2.4k of costs in healthcare systems alongside six other measures. The next version of our Impact Calculator and our new Impact Report will be published in May.

Much debate focuses on what investments should be included in a definition of impact investment and what should not. But impact investing is a verb and not a noun. It is a more holistic concept and should relate to a wider culture of investing to create positive outcomes for society and the environment, not a list of particular investments.

The increasing "financialization" of the industry has meant investment has lost its connection with the average saver in a cloud of algorithms, spreadsheet formula and black box systems. Demonstrating the positive impact an investment can have in the real world creates a powerful basis on which to reengage savers with the outcomes their money is working towards achieving.

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1 https://thegiin.org/research/publication/impinv-market-size

2 https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing

3 http://www.whebgroup.com/media/2018/05/WHEB-Impact-Report-2017.pdf

4 http://www.whebgroup.com/impact/methodology/

5 http://www.whebgroup.com/impact/impact-calculator/

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Liontrust

Lightweighting and the impact of materials

Lightweighting and the impact of materials

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

Plastic pollution has quickly ascended the list of global priorities, driven by what has come to be called the 'Blue Planet' effect. But while dealing with this situation is vital, we believe a more nuanced look at the broader materials sector can reap rewards for investors.

The challenge lies not just in changing how materials are produced, but altering the thinking on how we use them. We need to acknowledge that plastic is a useful material. Some of this, particularly single-use, can be replaced, but a wider goal is to change manufacturing models, switching from the linear, extractive economy where we take, make and dispose, towards a circular system where products can be made to be made again.

From an investment perspective, we are looking for companies that help to promote this shift.

Increased use of recycled materials

Recycling materials is the obvious starting point and it has less negative impact than taking primary ores and refining them into materials. Using plastic waste to make nylon-based fabrics, for example, reduces emissions from manufacturing compared to oil-derived primary nylon.

Our 'increasing recycling and waste management' investment theme includes companies we believe are set to benefit from secular growth in demand as they increase recycling, reduce pressure on the natural environment and cut pollution by delivering waste management services.

Lightweighting transport

In addition to the overall move to more recycled materials, we also find opportunities to reduce emissions within the transport sector by making vehicles lighter. Of the available options for lightweighting, we see aluminium (for use in making vehicles lighter and more fuel efficient) as the area with most investment potential.

Material shift: how do we halve emissions and still meet projected demand for materials by 2050?

More generally, manufacturing faces a challenge to meet demand while reducing emissions, and we see opportunities in two related areas:

- within industry itself, primarily through technological innovation; and
- on the behavioural side, how we design and use materials.

Technology can continue to have a significant impact and falls into two categories:

- **Yield loss reduction:** improving the transformation process.
- **Scrap diversion:** this increases material being recycled, much of which requires only around a fifth of the energy needed to make primary materials.

As for behavioural-led change, we need to push for the following shifts in how companies run the materials life cycle:

- **More intense use:** Using products more intensely means less material is needed for fewer products.
- **Less material by design:** Using less material is given priority in the design process without compromising the end product.
- **Life extension:** Again, using materials for longer.
- **Re-use of components:** This is self-explanatory but tweaks are often needed in the design phase to easily and cost effectively re-use components.

The conclusion is that simply improving our processes will not get us far enough in terms of sustainable productivity: we need to use materials more intelligently as well as just producing them in a more efficient way.

For more information on sustainable investing, go to liontrust.co.uk/sustainable

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.

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Hermes

The future-fit framework

The journey towards positive impact – the Future-Fit Framework

By Tim Crockford, Investment Manager at Hermes Investment Management

From ending poverty and reducing inequality to tackling climate change and working to preserve our oceans and forests, humanity faces a number of global challenges. Today, investors are realising that companies have the power to address these critical challenges, but bold action must be taken. Here we examine an ambitious framework that aims to provide investors with a tool to assess how a company is contributing to society and the environment.

The Hermes Impact Opportunities Strategy targets companies that provide innovative solutions to society's underserved needs, by connecting their outputs with positive impacts on society and the planet.

But these companies can go further: as well as providing solutions, they can become part of the solution too. Going beyond the benefit of their products, they should strive to have a positive impact through their supply chains and from operations, further supporting our objective of creating positive and sustainable societal change.

Today, there is no single standardised metric that calculates the sustainability of a company. That's not to say that sustainability metrics are in short supply: data providers offer more than a hundred ratings. However, current ratings tend to emphasise relative performance, and thereby fail to provide much-needed guidance on what companies need to do in order to be truly sustainable in absolute terms.

Encouragingly, we are trialling an ambitious assessment framework, created by the Future-Fit Foundation. It aims to provide investors with a way of assessing how a company is contributing to society and the environment. As such, it is aligned with our vision of encouraging the transition to a sustainable corporate ecosystem.

What is Future-Fit?

- The Future-Fit Foundation builds tools that equip companies – and investors – with the means to recognise, reward and steer the creation of value for themselves and society as a whole
- One such tool is the Future-Fit Business Benchmark: an open-source, systems-science based set of goals that all companies, regardless of industry or geography, must strive to reach to become truly sustainable
- There are 23 break-even goals in total, which, once met, together mark the transition point beyond which a business starts helping – rather than hindering – the planet's transition to future-fitness
- The Future-Fit Business Benchmark measures absolute progress, not relative improvement, and it provides companies with actionable insight and a way to progress towards future-fitness

Creating change together

Future-Fit is currently creating an investor-focused assessment framework – and we have trialled this model on two of our portfolio companies, one of which being Novo Nordisk. The model is still in its infancy and we are going to provide systematic feedback to Future-Fit. So far, we hope that it will allow us to understand the full extent of these companies' impacts on society and the environment – good and bad – and across their entire value chain. What's more, we hope that it will allow us to improve the net impact of our portfolio as we integrate the outcomes from the assessment – that is, the companies' contributions to a sustainable future – into our engagement strategy.

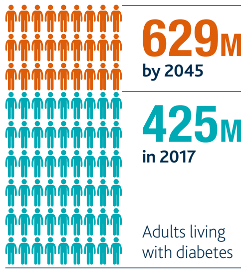
Example case study: Novo Nordisk

Although great progress has been made in medicine over the last decade, there are still significant unmet medical needs: rates of obesity and diabetes are rising at an alarming rate around the world.

Since 1975, obesity rates have almost tripled[1]. Meanwhile, about 425 million adults are living with diabetes – that's about 7-8% of the global population. This number is expected to rise to 629 million by 2045[2].

x3

obesity rates have almost tripled since 1975



Danish healthcare group Novo Nordisk is uniquely positioned to take a leading role in the fight against diabetes and contribute positively to the United Nations Sustainable Development Goals.

For example, its newly-developed generation of diabetes drugs, which use Glucagon-like peptide-1 (GLP-1), are already shaking up the market. GLP-1s decrease blood-sugar levels by enhancing the secretion of insulin, thereby lowering the risk of long-term diabetes complications and the short-term fear of developing hypoglycaemia (too low blood sugar).

Novo Nordisk has also been actively raising awareness of obesity as a chronic disease that requires long-term management. In recent years, the company has increased its investment in obesity drugs, and today, it dominates its R&D pipeline, with five Phase 1 and one Phase 3 obesity-related trials.

Impact beyond medicine

But it's not just focusing on delivering transformational biological and technological innovation, Novo Nordisk is going further to deliver positive contributions to society and the environment.

At the end of 2018, it became the first company to complete the Future-Fit Business Benchmark. It is also a member of the Future-Fit Development Council[3].

Using the benchmark, the company performed well in some areas of future fitness and identified gaps in others[4]. In addition, the benchmark's progress indicators offered the company the opportunity to calculate where it is today and importantly, what it needs to work on.

To find out more on the Future-Fit Foundation and to read our full quarterly impact report, please visit our website.

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Past performance is not a reliable indicator of future results. Investments overseas may be affected by currency exchange rates.

[1] "Obesity and overweight," published by the World Health Organisation on 16 February 2018.

[2] International Diabetes Federation as at 2017.

[3] "17 goals to transform the world" published by Novo Nordisk in January 2019. https://www.novonordisk.com/sustainable-business/performance-on-tbl/more-about-how-we-work-and-report/the-sustainabledevelopment-goals.html

[4] "Righting wrong metrics: lessons on Future-Fitness and Fixing Materiality," published by Sustainable Brands in November 2018.

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Impax

The future of sustainable investing

What does the future hold for sustainable investing?

Impax Asset Management's Lisa Beauvilain shares her thoughts on what the future holds for sustainable investors.

More than twenty years on from the founding of Impax as a way to invest in the opportunities arising from the world's transition to a more sustainable economic model, and it seems the rest of investment world is catching on.

In the last year there has been what some commentators have called an explosion of green, impact sustainable and ESG focused fund launches. For most UK investors the 'ethical' sector, where these funds are lumped is a confusing space. Recognising this, the UK's Investment Association kicked off the year with a consultation that looked to rethink the definitions within the sector to make them clearer to investors. Meanwhile, the EU continues to push for 'green' labels and investors are increasingly being asked to measure their progress against the UN's Sustainable Development Goals (SDGs).

It is fantastic to see such positive action, and also timely. Impax Environmental Markets plc (noted in this guide) ran a survey with YouGov in January 2019 in which we asked more than 2,000 adults aged 18 to 55 what they wanted from their next investment. Nearly half (49%) said they wanted an investment that delivered positive growth and had a positive impact while close to a quarter (22%) said they wanted an investment that had a positive impact regardless of return. Consumer sentiment has shifted faster than the investment industry.

What does the future hold for those investing in a sustainable economy?

Specific technological breakthroughs and, most importantly, the timing of major shifts are impossible to predict. Plastics are a case in point. No one could have predicted that a BBC nature documentary – 'Blue Planet II' – and a change in policy in China would combine to transform the landscape for recyclers and producers of sustainable packaging.

So, let's start with what we know...

Some of the investment growth stories of the next decade are already well sign-posted.

- **Disruption** is already well underway in a number of key sectors, including low-carbon power generation, water treatment and supply infrastructure, industrial efficiency, personalised diagnostic healthcare and speciality insurance.

- **Scaling-up:** The scaling-up of these solutions is the 'known known' of the next two decades. Investing here creates a good backdrop for growth. Identifying the best business models with high barriers to entry and a disciplined approach to valuation will remain important as these markets can attract excess capital.

...and consider what we don't yet know

There are areas where we see potential opportunities but quite how they will materialise is as yet unclear.

- **Some environmental challenges do not have economically viable solutions yet**, despite efforts to develop new technologies and supportive policies. For example, transport emissions – both CO_2 and local air pollutants – are continuing to accelerate. Within the food supply chain, consumer and regulatory pressure to deliver higher quality nutrition with a lower environmental impact is still at an early stage. Exactly which solutions will ultimately succeed remains subject to debate, research and market testing.

- **Will Millennials still think sustainably when they have grown up?** There are signs of a generational shift in attitudes, and opportunities for companies that can capture that shift, such as more sustainable lifestyles and modes of consumption. An open question is whether millennials will retain these preferences as they grow older and assume corporate and political leadership? If they do, that would accelerate responses to the environmental and social challenges we face.

- **Sudden shocks from exposures on social media will continue.** The democratisation of information through digital communication platforms is likely to continue to expose business models that are exploiting natural or human resources for short-term profit. But quite what they will uncover next, no one knows.

The future is never clear, but we do know that climate change represents a significant challenge for investors and companies in the future. For investors like Impax the responses to these challenges represent potentially exciting long-term growth opportunities.

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M&G

Positive Impact Fund interview with Ben Constable-Maxwell

Fund interview: M&G Positive Impact Fund

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

Who are you?

I am Ben Constable-Maxwell, the Head of Sustainable and Impact Investing at M&G, and the Impact Lead on the M&G Positive Impact Fund.

Why are you personally interested in this fund?

Having worked for some time on the original concept for this fund, it was something I was incredibly excited to see brought to life. I believe our industry has a huge role to play in addressing the world's major social and environmental challenges – and impact investing can act as a catalyst for transformational change in this regard. I also believe that we can work towards these goals while providing attractive financial returns to our customers.

Why did you launch this fund?

M&G was at the forefront of the 'democratisation' of investment, with a long history of 'firsts'. This started in 1931 when we launched the first mutual fund for the UK general public. This fund is furthering that trend, opening impact to a much wider audience than previously had access, when impact was the reserve of private equity and debt. There is also the realisation that the UN Sustainable Development Goals (SDGs) do not stand a chance of being achieved by 2030 without the contribution of private capital. This provides a natural tailwind for those companies that help to achieve these goals and represents a huge opportunity for impact investors.

There are more and more funds in this space. What makes your fund distinctive?

There aren't that many funds in the listed equity space that are strictly 'impact'. We are trying to stay within the pure spirit of impact, ensuring the companies we invest in have the intention of delivering impact (and that this is not just talk, but translates into results), that impact is meaningful and measurable, and that those companies actually add something to the playing field. We have a rigorous approach to identifying impactful investments, which we call our 'triple i' methodology. This analyses the Investment quality, Intentionality and Impact of a company to assess its suitability for the fund. As part of this analysis, the Positive Impact team internally scores companies on these 'III' credentials and requires above-average results for inclusion in the fund's watchlist, as well as consensus agreement of a company's merits from the entire Positive Impact team. The fund manager can then invest in these businesses when he thinks the timing and price are right.

The fund is quite concentrated. Why did you take this approach given that it could be argued that this increases the risk?

We think that holding fewer stocks for longer decreases the complexity of managing risk. With 30 stocks you can create a nicely diversified portfolio across different business models and end markets. We invest across six impact areas, mapped against the SDGs, three of which are focused on environmental solutions and three on social – there are a diverse range of companies addressing the various challenges within each impact area. Then from a portfolio construction perspective, the fund invests in three categories of positive impact companies: Pioneers (whose products or services have a transformational effect on society or the environment); Enablers (which provide the tools for others to deliver positive social or environmental impact); and Leaders (which spearhead the development of sustainability in their industries). Investing in this way provides diversification across industries, end markets, and maturity of business models.

We also believe that, in a concentrated portfolio, every stock pick is meaningful, allowing us to maximise the portfolio's impact and avoid the dilution of returns. Holding fewer stocks also means that we can effectively engage with those companies, properly fulfilling our role as an active, impactful investor.

The fund holds a small number of investments, and therefore a fall in the value of a single investment may have a greater impact than if it held a larger number of investments.

This is an international fund. How do you manage the currency risk?

We have a ten-year investment horizon – you have to be long-term if you want to compound returns and deliver meaningful impact. Because of this we don't hedge currency, as short-term fluctuations tend to wash out over time.

The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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

1. Empowering our customers to make a difference through their investments
2. Rigour (starting with our III methodology)
3. Transparency as a driver of change

What would success look like for your fund?

To achieve positive societal outcomes through our investments, with the ability to measure tangibly how they are making a difference to society.

To deliver returns ahead of the MSCI ACWI Index over rolling five-year periods.

We would also measure success through engagement with our direct customers, as a demonstration that they truly are on the journey with us.

Please refer to the glossary for an explanation of the investment terms used throughout this article.

The views expressed here should not be taken as a recommendation, advice or forecast. The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

The fund invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

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UBP

Positive Impact Equity Fund interview with Victoria Leggett and Rupert Welchman

Victoria Leggett, Head of Impact Investing, Portfolio Manager, Union Bancaire Privée (UBP)

Victoria joined UBP in 2010 as a portfolio manager and has over 15 years of investment experience. She is the Head of Impact Investing. Victoria previously worked as a European Equity Analyst at Threadneedle and started her career in Corporate Finance.

Victoria achieved a 1st class degree in History and German from the University of Durham

Rupert Welchman, Portfolio Manager and Analyst, Union Bancaire Privée (UBP)

Ruper Welchman is a portfolio manager and analyst. He joined UBP in 2010 and has 20 years of investment experience. He used to be a UK Equities Fund Manager and Head of the Global Banks team at Threadneedle, and he has also worked as a Fund Manager at K.I. Asset Management and First State Asset Management.

Rupert holds a degree in History from the Université Pierre Mendes-France (Grenoble, France) and an MA in Medieval History from St Andrews University. Rupert holds the IIMR and IMC qualifications.

UBP

UNION BANCAIRE PRIVÉE

Fund Manager Interview: UBAM Positive Impact Equity

Who are you (fund management group)?

Union Bancaire Privée, UBP SA ("UBP"), headquartered in Geneva, is one of the leading Swiss private banks, and focuses on asset management for institutional clients and wealth management for private clients. UBP offers an extensive range of long only and alternative products, both absolute and relative return strategies, which aim to grow client assets while applying a rigorous and disciplined risk management approach.

As at 31.12.2018, UBP had £101.5 billion of assets under management and over 1,750 employees. UBP's Tier-1 ratio of 26.6% makes it one of the best-capitalised banks in its field, as recognised by being awarded a long-term Aa2 Moody's deposit rating.

UBP's roots trace back to 1969, when Edgar de Picciotto established the Compagnie de Banque et d'Investissements (CBI) in Geneva. In the 1970s, CBI was one of the first banks to use hedge funds to help grow its clients' assets. While the Bank has been able to grow organically since its creation, especially thanks to its reputation and its ability to manage performance for its clients, it also owes its growth to the acquisitions of several major players in wealth management, both in Switzerland and abroad.

UBP's strategic business development also involves partnerships and joint ventures with the objective to enrich its investment offering and distribution capabilities.

With regard to asset management, UBP has developed its offering over the past years and the Asset Management division manages some £32 billion in funds and mandates.

What heritage do you have in this area?

UBP became signatory to the UNPRI in 2012.

In 2017 we embarked on the process of integrating Responsible Investment through both its private banking and asset management divisions.

Victoria Leggett and Rupert Welchman the co-managers have a combined 35 years of investment experience running equity funds. Strong credentials in impact investing.

Why did you launch the fund?

1. Demand among a broad cross-section of our client base.

2. Timing - The publication of the UN SDGs and its reverberations into capitals markets created a powerful launchpad for this investment style. UBP has reached a point of self-awareness in its constant reassessment of its long term strategic path of travel where responsibility and positive impact align closely with the aspirations of a family owned company. if we can say it - the family have themselves invested.

3. The co-managers are personally highly motivated. As with many of their target investors, the co-managers see their lifestyle and investment philosophies as mutually inclusive creating a strong foundation for an authentic investment process.

How are you measuring impact?

1. Bottom up KPIs identified through direct engagement with each company within our portfolio and our watchlist. We back up this direct route to measurement with interactions with Associations and relevant Industry bodies to identify common impact measurements.

2. Top Down KPIs through selected databases that look to normalise measurement as optimally as possible.

   However, of course it is worth highlighting that measurement is a tricky topic. We recognise and clearly identify weaknesses in non-financial data measurement, but do not believe it is a barrier to launching an impact fund. Instead, we collaborate wherever we can to improve measurement transparency and to celebrate listed companies that are leading the field.

You have a partnership with the Cambridge Institute for Sustainability Leadership. Please could you describe how this works?

We are a member of the Investment Leaders Group, which is facilitated by CISL. UBP is one of 12 investors and together with CISL, we aim to dedicate resource to under-researched topics, where we can add a point of difference and a practical solution to our peers in the investment world (such as the long-termism toolkit and the recently launched impact measurement report). The Impact fund is in fact the sample fund in the report and we worked closely with CISL in developing and testing the metrics used.

What are the most difficult issues involved with running your fund?

There is an industry-wide challenge with regard to the measurement of impact (particularly in listed markets). To an extent we can solve this through bottom-up engagement and the resulting KPIs, but for a broad adoption of impact across the investment community; standardised and comparable impact data would be invaluable – for investment managers and fund selectors

What would success look like for your fund?

For us, success is strongly linked with the profile and rationale of the end investor. We have succeeded if our fund is accessible to every type of end-client and that their choice is a result of their engagement with our impact journey in addition to the financial returns. Consequently, being able to deliver on this twin aim of financial and impact performance is critical to create this success.

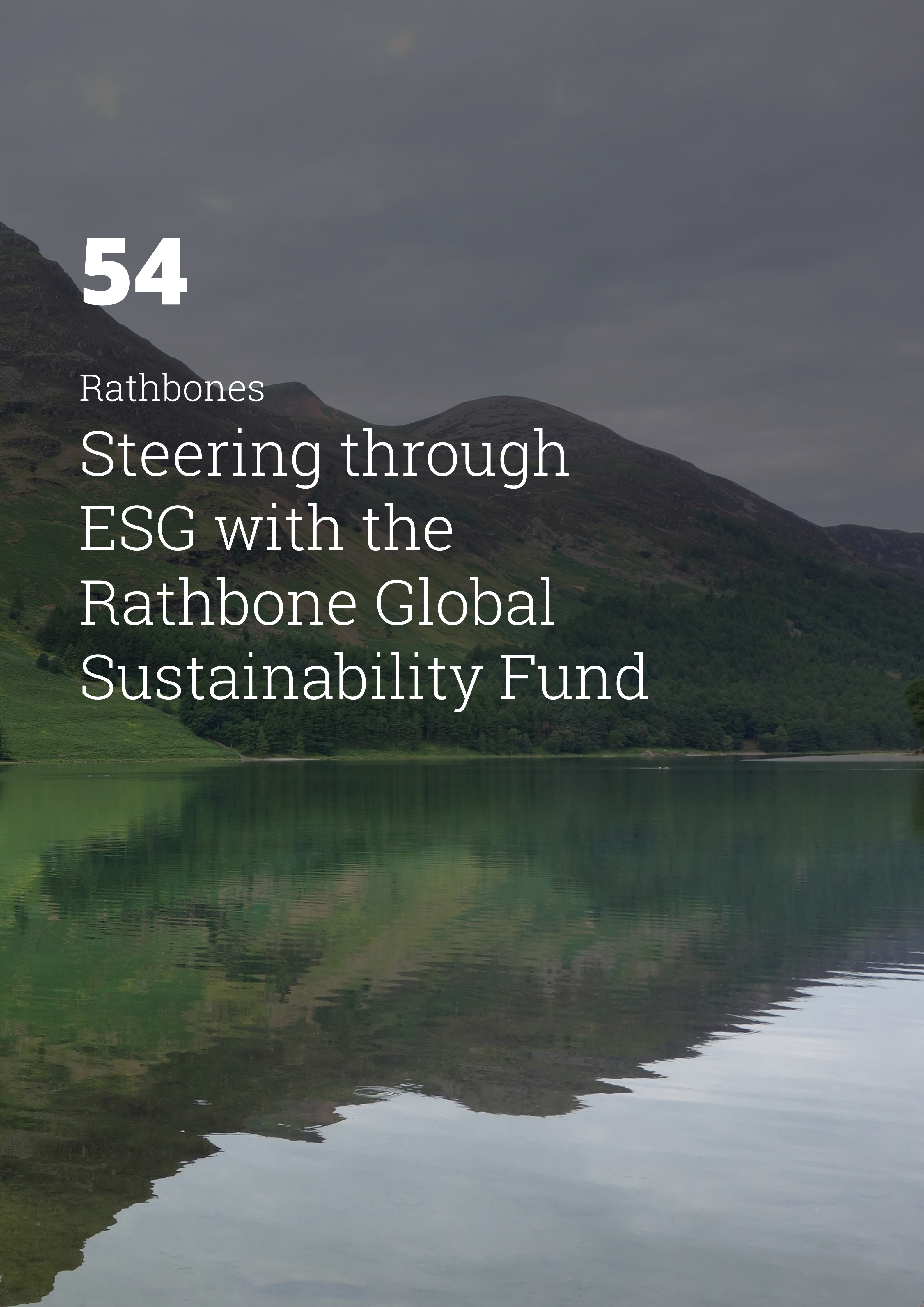
We also take our role as stakeholders seriously – we hope that our engagement with our underlying holdings can help them to progress and being able to map and measure this over time would be a great marker of success to us.

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

Accessibility – we believe that it should be possible for everyone to be able to invest in a way which marries their financial and ethical goals. Listed equity is an excellent vehicle to provide the reach that some other asset classes can't and the scale of secondary markets means that we can create big change if we work together.

Long-termism – our investment choices are made with a long-term time horizon. We want to provide supportive and constructive capital to companies which are trying to create positive change

Investment expertise – the impact we make will ultimately be larger if we make good investment decisions for the long-term.



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Rathbones

Steering through ESG with the Rathbone Global Sustainability Fund

Steering through ESG with the Rathbone Global Sustainability Fund

By David Harrison, Fund Manager of the Rathbone Global Sustainability Fund at Rathbone Unit Trust Management

The notion that investing responsibly meant sacrificing returns is fast being relegated to the dark ages. With the right combination of investment expertise and carefully selected companies, investors can benefit from the potential for attractive returns in addition to making a difference.

Recent research by the United Nations-supported Principles for Responsible Investment shows companies can deliver better returns by getting to grips with environmental, sustainability and governance (ESG) issues[1]. Tapping into these investment opportunities, however, requires a robust ESG investing framework that includes a commitment to ongoing corporate engagement.

Screening investments

The core philosophy behind the Rathbone Global Sustainability Fund is to create long-term value for investors, society and the environment by investing in companies that display strong ESG policies and practices. Built on the foundations set by the Rathbone Ethical Bond Fund, the objective is to invest in a socially and environmentally responsible way without sacrificing returns.

This involves a strict investment philosophy that places an emphasis on achieving sustainable returns. To achieve this, lead fund manager David Harrison and his team seek companies that display three characteristics: durable franchises, a positive corporate culture and have a commitment to sustainable development by offering solutions or making an impact.

Fig 1: Achieving sustainable returns

Finding companies that display these characteristics involves a three-step investment process where the management team collaborates with Rathbone Greenbank Investments, an expert in ethical investment with a 20-year track record of robust ethical and sustainability analysis. In the first step of the investment process, Mr Harrison's team generates investment ideas and screens the global investment universe for companies across the market capitalisation spectrum that pass a quality and value screen. After they have identified potential investments, the Rathbone Greenbank research team then conducts both negative and positive screens to ensure the companies meet sustainability criteria.

At the outset, they apply exclusion screens that rule out companies with the follow characteristics:

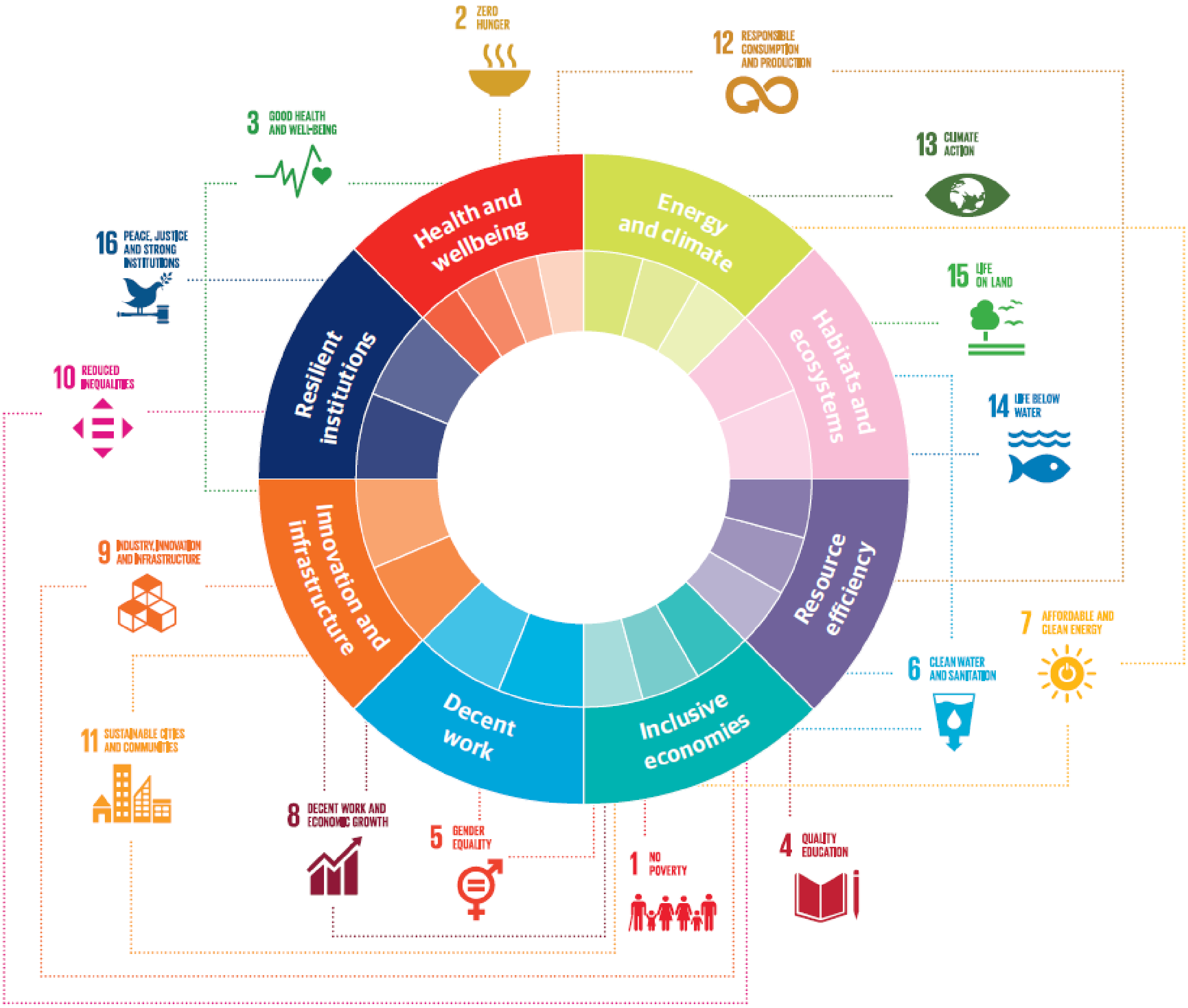
- involvement in specific activities or behaviour that is of general concern to ethical investors
- significant negative impacts that are incompatible with sustainable development.

[1] Financial performance of ESG integration in US investing, UN PRI, https://www.unpri.org/download?ac=4218

Following the ethical screen, Rathbone Greenbank analyses companies against positive sustainability factors to ensure each company meets ESG requirements. This will ensure the fund only invests in companies that display leading or well-developed practices and policies, or allocate capital towards the provision of products or services aligned with sustainable development.

To measure this, the team has mapped the 17 United Nations Sustainable Development Goals to eight broad themes that they can use to determine if a company is successful at translating aspirations into tangible results. The final step, ongoing engagement, only takes place once a company is approved for investment in the portfolio.

Fig 2: Sustainability criteria



Giving the green light

The relationship between the fund management team and Rathbone Greenbank's research team is essential for successful investment outcomes. Each team offers an objective analysis of potential investments from their respective standpoints, but Rathbone Greenbank is the final arbiter of a company's credentials and has the power to veto any investment decision.

"The Rathbone Greenbank decision-making process is special in that the fund manager can't overrule their decision," says David Harrison, manager of the Rathbone Global Sustainability Fund. "This process raises the fund's ESG credentials because it mitigates the risk of investing in companies that may encounter scandals in the future."

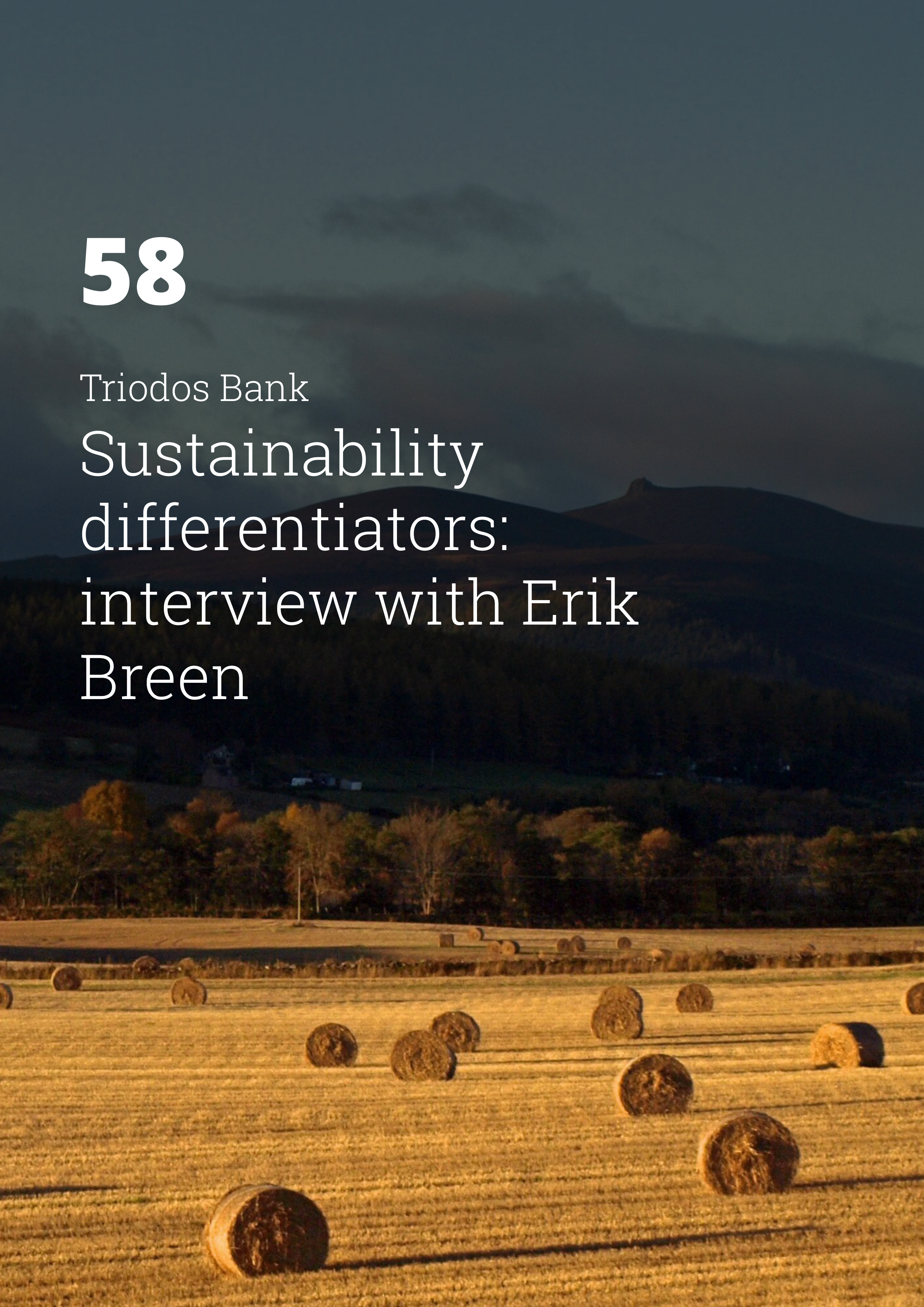
In selecting companies for the portfolio, Mr Harrison and his team are most attracted to companies where the management team fully understand every aspect of their business and how it is aligned with ESG principles. His preference is for companies that devote their attention to a few ESG goals that are most applicable to their line of business because this increases the likelihood they will achieve their objectives.

An engaging formula

Once the fund has invested in a company, the process continues with ongoing engagement. For Mr Harrison, this is where Rathbone Greenbank adds the most value. Corporate stewardship is an important part of the investment process. The research team monitors corporate news on environmental and social matters, keeps track of annual general meetings, and contacts companies to raise issues and provide recommendations.

The research team conducts an annual screening review to ensure each company continues to meet ESG criteria, with stocks being sold if they do not. While Mr Harrison says companies are improving when it comes to engagement, there is still plenty of room for improvement across the board.

"Governance is a major issue and increasingly it's around environmental policy, supply chain management and employee turnover," Mr Harrison says. "If a company will not engage with us, we won't invest in it."



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Triodos Bank

Sustainability differentiators: interview with Erik Breen

Distinctively different – Erik Breen explains how sustainable investing goes way beyond the actual investments made for Triodos Bank.

3D investing interview with Erik Breen, Director of SRI at Triodos Investment Management

Tell us about Triodos Bank?

The sole purpose of Triodos Bank from its inception in 1980 has been to create sustainable financial products to help society protect and promote the quality of human life. To focus the business on this purpose and report on progress towards it, we report on factors such as the impact our lending and investing has had across environmental, social & cultural sectors. For example, in 2018 Triodos Bank

- financed 513 projects in the sustainable energy sector, contributing to generating green electricity for 2.5 million households worldwide while avoiding over 0.9 million tonnes of CO2 emissions
- financed about 717,000 m2 of sustainable property
- financed organic farming and food, producing the equivalent of 32 million organic meals
- financed 550 education initiatives beneficial for 680,000 individuals
- provided finance for cultural institutions including cinemas, theatres and museums across Europe, where 22.6 million visitors enjoyed cultural events

We also report on the important climate impact measures of our activities including:

- Our CO2 emissions, 100% compensation = 2.8 tonnes of CO2
- The CO2 net emission in outstanding loans and investments = 152 tonnes of CO2
- The CO2 emissions of the businesses we lend to and invest in = -985 tonnes of CO2

In addition to the impact reporting above, we also report on other criteria that we feel are key to developing a sustainable society, such as:

- Women as percentage of management = 39%
- Ratio of highest to median salary = 5.6
- Co-worker turnover 9%

We think these figures, along with our work as a founding member of the Global Alliance for Banking on Values, make us pretty sustainable. But we believe sustainable finance must be transparent. This means you don't need to take our word for it. You can decide for yourself, as we are totally transparent about what we do and how we do it, because we list every company we invest in or lend to on our website.

513 Sustainable energy projects in 2018

86,000 Acres of organic farmland across Europe in 2018

197,000 Acres of organic, or in conversion, farmland in emerging markets in 2018

2.5M Households' electricity needs in green energy

3.5 Homes' green electricity needs per customer

32M Organic meals produced per year

29,000 People who could be fed with a sustainable diet

104,000 Smallholder farmers producing 12 products

1.9B Cups of coffee per year

440 Sustainable commercial properties in 2018

502 Elderly care homes across Europe in 2018

717,000m^2 Office and other commercial space

41,000 Elderly people being cared for

21 Days of care per customer

Triodos might sound a bit unusual to UK investors. How do you pronounce it and what does it mean?

Yes, some people struggle a little with the pronunciation. It's Tree-oh-dos. It's derived from the Greek "τριὸδος - tri hodos," meaning "three-way approach". The Triodos three-way approach is people, planet and prosperity for all.

You have quite an unusual structure. Can you tell us about this and what relevance this has for investors?

Our approach to lending and investment decisions represents a radical departure from conventional financial institutions, and to achieve that we need a radically different structure to other financial institutions. The organisational structure of Triodos is therefore very relevant to sustainable investors.

Triodos is structured and managed in a way that aims to safeguard our principles, values and objectives, which might otherwise be eroded under a more common structure of shareholders. Specifically, sustainability and transparency values can come under pressure in a shareholder structure.

Since our creation, we have been an independent bank. To ensure the special character and mission of our bank remains protected, our shares are held in a dedicated Foundation - The Foundation for the Administration of Triodos Bank Shares. To finance the shares, this Foundation issues depository receipts. These depository receipts are not listed on the stock exchange, but are traded on our own platform. As of 2018, we have over 42,000 depository receipt holders across Europe.

A Supervisory Board oversees and reviews the activities and decisions of the Executive Board, the development of Triodos Bank's operations, strategy development and the bank's overall mission. The Supervisory Board also provides advice and guidance to the Executive Board. Members of the Supervisory Board are independent; from each other, from the Executive Board, and from any other party or interest that might affect the Board's operation.

If you are focused on delivering sustainable social, environmental and cultural impact as well as measuring risk and return – as Triodos Bank is – your horizon is inherently longer-term and has a positive, holistic outlook.

Triodos Bank was one of the first organisations to be certified as a B Corporation. What does this mean and what difference does it make to investors?

We've been a Certified B Corporation® since the European launch of the movement back in 2015. As a business founded on principles of sustainability, it was an obvious step for us to join the community. B Corp™ is to business what Fairtrade certification is to coffee. Rather than operating purely to generate profit, Certified B Corps prioritise working for social and environmental good.

In order to become a B Corp™, businesses are certified by the non-profit B Lab® to voluntarily meet rigorous standards of social and environmental performance, accountability and transparency. Each company's B Impact Report can be viewed online, so that consumers can see where the companies they buy from sit on the scale. Triodos is scored 136 compared to an average B Corp™ score of 97.

An audit by an independent organisation such as B Corp™ helps us to test our sustainable mission against strict international requirements in the field of corporate social responsibility. The certification helps to increase the reputation and credibility of sustainable banking and investment management and to continuously improve our sustainable performance.

Triodos sounds like a sustainable company, but at the end of the day, does it really matter? Aren't the actual investments the really important thing for investors?

The actual investments are key. However, the choice of those investments and the impact they ultimately have are entirely reliant on how embedded sustainability is within the company managing the funds.

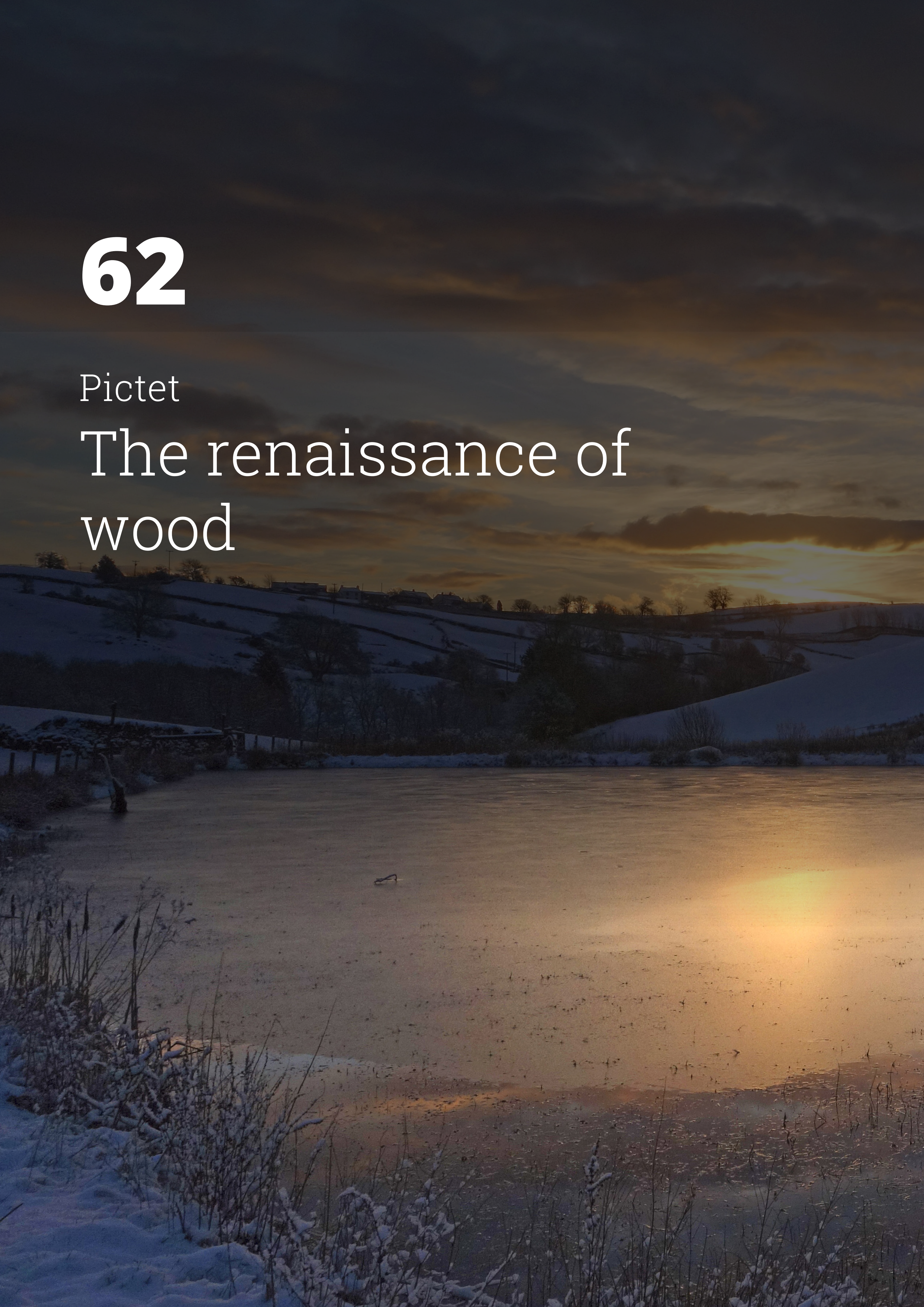
The structure of Triodos allows its fund managers to pursue a truly sustainable investment approach. Triodos was the first to launch a "green fund" onto the Amsterdam Stock Exchange back in 1980. In the nearly 40 years since then we have deepened our expertise such that we can make bigger, more lasting impact year on year with our stewardship, voting rights and careful active engagement with companies. Many other fund providers without the backing of this structure might struggle to balance long-term sustainable objectives with shorter term commercial pressures.

Can you explain how Triodos is truly different from other investment companies?

Triodos Bank has been active in the impact finance space for nearly 40 years. It's all we do, across the full capital range.

We take a vision-based approach to investing, which means we build a deep understanding of all prospective investments to assess their alignment with our long-term vision for a sustainable society. Only the companies that yield strong positive contributions to our transition themes and that meet our strict minimum standards around human dignity, the environment and governance are eligible for investment in our funds.

Many environmental, social and governance (ESG) funds screen companies based on an algorithmic ESG score that doesn't take into account the products and services of the company, or does so in a very rules-based way. As an impact investor, we go beyond ESG and use an inclusionary approach. We focus on solutions, rather than on exclusions. We select companies that develop solutions to the world's most critical sustainability challenges, making sure we only invest in companies that play a role in the next generation economy. For example, we invest for example in DS Smith – a leading supplier of sustainable packaging. DS Smith's core business is the manufacturing of corrugated packaging that is largely made of recycled material. In addition, the company manufactures paper and plastic packaging, and provides recycling services. Recycling is an important part of the company's business model; roughly 88 per cent of the fibres used for corrugated board are manufactured from recycled sources. By recycling the paper fibers in cardboard, the company saves over 360,000 trees of being cut down every year.



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Pictet

The renaissance of wood

The renaissance of wood

By Chistoph Butz, Fund Manager of the Pictet Timber Fund

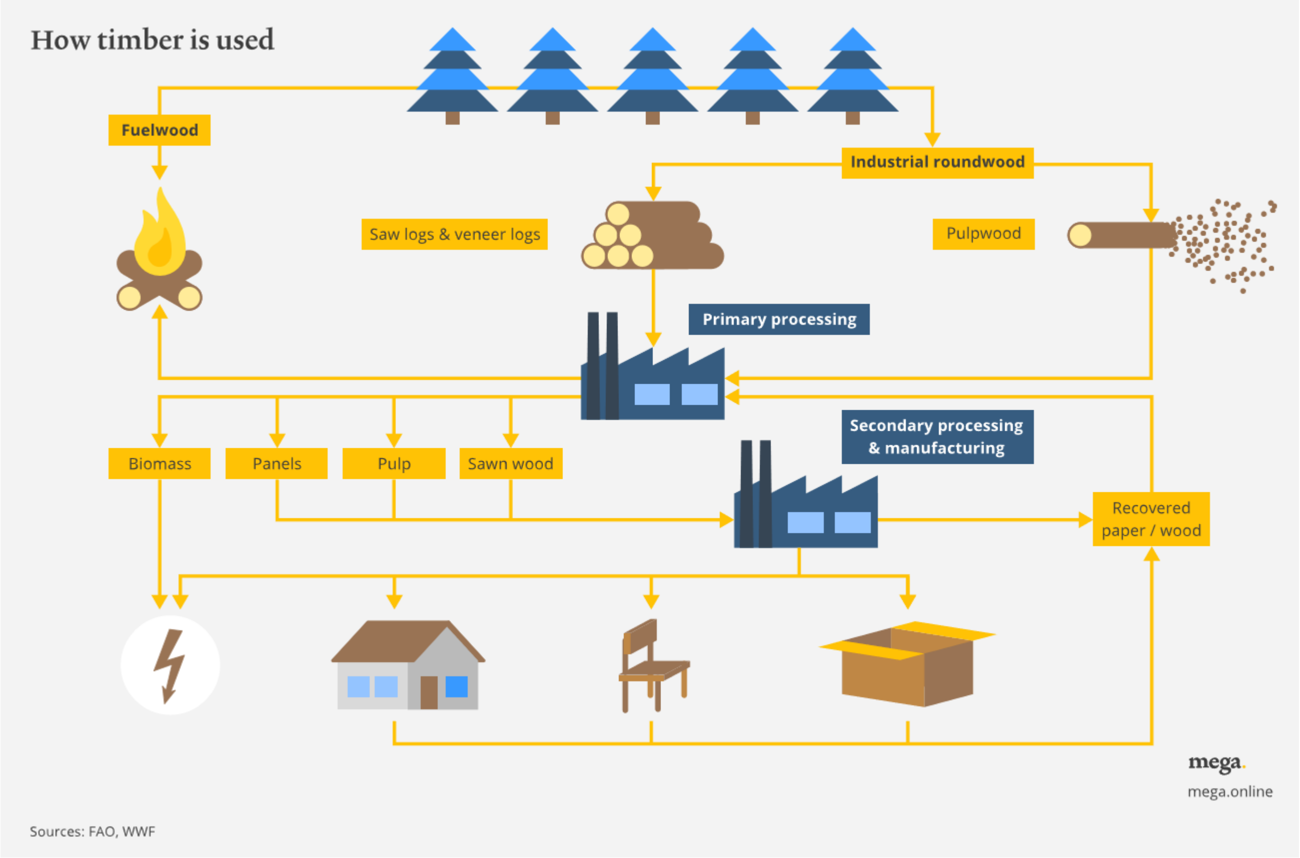
In discussions about humanity's impact on the planet, conversations invariably turn to our treatment of the world's rainforests.

We continue to cut down large swathes of forest every year, with an area almost the size of South Africa lost since 1990, according to the UN Food and Agriculture Organization.

Activities such as illegal logging, deforestation to create farmland, and domestic heating and cooking suggest timber use will always be synonymous with ecological degradation.

But to label wood use as unsustainable does the material a great disservice.

Timber is in fact a versatile, easy to use (and reuse) aesthetically pleasing natural product which, if trees felled are replaced and forests and woodlands carefully managed, should not run out.



In fact, with new wood technology, timber is as strong, durable and fire-resistant as steel. And that is not all. Substituting a cubic metre of wood for other construction materials, like concrete, blocks or bricks, results in a 0.75–1 tonne CO_2 saving, storing carbon, unlike manmade materials that require huge amounts of fossil fuels and harmful emissions to produce. Meanwhile, as a report from the Timber Development Association in Australia shows, timber buildings are 10–15 per cent more cost effective than other materials across many building types.

It's no surprise, then, that consumers are increasingly preferring timber-framed buildings, which now account for 70 per cent of all new houses built around the world today. And advances in technology mean timber will increasingly be shaping the skyline, with taller and bigger timber buildings built, planned or in development around the world.

Wood is certainly enjoying a renaissance, driven in part by consumer and regulatory demands to cut the use of plastics and find sustainable alternatives. Many traditional wood fibre companies, such as paper and wood product manufacturers, are investing in research and development. This is because only those which can adapt their business models can find innovative solutions to tackle health and environmental challenges and boost profits.

Austria's Lenzing is one of several innovating firms. It manufactures textile fibres from refined wood pulp including viscose, tencell and other technology that can be found in everything from gym outfits to firemen's suits. South African paper company, Sappi has started producing "dissolving wood pulp" – an important input material for viscose production.

The resurrection of wood in modern life means investing in timber is not just about owning pure timberland. Since wood is versatile, it allows us to invest across the timber value chain, which include products such as containerboard, paper, pulp, packaging and hygiene as well as operators such as homebuilders.

The timber industry is at a tipping point. While timberland values remain low, supply is tightening up, not least because of sawmill closures at the end of 2018. Mountain pine beetle has destroyed at least 13 million hectares of pine forests in Canada's British Columbia, while tariffs on imported Canadian softwood lumber and increasing wild fires in parts of Canada and the US are weighing on supply. China's ban on logging its own forests and import restriction on recovered paper aggravate the country's already large wood fibre shortage.

On the other hand, demand is rising against the backdrop of rising income in emerging economies and shrinking water and arable land resources. Take wood-based fibre for example – the industry is expected to grow 5-6 per cent every year between 2017-2022, outpacing the total fibre market which will likely expand by 3-4 per cent. Xylitol – an increasingly popular artificial sweetener – is expected to be a market worth USD1 billion by 2023, compared with just USD115 million in 2014.

Taking all of this into account, timber offers a compelling case. Valuations of some of the promising timber companies look too cheap in the public market to be justified by fundamentals.

It may only be a matter of time before timber becomes ubiquitous – be it your clothes, the ingredients in your mid-afternoon snack, the packaging of your milk, or the buildings you live and work in, so much can be made of wood.

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Six steps for IFAs to succeed in sustainable investments

Six steps for IFAs to succeed in sustainable investments

By George Critchley, Senior Partner at Pennine Wealth Solutions

Having been through this process, I am aware of the hurdles that IFA's face when launching themselves into this market. Here is a step by step guide to meeting your clients ever changing needs.

Step 1 - CONQUER THE JARGON

As the sustainable market has evolved, there is an amazing number of headings created to describe such investments. For example, green, environmental, sustainable, ethical, ESG, and impact. What is the circular economy and what is greenwashing all about?

The new IFA needs to do some background reading to get their heads around all of this. It's not that difficult once you put your mind to it.

Step 2 - READ THE RESEARCH COMPARING PERFORMANCE

It's quite common for IFA's to intuitively believe that sustainable investment performance must be worse than the equivalent traditional. It's certainly true that the investment universe is smaller. However, many studies in varying markets and over many years show this is not the case. There is no proof that sustainable investments outperform, or that traditional investments outperform. Research by the Royal Bank of Canada would be a good place to start.

As many sustainable investments are based on new technologies, good corporate governance, and solving modern problems, there is an argument that in the future they may outperform.

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STEP 3 - UTILISE THE PENNINE WEALTH SOLUTIONS CLIENT SURVEY

We developed a survey IFA's can use with their own clients. Results have been startling.

This survey can be downloaded from www.positivepennine.co.uk. It's FREE OF CHARGE.

In 2017 we invited 3 experienced IFA's to utilise this survey. This is a brief review of the survey and results: -

- 167 clients surveyed with 72 responding (43.1%)
- age range 33-81 with the average being 60.8 years.
- 40 males and 32 females make up the 72 responders.
- the survey has just 9 questions.
- a survey sent by letter is much the best way.

Conclusions

The survey works, more IFA's should use it.

The IFA's were surprised at the results.

The IFA's booked many client meetings on the back of the survey.

The response rate is high at 43.1%. The subject is emotive to investors.

Investors really are concerned about ESG issues.

54 of the 72 responders wanted to invest positively in future, and many NOW.

If only 3% of onwards invested monies are in ESG investments, there is a blockage somewhere.

Majority of IFA's are behind the curve,

IFA's are a part of the blockage!

Step 4 - RESEARCH TO SUPPORT YOUR RECOMMENDATION

We use the 3D ratings and research to put portfolios together. John Fleetwood is the chap behind 3D. John has made it his life's work to dig behind the scenes. We soon learnt that many retail investment funds were trying to claim their funds were much better than they actually were. I remember 1 fund with the word ethical in its name that had only 6% of underlying ethical investments!

3D have a 1 to 5 star rating system. This rating comes after all that funds underlying investments have been analysed.

ESG focuses on a funds environmental, social and good corporate governance attributes. IMPACT looks at whether an investments main objective is to satisfy one of the 17 United Nations Sustainable Development Goals.

The Positive Pennine Portfolios are rated for both the above factors and the data is part of the monthly fact sheets. An investor can quantify both financial performance and ESG and Impact performance.

Step 5 - UNDERSTAND IMPACT v ESG

True Impact Investments are where the major objective of the firm/investment is to achieve 1 of the UN Sustainable Development Goals. For example, one of these is Good Health and Well-Being. So, a research firm that is developing new bio technologies could be said to have an impact.

Firms/investments with strong ESG may trade in non-impact industries. Their major purpose, for example, could be to sell cosmetics or fashion. However, they do this always with an eye on their footprint.

Step 6 - ALTER YOUR FACT FIND

The IFA should add several additional questions to their regular fact find. You can decide what these are for yourself, but make them second nature.

Opening questions might include: "Would you like your money to help make the world a better place for future generations?"; or "Did you know you could do this whilst still meeting your current and future financial needs?" Or you could ask "Would you like to understand how your money is invested?", or "Would you like to know the positive and negative impacts of your investments?"

Here are some examples of questions that you might find an investor asking their IFA.

"Is it realistic to expect an investment to achieve my financial goals and at the same time make a sustainable contribution to our society?", or "Is it possible for my investment to make a difference to future generations to ensure they can enjoy a healthy environment?", and "How do I know my money is being invested in line with my values?"

My message to IFAs is that YOU really can make a difference to our world, and make your business stronger at the same time. It's easier than you think.

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Investors should remember that the value of investments, and the income from them, can go down as well as up. Investors may not recover what they invest. Past performance is no guarantee of future results. Any mention of specific security should not be interpreted as a solicitation to buy or sell specific security.

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