Published April 2022

The Good Investment Review

#FindingGood

DO GOOD
SQUARE MILE 3D investing
AVOID HARM
LEAD CHANGE

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

The investment industry has seen a seismic shift towards Responsible Investment, with a multiplicity of funds claiming to invest positively or with impact. The growth in the market and diversity of approaches being applied has led to widespread accusations of "greenwashing".

Using extensive and in-depth evidenced based analysis, we assess Responsible Investment (RI) funds against the 3D Framework of 'do good', 'avoid doing harm' and 'lead change;' the areas which we believe are critical to affecting positive change in relation to the world's most pressing environmental and social challenges.

Do good
Investment in companies offering solutions to global social and environmental challenges and evidence of impact.

Avoid doing harm
Avoidance of investment in companies making a significant negative contribution to society and the environment and those exposed to controversies.

Lead change
Advocacy and engagement with investee companies both individually and through co-operation with other investors and change activists to encourage best practice and inform opinion.

We believe that this will allow investors to make the most informed investment decision as we are providing an accurate representation of how a fund actually fares from a Responsible Investment perspective. Thus, enabling them to avoid the 'greenwash' and choose a product which best suits their convictions, aligning their daily actions and choices in respect of society and the environment with how their savings are invested.

3D Investing is a trading name of Ethical Money, which is part of Square Mile Investment Consulting and Research, an independent investment research business that works in partnership with regulated professional financial services firms. Focusing first and foremost on in depth, qualitative fund research, Square Mile provide tailored support and investment services for financial advisers, institutions and asset managers.

Welcome

Driven by increased visibility and urgency on issues such as climate change and human rights, we have witnessed a rapidly growing Responsible Investment (RI) universe, whereby capital is being deployed to address some of the world's most pressing social and environmental challenges. As the industry rushes to embrace the growing demand for RI solutions, we have seen an influx of new product launches and repurposed strategies labelled Responsible or Sustainable. Whilst this is ultimately a positive step forward, it does create the challenge of unpicking the plethora of funds on offer to understand if they are delivering on both their financial and non-financial outcomes.

The thirteenth edition of The Good Investment Review seeks to tackle just that, exploring what investors may need to consider when entering the world of RI. We have partnered with eleven sponsors to examine the key themes when it comes to evidencing how funds and fund groups are doing good and avoiding doing harm. We illustrate how investors can avoid greenwashing and how to identify genuine RI funds, as well as providing greater transparency on the reporting and frameworks in place to evidence the force for good RI funds can have.

Good With Money begins by outlining the barriers to RI, debating whether the interchangeable use of terminology has allowed companies to benefit from a smoke and mirrors effect fuelling cynicism surrounding greenwashing. **BNY Mellon** continues by outlining the key factors that investors should consider in order to understand how responsible a product is, from a lack of standardisation in definitions, to the quality of data available to compare different approaches and investments. **Liontrust** and **Sarasin** further address this issue, offering ways to separate the green from the greenwashed by outlining how to identify whether funds, and the teams behind them, can meet investors' RI expectations.

A key component in evidencing how responsible a fund is, is having the ability to measure and report on how a fund is investing for good. **M&G Investments** details their approach to measuring impact, sharing case studies of investee companies to demonstrate the positive impact of their investments. Continuing on the theme of real-world impact, **Regnan** highlights the opportunities and challenges in investing in tomorrow's healthcare.

Whilst the frameworks and reporting in place will differ from company to company, we expect these to continue to evolve to form a consistent approach across the industry. In the meantime, we take a look at the approaches some fund groups have adopted. **Schroders** outlines their robust framework which seeks to aid transparency and provide guidance on their active engagements, whilst **Wellington** shares the rigorous suitability process they have adopted to analyse labelled bonds for their portfolios. Furthermore, **Rathbones** explores their approach to sustainability, cutting through 'green-signalling' and achieving true diversity in a sustainable portfolio.

The final theme explored in this edition is climate change. There is no doubt it continues to be a priority for all, emphasised by the UK's intention to become the world's first 'Net Zero Aligned Financial Centre'. **Federated Hermes** reinforces the importance of analysing and measuring both how climate change risk can negatively affect investments, and how the shift to a low-carbon economy creates valuable investment opportunities. Exemplifying how companies can monitor their progress towards meeting net zero emissions targets, **Fidelity** details their Climate Rating framework which seeks to set individual fund targets appropriate to each fund's investment strategy.

Finally, **Jupiter Asset Management** emphasises the importance of actively seeking to invest in companies leading the transition and concludes that asset managers can generate attractive financial returns for their clients over the long term and align their savings with real-world, measurable sustainable outcomes.

We hope you enjoy this latest edition of The Good Investment Review. As always, if you have any questions or would like to discuss any aspect of the publication in more details, please do not hesitate to contact us.

Who's who in the review

This review is a collection of market statistics, commentary and information on the Responsible Investment space. It is supported by our sponsors and partners, asset managers who contribute valuable insight on this ever-evolving landscape.

BNY MELLON INVESTMENT MANAGEMENT

M&G Investments

Federated Hermes Limited

Regnan

Fidelity INTERNATIONAL

Rathbones Look forward

GOOD WITH MONEY MORE MONEY, FEWER PROBLEMS

SARASIN & PARTNERS

JUPITER ASSET MANAGEMENT

Schroders

LIONTRUST

WELLINGTON MANAGEMENT®

Contents

Breaking down ESG and Responsible Investment

We firmly support the embrace of ESG and Responsible Investment, however we are aware that there has been inconsistency when it comes to both the language and the approaches applied. Consequently, there have also been differences in the interpretation of what can be very subjective topics and what they constitute in terms of investment, as well as the terminology used.

Therefore, we felt it important to clarify how we think about and define ESG and Responsible Investment.

ESG integration should be seen as an input into an investment process, rather than something which produces an output. The integration and active consideration of ESG analysis is a way for fund managers to mitigate risks and identify opportunities that could have an impact upon a company's share price or continued viability.

We believe ESG analysis to be one of many 'hygiene' factors that can be integrated into the investment process applied to any and all funds.

Environmental

- Carbon emissions
- Energy efficiency
- Water scarcity
- Waste management
- Pollution mitigation

Social

- Diversity and workplace policies
- Labour standard
- Supply chain management
- Product safety
- Community impact

Governance

- Board diversity
- Executive compensation
- Political contributions
- Bribery and corruption
- Accounting and reporting

Responsible Investment is where managers actively and intentionally seek to do good, avoid doing harm and lead change by investing in companies which are helping to meet the world's most pressing challenges, whilst avoiding or seeking to improve those which perpetuate our problems.

We see Responsible Investment as an umbrella term from which stems a spectrum of differing investment approaches, ranging from those which exclude certain securities or sectors to those that are focused on delivering a positive and measurable impact to society and/or the environment.

Responsible Investment

Ethical Exclusions

An ethical exclusions fund manager seeks to avoids industries and company practices that cause harm to people or the planet.

Responsible Practices

A responsible practices fund manager considers the operational practices of investee companies and supports 'best practice' and the use of engagement to encourage companies to improve their environmental and social performance.

Sustainable Solutions

A sustainable solutions fund manager seeks to invest in companies that are providing solutions to social and environmental challenges through their core products and services in the belief that this will realise long-term financial benefits.

Impact Investing

An impact fund will have clear intent to make a wider positive social or environmental impact. The fund will be substantiated by investment in companies providing solutions to social and environmental challenges through their core products and services, with evidence provided of the social and environmental impact.

Reviewing financial performance

We believe that it is important to compare like with like, so we have analysed actively managed funds, which are not just focused on one theme, looking at three of the most popular sectors – namely IA UK All Companies, IA Global and IA Sterling Corporate Bond sectors.

We have compared RI funds within each sector, looking at discrete annual periods to give a better picture of the consistency of performance, as well as the cumulative five-year period performance against the sector.

UK Equity - IA UK All Companies

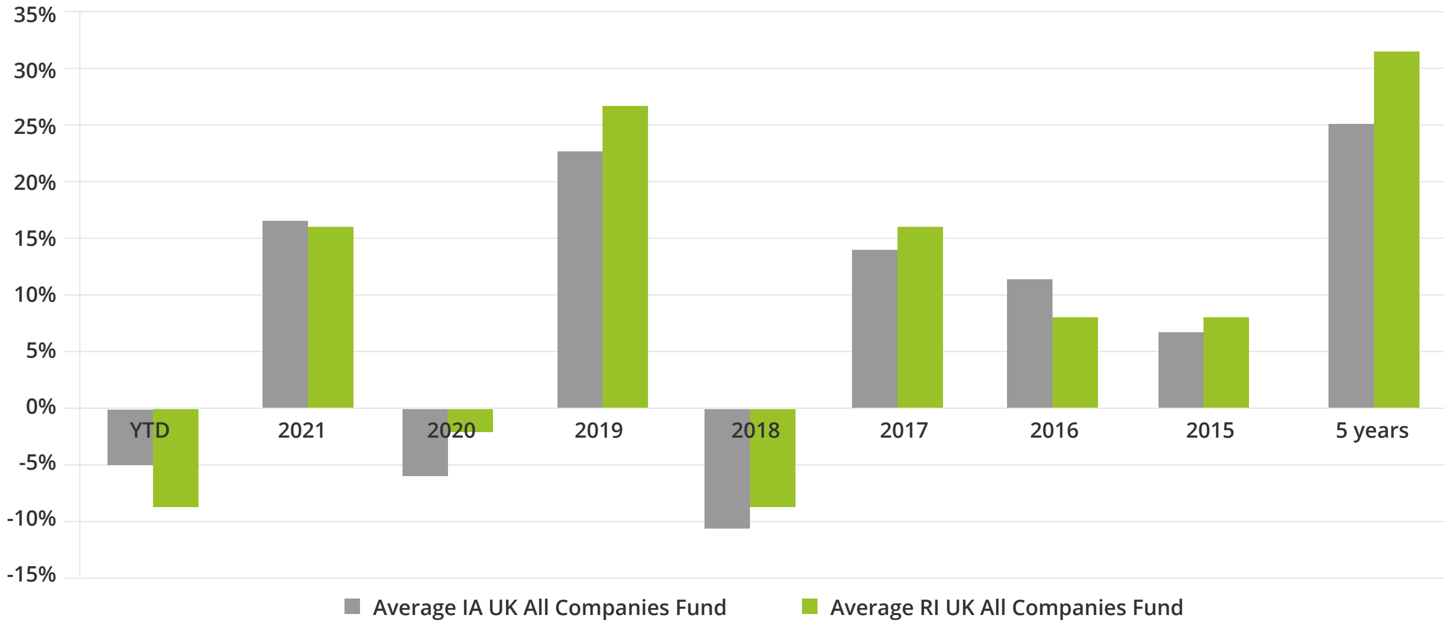
Fund Name	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
Aegon Ethical Equity	-13.2%	16.3%	-0.8%	31.3%	-17.4%	13.5%	-0.3%	13.6%	20.6%
ASI UK Ethical Equity	-14.1%	15.1%	-8.4%	33.0%	-14.5%	24.5%		15.6%	18.9%
ASI UK Sustainable and Responsible Investment Equity	-9.8%	12.3%	1.9%	32.8%	-5.6%	13.1%	22.1%	-2.7%	41.8%
BMO Responsible UK Equity	-7.3%	21.8%	-5.1%	23.2%	-6.9%	19.8%	8.4%	7.4%	39.9%
CFP Castlefield B.E.S.T Sustainable UK Opportunities	-13.1%	20.0%	-5.5%	17.1%	-0.8%	9.8%	3.8%	7.4%	21.9%
EdenTree Responsible and Sustainable UK Equity	-12.4%	15.1%	-5.6%	26.7%	-12.2%	12.8%	4.5%	8.5%	14.4%
Family Charities Ethical	4.8%	15.1%	-13.2%	16.6%	-6.1%	9.1%	14.1%	-2.8%	21.0%
Jupiter Responsible Income	-2.3%	19.5%	-7.6%	21.9%	-12.4%	9.2%	7.7%	1.6%	21.3%
Liontrust Sustainable Future UK Growth	-15.1%	12.5%	5.3%	30.2%	-6.7%	20.7%	8.0%	9.8%	40.4%
Liontrust UK Ethical	-12.9%	10.4%	2.8%	37.8%	-7.3%	22.5%	4.5%	10.6%	46.4%
Ninety One UK Sustainable Equity	-9.4%	8.5%	8.5%	33.6%					
Premier Miton Responsible UK Equity	-14.9%	13.9%	10.7%	38.7%	-16.8%	18.8%	4.0%	14.1%	40.1%
Royal London Sustainable Leaders Trust	-5.9%	22.2%	3.3%	29.5%	-2.0%	15.8%	8.8%	9.9%	65.5%
Schroder Global Sustainable Value Equity	1.5%	19.7%	-14.5%	10.2%					
Threadneedle UK Sustainable Equity	-6.7%	13.4%	-0.5%	21.6%	-7.0%	14.0%	6.7%		28.3%

	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
Average IA UK All Companies Fund	-5.2%	17.1%	-6.5%	22.7%	-11.0%	14.3%	11.2%	5.9%	25.2%
Average RI UK All Companies Fund	-8.7%	15.7%	-1.9%	26.9%	-8.9%	15.7%	7.7%	7.7%	32.3%

Data as at 31st March 2022. Total return with net income re-invested. Source: Financial Express.

Outperformed 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. This is not a recommendation to buy or sell any funds mentioned or engage in investment activity with any particular fund manager. Capital is at risk and past performance is not a guide to future performance.



Data as at 31st March 2022. Total return with net income re-invested. Source: Financial Express.

The stark rotation away from growth focussed investments into more cyclical areas in the first few months of 2022 has been a major headwind for RI UK equity funds. With sectors such as oil & gas, tobacco, mining and banks amongst the few in positive territory and performing strongly year-to-date (31st March 2022). Often RI focused portfolios exhibit a bias towards growth focused sectors such as technology and healthcare solutions. Conversely, they will often contain less exposure to financial and commodities-based stocks. Therefore, the current market backdrop has resulted in a challenging environment for these types of exposures year-to-date. Looking at the longer-term, RI UK equity funds have outperformed their traditional counterparts, on average, over the last five years. We believe there are sufficient tailwinds behind RI investments to support this trend in the medium to longer term.

Global Equity – IA Global

Fund Name	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
AB SICAV I - Sustainable Global Thematic Portfolio	-12.2%	23.7%	34.6%	24.5%	-4.6%	24.1%	18.2%	8.0%	95.4%
Aegon Global Sustainable Equity	-14.2%	9.3%	57.6%	38.2%	-8.1%	20.2%			107.4%
Alquity Global Impact	-4.8%								
ASI Global Sustainable and Responsible Investment Equity	-10.3%	21.6%	14.6%	20.1%	-5.2%	13.5%	31.1%	-10.1%	52.4%
Baillie Gifford Positive Change	-9.7%	10.8%	80.1%	25.9%	5.4%				204.4%
BMO Responsible Global Equity	-7.3%	20.3%	20.8%	29.4%	-3.7%	17.7%	23.2%	9.3%	86.5%

	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
Average IA Global Fund	-5.2%	17.7%	15.7%	22.6%	-5.3%	15.1%	23.4%	4.5%	62.3%
Average RI Global Fund	-7.7%	17.4%	24.8%	26.0%	-5.1%	15.6%	22.7%	3.9%	77.4%

Outperformed sector average

Global Equity – IA Global (Continued)

Fund Name	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
BMO Sustainable Opportunities Global Equity	-10.2%	16.5%	22.5%	29.5%	-1.8%	17.9%	21.9%		81.1%
BNY Mellon Sustainable Global Equity	-5.8%	18.3%	19.6%	28.1%					
Davy ESG Equity	-4.5%	24.3%	13.5%	23.7%	-0.5%	11.3%			76.8%
Davy Low Carbon Equity Fund	-6.9%	19.2%	17.1%						
EdenTree Responsible and Sustainable Global Equity	-8.6%	19.3%	11.6%	19.1%	-9.8%	14.4%	24.4%	-2.6%	41.3%
Federated Hermes Global Equity ESG	-3.7%	19.6%	15.5%	21.3%	-8.2%	12.9%	26.3%	6.4%	59.7%
Federated Hermes Impact Opportunities Equity	-13.1%	3.9%	24.2%	25.6%	0.8%				
Federated Hermes SDG Engagement Equity	-5.7%	19.2%	4.1%	22.6%	-7.8%				
Fidelity Sustainable Water & Waste	-9.9%	24.5%	7.1%						
FP Foresight Global Real Infrastructure	1.8%	-1.5%	27.9%						
FP WHEB Sustainability	-10.5%	15.5%	20.0%	21.0%	-6.0%	16.1%	19.4%	7.1%	53.6%
GS Global Equity Partners ESG Portfolio	-4.7%	25.6%	17.2%	25.3%	-2.0%	11.7%	20.6%	1.7%	85.2%
Guinness Sustainable Energy	-6.2%	11.4%	78.5%	26.3%					
Impax Global Equity Opportunities	-7.4%	20.5%							
Janus Henderson Global Sustainable Equity	-6.7%	17.9%	33.0%	32.6%	-6.3%	18.7%	21.8%	3.9%	102.9%
Jupiter Ecology	-9.8%	19.6%	21.7%	27.2%	-13.8%	13.9%	21.3%	4.7%	56.5%
Jupiter Global Sustainable Equities	-9.7%	19.2%	18.8%	29.2%					
L&G Future World Climate Change Equity Factors Index	-3.1%	23.3%	6.4%	20.3%					
L&G MSCI World Socially Responsible Investment (SRI) Index	-4.0%	26.7%	-8.3%	29.4%	-11.7%	12.1%	2.4%	9.3%	37.8%
Liontrust Sustainable Future Global Growth	-11.8%	17.4%	32.3%	29.4%	1.3%	18.8%	17.3%	6.5%	98.2%
	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
Average IA Global Fund	-5.2%	17.7%	15.7%	22.6%	-5.3%	15.1%	23.4%	4.5%	62.3%
Average RI Global Fund	-7.7%	17.4%	24.8%	26.0%	-5.1%	15.6%	22.7%	3.9%	77.4%

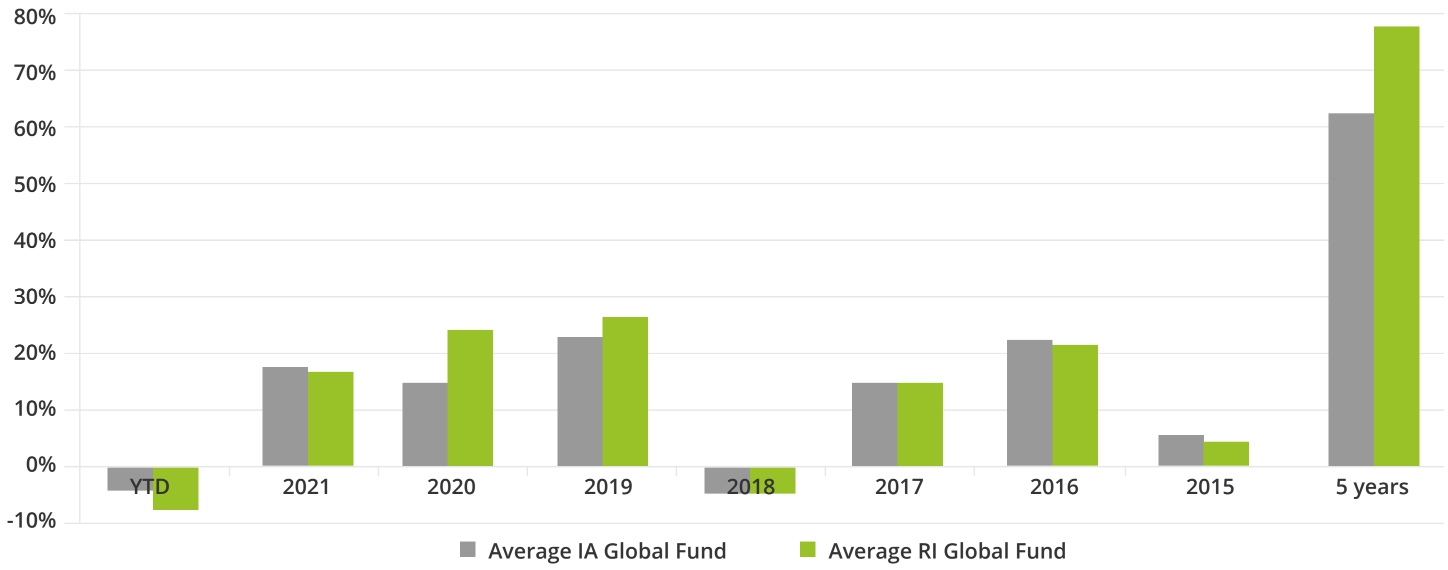
Outperformed sector average

Global Equity – IA Global (Continued)

Fund Name	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
M&G Climate Solutions	-4.9%	9.1%							
M&G Positive Impact	-7.8%	13.6%	22.4%	29.0%					
Montanaro Better World	-17.0%	20.0%	35.0%	29.8%					
Ninety One Global Environment	-11.8%	12.9%	47.8%						
Nordea 1 Global Climate and Environment	-6.4%	26.0%	27.5%						
Nordea 1 Global Stars Equity	-3.4%	15.8%	16.8%	27.8%					
Pictet Clean Energy	-9.1%	14.0%	48.7%	31.4%	-13.5%	14.6%	22.8%	-6.7%	82.8%
Pictet Global Environmental Opportunities	-10.8%	17.7%	29.6%	33.4%	-12.6%	20.5%	22.5%	4.6%	75.7%
Pictet SmartCity	-9.3%	10.7%	13.7%						
Pictet Water	-9.3%	32.9%	11.6%	30.2%	-6.4%	16.3%	28.8%	6.9%	76.6%
Quilter Investors Ethical Equity	-6.7%	28.6%	12.7%	28.1%	-14.8%	12.8%	30.0%	3.4%	59.0%
Rathbone Greenbank Global Sustainability	-13.2%	15.6%	32.5%	25.1%					
Regnan Global Equity Impact Solutions	-9.1%	6.0%							
Royal London Global Sustainable Equity	-7.3%	22.0%							
Sarasin Responsible Global Equity	-3.0%	14.6%	19.1%	27.7%	-3.1%	15.7%	18.0%	4.3%	78.9%
Stewart Investors Worldw. Lead. Sust.	-8.9%	22.8%	18.2%	8.1%	-0.2%	10.8%	29.1%	6.1%	50.7%
Stewart Investors Worldwide Sustainab.	-10.7%	19.6%	20.9%	12.4%	0.5%	14.5%	27.5%	6.1%	54.2%
Vanguard ESG Developed World All Cap Equity Index	-5.1%	21.7%	14.2%	22.5%	-3.6%	11.6%	27.2%	4.6%	65.2%
VT Gravis Clean Energy Income	5.8%	1.2%	27.1%	34.3%	1.7%				
Wellington Global Impact	-5.5%	11.7%	26.9%	22.7%	-4.8%	19.7%			75.2%
	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
Average IA Global Fund	-5.2%	17.7%	15.7%	22.6%	-5.3%	15.1%	23.4%	4.5%	62.3%
Average RI Global Fund	-7.7%	17.4%	24.8%	26.0%	-5.1%	15.6%	22.7%	3.9%	77.4%

Data as at 31st March 2022. Total return with net income re-invested. Source: Financial Express.

Outperformed sector average



Data as at 31st March 2022. Total return with net income re-invested. Source: Financial Express.

Like their UK equity counterparts, RI global equities have, on average, outperformed the sector over the last five years. In fact, RI global equity funds have outperformed the IA Global average in four out of last five years. Whilst we have seen RI themed funds benefit from the long-term tailwinds over recent years, the current market backdrop and shift away from growth stocks has resulted in similar challenges for the RI funds within the global equity market. Short-term performance notwithstanding, we remain focused on the long-term picture for performance of the RI global equity funds, the structural foundations for which remains promising.

Fixed Income - IA Sterling Corporate Bond

Fund Name	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
Aegon Ethical Corporate Bond	-5.6%	-1.4%	7.9%	8.6%	-1.9%	4.5%	8.1%	1.2%	9.7%
ASI Ethical Corporate Bond	-7.0%	-2.2%	8.0%	10.3%	-3.0%	5.2%	9.5%	0.0%	8.4%
BMO Responsible Sterling Corporate Bond	-6.4%	-3.5%	8.0%	8.8%	-1.9%	4.2%	9.1%	-0.4%	6.5%
EdenTree Responsible and Sustainable Short Dated Bond	-1.8%	-1.4%	2.3%	2.9%	-0.4%				
Liontrust Monthly Income Bond	-4.3%	-0.2%	5.5%	9.4%	-3.0%	8.9%	9.4%	1.4%	12.7%
Liontrust Sustainable Future Corporate Bond	-6.4%	-2.0%	7.0%	11.8%	-3.6%	7.2%	10.5%	0.5%	10.5%
Rathbone Ethical Bond Fund	-6.3%	-0.4%	8.9%	12.4%	-3.1%	10.6%	7.1%	1.6%	18.5%
Royal London Sustainable Managed Income Trust	-5.7%	-1.2%	8.2%	9.2%	-0.9%	5.5%	8.9%	0.3%	12.2%

	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
Average IA Sterling Corporate Bond Fund	-5.6%	-1.9%	7.7%	9.5%	-2.1%	5.0%	9.4%	-0.1%	10.2%
Average RI Sterling Corporate Bond Fund	-5.4%	-1.6%	7.0%	8.8%	-2.1%	6.0%	9.0%	0.6%	10.4%

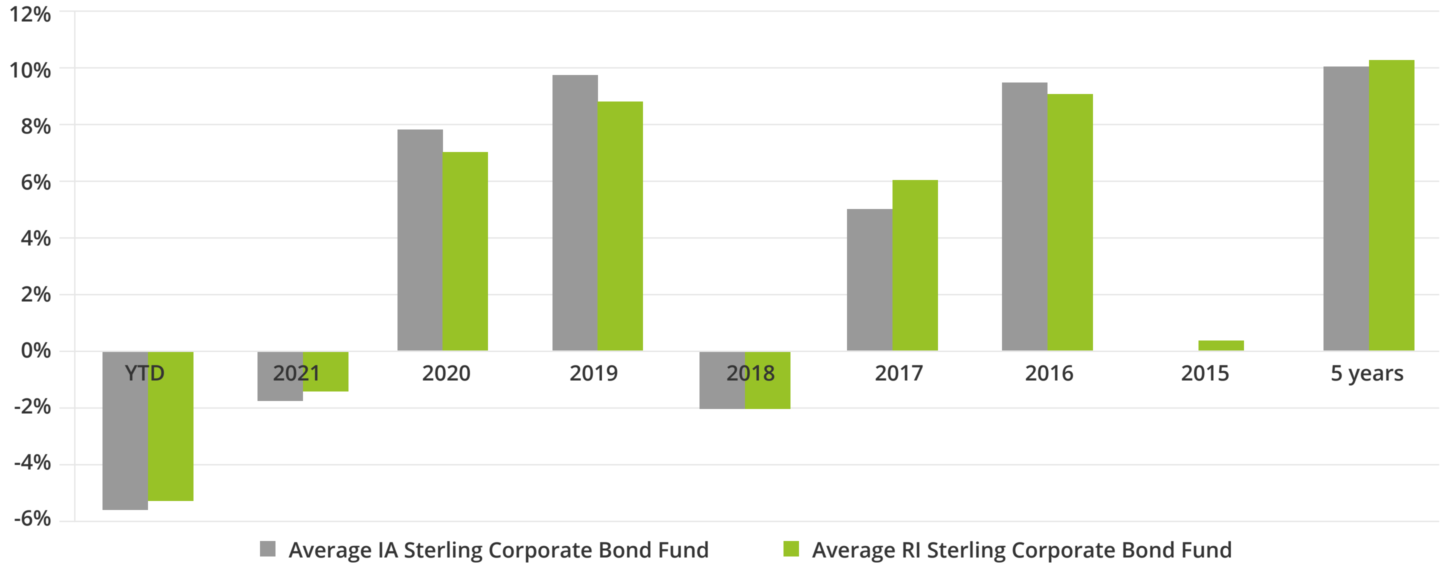
Outperformed sector average

Fixed Income - IA Sterling Corporate Bond (Continued)

Fund Name	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
Sarasin Responsible Corporate Bond	-6.5%	-1.6%	9.2%	9.3%	-2.4%	4.6%			9.7%
Threadneedle UK Social Bond	-3.7%	-1.7%	4.5%	5.6%	-0.5%	3.7%	9.2%	0.0%	5.4%
	YTD	2021	2020	2019	2018	2017	2016	2015	5 years
Average IA Sterling Corporate Bond Fund	-5.6%	-1.9%	7.7%	9.5%	-2.1%	5.0%	9.4%	-0.1%	10.2%
Average RI Sterling Corporate Bond Fund	-5.4%	-1.6%	7.0%	8.8%	-2.1%	6.0%	9.0%	0.6%	10.4%

Data as at 31st March 2022. Total return with net income re-invested. Source: Financial Express.

Outperformed sector average



Data as at 31st March 2022. Total return with net income re-invested. Source: Financial Express.

The performance of RI Sterling corporate bonds has been more mixed, as the RI market remains smaller for this asset class than in equities. Given the market remains focused on inflation and rising interest rates, the year-to-date performance of both RI Sterling corporate bond funds and their traditional counterparts should not be surprising. However, there is far less disparity when compared to the UK and global equity markets. Taking a long-term view, although minimal, we continue to see that RI Sterling corporate bond funds have performed slightly better, in average, over the last five years.

Evidencing Responsible Investment

When investors put their savings to work in the markets through investment funds, they do not expect to do so blindly. They seek to understand what their chosen fund seeks to achieve, how the manager tries to meet that objective and the return that they can expect over a given timeframe. They also expect regular updates on performance, so their investments can be mapped against their financial objectives. It is understandable, therefore, that those who invest in a fund with an explicit Responsible Investment (RI) mandate should expect some tangible evidence of the extent to which it delivers on its social and/or environmental promise, alongside any financial returns.

There is now a plethora of RI funds available to retail investors, reflecting a greater awareness that individual action through personal lifestyle choices and behaviour can make a difference to society or the environment. However, while financial performance relative to an objective or benchmark can be readily measured, clear, consistent and tangible metrics evidencing a fund's impact, positive and negative, are somewhat embryonic.

There are challenges. First, the necessary company data is limited. While pressure is being applied by governments, regulators and market participants for companies to disclose more information on their social and environmental performance, many are still at the beginning of their journey. Without a common reporting framework in place, businesses are left to interpret for themselves what constitutes best practice. It is also a resource-intensive exercise which creates hurdles, particularly for smaller companies.

For funds, the lack of a common taxonomy creates confusion, although this is being addressed. If there is no consistent description of what a fund purports to achieve, assessing whether it does so or not is problematic.

Additionally, there are no established metrics against which RI success can be measured in the same way that a fund's return versus a benchmark can be represented. An explanation of how a fund maps to frameworks such as the UN's Sustainable Development Goals can help, since these represent easily identifiable targets, such as ending poverty. This can, though, also hinder understanding, as different funds map to these goals in differing ways, some of which may be tenuous.

What steps, therefore, can be taken to evidence the benefits a RI fund claims to deliver? First, a fund manager must clearly state what they aim to achieve, demonstrate their success in achieving this and where they fail, clearly explain why. Evidence should be provided using whatever data is available, presented in a standardised and accessible way. For example, if an impact fund manager has an objective of driving the transition to net zero, they must articulate clearly what this means to a layperson, how they seek to achieve that and their success in terms of the amount of carbon emissions reduced or the megawatts of clean energy produced.

Case studies can be invaluable. They should explain what a company does and a manager's thesis for investing in it, describing the challenge a company has identified, how it addresses this and the key performance indicators applied to demonstrate success.

Funds should also provide regular updates on their progress. Just as traditional funds have specified investment horizons against which financial performance is measured, a RI fund might indicate a timeframe over which its objectives are to be met. However, in the same way that all funds produce monthly factsheets to offer context to interim financial performance, RI funds should aim to update their investors on their RI progress on an ongoing basis to provide some yardstick of success.

The primary focus of our work is creating a structure for comparing Responsible Investment funds in a systematic and objective manner and all the above elements form part of our assessment of a fund's potential for delivering on its RI promise. As a starting point, our framework of 'do good', 'avoid doing harm' and 'lead change' is the baseline against which funds are measured, with all funds undergoing a detailed examination of their holdings, policies, and practices in relation to these three pillars.

Responsible Investment has come a long way from being an outlier of the asset management industry to one of the fastest growing areas of investor interest. The speed of this growth, however, has outpaced the industry's ability to evidence the force for good RI funds can have. We are, however, on a journey of progress, not perfection. Inevitably, the metrics against which RI success can be measured will continue to evolve, and every step towards a consistent, transparent and comprehensible framework should be seen as positive.

By Anna Mercer
Head of 3D Research at Square Mile Research

Investing for good, without the greenwash

A global pandemic, the Russian invasion of Ukraine, and wildfires and flooding caused by climate change have focused minds when it comes to responsible investing.

More people than ever are aware of the connection between finance and the health of the planet and society and are looking to invest their money for good.

However, as demand for responsible investing grows, so do concerns over whether funds are genuinely making a positive impact on the wider world or 'greenwashing.' This is where companies or organisations make inflated claims about how environmentally friendly they are.

A study by fund manager Liontrust in September 2021 found that 51 per cent of investors had chosen to invest sustainably (up from 41 per cent a year earlier), but it also showed that even professional advisors are worried that some funds are just window dressing.

Barriers to Responsible Investment

One major hurdle for investors is the seemingly interchangeable labels used by the industry such as responsible, sustainable, ethical, impact and ESG.

The proliferation of these different terms enables some funds to benefit from a smoke and mirrors effect, perhaps disguising which sectors and companies they are actually investing in.

For example, research by Triodos Investment Management shows that of the top ten companies included in several well-known sustainability indices, only one meets Triodos IM's strict minimum standards.

Investors are looking for more help with navigating this increasingly crowded - and confusing - space. A study by Triodos Bank in March 2022 found that investors now expect more from their fund managers than risk and return - they also want them to look into sustainability issues in greater depth.

The majority (83 per cent of those polled), want or expect to see their fund manager up-skilling in sustainability and environmental issues, while 85 per cent want or expect their fund manager to help avoid "greenwashing" claims.

In just a few years, ESG has become a buzzword for defining the ethics of a fund. However, funds with this label can vary dramatically in their approach as there are currently no standard measurement tools for the E, the S and the G.

Often, they focus simply on screening out companies involved in industries that are harmful to the planet and people such as fossil fuels, tobacco and gambling, rather than including those that are proactively sustainable.

Advance as well as avoid

This focus on 'avoiding the bad' rather than 'advancing the good' generally doesn't live up to what many investors now want and expect, which is to actively invest in companies working on solutions to the world's biggest issues such as climate change, biodiversity loss and poverty.

The lack of an industry standard measurement tool makes it difficult to understand and compare responsible funds. If investors truly want to invest for positive impact, it can require wading through a lot of claims about "green-ness" in order to work out exactly what these funds aim to do and how.

All this leads to a risk that investors with good intentions are left too confused to take any meaningful action with their money.

The need for regulation

While the responsible investing sector has mushroomed in recent years, financial regulators have struggled to keep pace with ways to police the sector.

A study by fund manager Liontrust in September 2021, found that 51 per cent of investors had chosen to invest sustainably (up from 41 per cent a year earlier), but it also showed that even professional advisors are worried that some funds are just window dressing.

According to Catherine Howarth, chief executive of campaign group ShareAction, this has created a “limbo period where consumers are at risk of buying products that say they’re doing something they’re not doing”.

The magnitude of this issue is highlighted in a report by climate think-tank InfluenceMap, which revealed 421 out of 593 “ESG” equity funds it monitored were not aligned with the Paris Agreement climate targets.

Thankfully, there are signs that regulators are starting to crack down on greenwashing, with a swathe of new rules now in the pipeline.

In July 2021, the Financial Conduct Authority confirmed that greenwash is a growing concern, saying that regulatory applications by ESG funds “often contain claims that do not bear scrutiny.” It recently closed a consultation on whether climate-related disclosures should be mandatory for asset managers.

The ‘Good Egg’ mark

The rapid rise in both supply and demand for responsible investing in just a few years has led to an urgent need for tighter regulation and clearer labelling.

Research by the UK Sustainable Investment and Finance Association (UKSIF) in 2015 showed 63 per cent of UK consumers wanted a label to identify responsible or sustainable financial products.

This led to Good With Money launching the UK’s first mark - the ‘Good Egg’ - to make it easier for people to find financial products from savings and investments to current accounts and insurance that offer a good deal for their pockets as well as for people and planet.

With an ever-increasing desire from investors to bring about positive change with their money, it’s now more important than ever for responsible investing funds to be easily understandable and trustworthy.

By Lori Campbell
Editor at Good With Money

Five things to know about Responsible Investment

In order to understand how responsible a product is, what are the key points investors need to consider? BNY Mellon Investment Management's Head of Responsible Strategy, Kristina Church, explains some of the key hurdles that exist for investors.

BNY MELLON
INVESTMENT MANAGEMENT

The world is undergoing a dramatic transformation that will require responsible allocation of capital to address pressing environmental and social challenges and deliver shared prosperity. As such, some important Responsible Investment (RI) considerations include:

Definitions and a lack of standardisation

In a world where one investor's 'Responsible Investment' can be another's 'sustainable investment', widespread confusion reigns over the meaning of many RI terms. The fact that there are relatively few standardised definitions in terminology can lead not just to confusion, but a lack of clarity in investment processes. It could, in some cases, also inadvertently open the door to potential 'greenwashing' – where companies convey a false impression or provide misleading information about the strength of their environmental credentials.

Considering this, Church says: "Because there are so many definitions, what one investor understands as sustainable another may term as ESG[1] integration – and this is just one example of how definitions can blur. There is a need to make sure every RI-related term is clearly defined so investors can really know what they are getting with their RI strategies."

Quality of data

Conflicting data sources can cloud the picture on Responsible Investment and this remains a major challenge. The growth of the RI market has led to a proliferation of ESG-related data and ratings' providers but since most company reporting on key ESG factors is currently voluntary, many investors are getting a fragmented and inconsistent view.[2] Myriad methodologies and data aggregation can also create conflicting scores and outcomes – in some cases, making meaningful performance comparison extremely difficult.

According to Church: "Quality of data and availability of data are extremely important considerations. Discrepancy between third party data providers and the increasing need for forward looking data - which by its nature tends to be subjective - remains problematic. There is an urgent need for global alignment between key stakeholders – including governments, regulators, asset managers and corporations - to develop mandatory commitments to improve reporting on key ESG issues."

E, S or G?

Tackling global warming and efforts to reduce carbon emissions to align with a net zero world, as well as 'nature-positive' investing, remain critical aspects of the 'E' in ESG. However, social aspects such as workplace equality and boardroom gender diversity can improve corporate decision making and, in many cases, financial performance. Companies committed to strong environmental stewardship and which are socially progressive are increasingly being recognised as more attractive investments than those which pay mere lip service to responsible commitments, particularly given the recent COVID-19 pandemic and macro backdrop.

Church says: "The pandemic brought the social aspect to the fore and raised the importance of the need for equality and a 'just transition' for all. This trend can only grow in importance as investors become more aware of the intrinsic benefits and value social improvements can bring."

Geography matters

Global investors committed to investing responsibly face the headache that not all markets are as advanced or aligned as others in addressing ESG and wider RI concerns. Common standards do not exist across all markets and there is a plethora of regulatory frameworks across geographies.

Church says: "Geographic divergence across markets can present some significant investment challenges as to what RI means in regions such as Europe versus the US or Asia can vary widely. What is deemed a social value or norm in one market may be regarded differently in another market and investors need to be very alert to this.

You can't simply impose one market's standards on another. The ideal scenario would be to have a single international standard for sustainability, such as that currently being developed by the International Sustainability Standards Boards (ISSB)[3] but we are currently a long way from this ideal."

Transitioning companies: investment friend or foe?

As the carbon transition evolves, many companies that raise finance in the global capital markets are setting out credible plans to transition away from environmentally and socially challenged business models within the next five years.[4]

Yet, without standardised global regulation in this field, it can be tough for investors to consistently analyse progress. With a dearth of reliable benchmarks, some investors continue to avoid carbon intensive sectors and companies even though these players may be committed towards serious emission reductions.

According to Church: "Many investors instinctively feel a company which is in transition cannot be labelled as sustainable. To date many RI flows have crowded into companies which already have the highest environmental or social ratings, but this can create overcrowding risk and potentially direct flows away from sectors which most urgently need to transition.

In future, we expect to see greater focus on identifying companies that aren't best-in-class today, but which are credibly transitioning to align with a lower carbon world or are putting in place policies to ensure a better impact on environment and society."

> **You can't simply impose one market's standards on another. The ideal scenario would be to have a single international standard for sustainability, such as that currently being developed by the International Sustainability Standards Boards (ISSB)3 but we are currently a long way from this ideal.**

By Kristina Church

Head of Responsible Strategy at BNY Mellon Investment Management

Important information

Any views and opinions are those of the investment manager, unless otherwise noted. This is not investment research or a research recommendation for regulatory purposes.

For further information visit the BNY Mellon Investment Management website www.bnymellonim.com. Doc ID:886150.

[1] ESG (Environmental, Social and Governance) Criteria: A set of standards for a company's operations that socially conscious investors use to screen potential investments.

[2] S&P Global Market Intelligence. Lack of standardised ESG data may hide material risks, OECD says. 02 October 2020.

[3] The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

[4] HSBC's Sustainable Financing and Investing Survey 2021. 15 September 2021.

Five ways to avoid greenwashing

LIONTRUST

As sustainable investing and ESG increasingly move into the mainstream, greenwashing has inevitably become a growing concern.

In short, this is where groups are talking up their credentials in this space without the expertise or track record to back it up and spending more time marketing themselves as sustainable rather than actually minimising their harmful impact. Research conducted on behalf of Liontrust in December 2021 showed 82% of discretionary fund managers and 67% of advisers are concerned about greenwashing and in the latter category, 57% are either only slightly confident or not confident about identifying this practice in action.

For our part, the Sustainable Investment team has a 21-year track record, and we continue to work hard to be clear on the impact of our funds, producing detailed reports twice a year. These cover a broad range of metrics, both internal and from third parties, including exposure to our Sustainable Investment themes and the UN's Sustainable Development Goals (SDGs), emissions profile (carbon intensity as well as exposure to fossil fuels and cleantech solutions) and ESG measures such as staff diversity and human rights.

Looking more broadly, we have come up with five ways to identify greenwashing and tell whether funds, and the teams behind them, can meet investors' sustainable expectations.

1. **Transparency.** A genuinely sustainable fund manager should be transparent about how they invest, as well as being open to challenge. This should include clear and simple information explaining how the team runs money: what companies they look for under the sustainable approach and what they avoid. It has to be more than generic 'brochure' comments like "sustainability is in our DNA".

   At the most basic level, a sustainable manager should be able to provide a full list of all the companies in which a particular fund invests rather than just the standard top 10 that appears on factsheets. If they are unable or unwilling to do this, this is a red flag. Ultimately, investors should expect to see frequent communication giving an update on what is going on in funds, relating back to the investment decisions and companies held. Anyone can write a generic report on climate change, for example, but how is the portfolio positioned in light of the challenges that combatting this will entail? As expertise builds, most fund groups should be able produce interesting content on something like electric vehicles, but avoiding greenwash lies in the 'so what' part of this – how does this knowledge influence investment decisions and the performance investors ultimately get? The managers should respond to queries about companies they are invested in and explain why they like them; again, if you cannot contact them or get a lacklustre answer, this should be cause for concern.

2. **Experience and resource.** As in any walk of life, we believe the experience and depth of a team is important when it comes to sustainable investing. There is nothing to say a new fund will not be a good investment and there are interesting products coming to market but to use a simple analogy, if you need a plumber, you are likely

Research conducted on behalf of Liontrust in December 2021 showed 82% of discretionary fund managers and 67% of advisers are concerned about greenwashing and in the latter category, 57% are either only slightly confident or not confident about identifying this practice in action.

to choose one with experience over a novice. For our part, our team at Liontrust have has been investing sustainably for 21 years and we currently have a team of 17.

3. **Knowledge and ongoing training.** Sustainable investing is a specialist area and subjects like climate change are fast moving so investors need to be confident their chosen managers have the required knowledge to run money in this way. This can be anything from members of the team having specialist qualifications to a general focus on training to ensure people understand the latest sustainability trends. Again, if managers cannot display this, that represents a red flag.

4. **Activism.** Engagement is a key part of what we call sustainable investing, and we feel managers should be able to highlight a track record of holding companies to account and encouraging them to improve. Managers should be able to talk in detail about their engagement priorities – whether diversity, tax transparency or plastic pollution – rather than just making sweeping statements. It is also worth looking at managers' AGM voting records: do they just vote with company management or actually challenge the businesses in which they invest to improve?

5. **Evidence.** To reiterate, the focus should be on how all this knowledge and experience in sustainability is being applied to investment decisions – giving meaningfully different exposure compared to more conventional funds. Are managers able to show how their sustainability views are reflected in their decisions: is it simply ESG data and reporting for the sake of it or actually making a difference to investment? Again, transparency is important here: can managers provide concrete examples where, if you removed the sustainability aspects from a business, they would not have invested in it?

That last point is key and why we have never been too concerned – unlike some of our peers – about exactly how our funds are described. Whether sustainable, ethical ESG, impact or SRI, the key is how much sustainability factors actually impact investment decisions; ultimately, evidence of this over a long period of time is the best protection against greenwashing.

By Mike Appleby

Investment Manager, Sustainable Investment team at Liontrust

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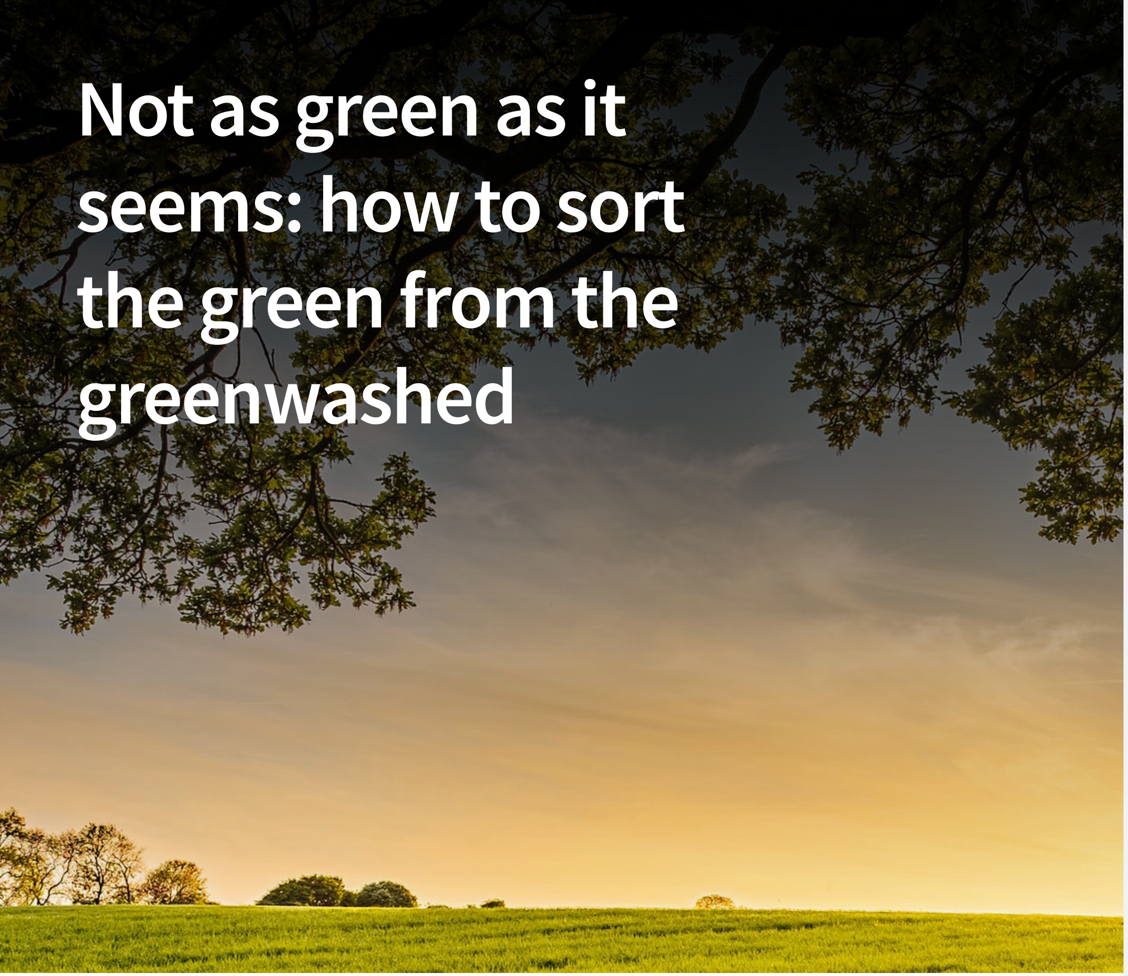

Not as green as it seems: how to sort the green from the greenwashed

Investors' desire to make a positive difference has driven huge inflows into sustainable investments and triggered a proliferation of funds that claim to have responsible investment approaches. However, a number of 'sustainable' strategies and funds have been revealed to be not nearly as green as they seemed beneath their branding and high-level descriptions. Recent regulation (SFDR) has raised the bar for asset managers making sustainability claims about their products but greenwashing still continues. Clients should be prepared to dig a little deeper to see whether a fund or strategy matches their expectations.

SARASIN & PARTNERS

With this is mind, we have drawn up a shortlist of questions to help investors sort the green from the greenwashed.

Does your fund manager publish a UK Stewardship Code Statement?

Wealth creation at society's expense is likely to be ephemeral, but responsible companies tend to create durable economic value for investors and society alike. This is the thinking behind the UK Stewardship Code, which sets high stewardship standards for asset managers.

It defines stewardship as the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Signatories publish an annual statement showing their stewardship activity and they are graded on the extent to which they have implemented the Code's principles.

Is your fund manager a signatory to the UN Principles for Responsible Investment (UNPRI)?

Being a UNPRI signatory involves an extensive application and assessment process and ongoing commitment to UNPRI reporting. Signatory status is not a given, and asset managers that fail to uphold UNPRI standards can lose signatory status after a two-year watch period.

Does your fund manager work with companies to promote sustainable business practices?

Investors have important rights, but they also have responsibilities to promote sustainable business practices and hold management responsible through thoughtful voting and engagement with companies. Active engagement with company management has a pivotal role to play in improving sustainable business practices. For it to be truly effective, asset managers should be prepared to dedicate resources to ongoing engagements that may take years to play out.

Policy outreach is another important way in which investors can drive change. Where there is scope for a ripple effect, investors can – and in our view should – make public calls for change and build coalitions with like-minded stakeholders through initiatives such as the Net Zero Asset Managers' Commitment (NZAM).

Does your fund manager make good use of shareholder votes?

Shareholders' votes are a powerful tool that can be used to change corporate behaviour for the better. We believe that asset managers should vote actively against harmful corporate practices rather than simply abstaining on difficult issues, or blindly voting in support of company management.

For example, we vote against company directors where we see inadequate action to align company activity with a 1.5°C cap on global temperature rises. We are also one of only two asset managers that vote against auditors who fail to call out unsustainable company accounts.[1]

Does your fund manager publish its voting record regularly?

Sunlight is a great disinfectant. When asset managers publish their voting records it promotes progress and corporate accountability by publicly acknowledging best practice and placing the spotlight on poor performers.

It also ensures that clients can see whether their asset manager is acting in a way that aligns with their stated corporate governance and investment policies.

Is your fund manager's investment process fully sustainable?

Having ESG investment 'guidelines' or excluding some controversial industries from an investment portfolio is one thing; integrating ESG across an entire investment process demands much more detailed work.

Sarasin & Partners has fully integrated ESG across its investment processes: from idea generation in long-term thematic trends such as climate change and automation, to stock selection that incorporates bottom-up ESG and climate impact analysis and in portfolio construction, where we decide our engagement plans.

Sarasin & Partners LLP is a London-based asset manager that manages £21 billion* on behalf of private clients, intermediaries, charities, institutions and pension funds.

Our goal is to grow and protect our clients' capital in a way that is aligned with a sustainable society.

We achieve this through a global thematic investment approach that embeds rigorous ESG analysis. We also use the power of shareholder votes and engagement with companies to promote sustainable business practices.

For more information on how Sarasin & Partners LLP can help you grow and protect your wealth in a way that benefits society, visit www.sarasinandpartners.com or speak with your investment professional.

*All figures as at 31 December 2021

By Will Colville

Business Development Director at Sarasin

Important Information

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[1] Greenpeace briefing, Accountable shareholder votes on auditor appointments, 2021 https://www.greenpeace.org.uk/resources/accountable-shareholder-votes-on-auditor-appointments/

Measuring the positive impact of an investment

For investment professionals only

While impact investing was previously reserved for institutional or high net worth investors, it has now become freely accessible to everyday investors through impact funds investing in publicly listed equities. Here, we look at what sets impact investing apart from other Responsible Investment approaches and find out how impact investors can measure the positive impact of their investments.

M&G Investments

A focus on positive change

Impact investing has become increasingly prominent in the past couple of years. The COVID-19 pandemic and the climate emergency have brought many of the social and environmental challenges our world is facing into sharp focus. Greater recognition of the urgent need to address these challenges has led to growing appetite for investments that help to combat environmental issues and improve social outcomes.

Impact investing explicitly focuses on investments that seek to provide solutions to many of the world's social and environmental problems. It aims to deliver positive societal impact, as well as a financial return.

The value of 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 and you may get back less than you originally invested.

Intentionality, materiality, additionality

One of the cornerstones of impact investing is **intentionality**. Companies must intentionally set out to make a positive impact, rather than it being an inadvertent by-product of their activities. Investors will examine the company's mission statement, strategy, internal culture, and day-to-day activities, to ensure that these align with the particular goal or issue.

The impact also needs to be **material**. Investors will examine how much of the business's activities and revenues are aligned to the impact. Furthermore, they will consider whether there are any negative impacts that offset the positives.

Impact investors will also look at **additionality**. In other words, how would the world be different if the company didn't exist or wasn't adequately funded? Would another company step into its place, or would society be worse off?

Measuring the impact

Given the focus on delivering positive outcomes and solutions, it's also important for investors to be able to measure a company's impact. This isn't an exact science, and there are a number of approaches available. When it comes to investment funds, some investors attempt to distil the impact that can be achieved with every £1,000 invested in the fund. In our opinion, this approach can result in oversimplification or "guesstimation".

In the M&G Better Health Solutions Fund, we believe it's more helpful to focus on the individual impact made by each underlying company. To achieve this, we first assess how its activities align to the most relevant of the United Nations Sustainable Development Goals (SDGs)*. The SDGs are a collection of 17 interconnected goals that collectively aim to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. We can then establish key impact indicators (KIIs), helping us to assess and quantify their contribution to the goal.

Companies are also classified as pioneers, enablers or leaders. Leaders are companies which spearhead sustainability in their industries, enablers provide the tools for others to deliver positive social or environmental impact, and pioneers offer products or services which have a transformational effect on society or the environment. See below for three examples from the M&G Better Health Solutions Fund.

Example companies and their impacts

Novo Nordisk
Leader

A world leader in diabetes treatment supplying 50% of the world's insulin and spearheading the obesity treatment market.

Impact: In 2020 it provided treatments to around 30 million patients, of which 5 million were treated at a cost of less than US$4 per vial. We use the number of patients reached as our KII.

Ecolab
Enabler

A specialty cleaning chemicals company which enables its customers to manage and monitor hygiene and sanitation levels in 3+ million locations, thereby reducing the prevalence of infections.

Impact: In 2020 it helped to clean 15 million patient rooms in hospitals and sterilise 3.5 billion pieces of medical surgical equipment. We use an alternative reach metric as our KII.

Puretech
Pioneer

Pioneering research to discover, develop and commercialise differentiated medicines for underserved diseases.

Impact: In 2020 it had 24 therapeutic products and candidates, of which 13 are in clinical stages. This is an interesting case study. As drug trials progress, we will shift the KII from products in the pipeline to number of patients reached.

It's an ongoing process

As with all investment strategies, impact investing is an ongoing process. Alongside the usual tracking of company performance and other financials, impact investors will also engage with investee companies regularly.

This helps investors to keep tabs on any changes at the company. A significant change to the company's strategic direction, its products and services, or even its personnel could mean that it is no longer considered impactful and should be sold.

Regular engagement also provides the opportunity to review the company's progress against the KIIs and discuss any shortcomings or outperformance. There may also be scope to encourage positive change at the company, perhaps through better disclosure of data, or new company policies.

*While we support the UN SDGs, please note that we are not affiliated with and our funds are not endorsed by the UN.

By Jasveet Brar
Fund Manager at M&G Investments

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 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.

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

Investing in emerging markets involves a greater risk of loss due to greater political, tax, economic, foreign exchange, liquidity and regulatory risks, among other factors. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

In exceptional circumstances where assets cannot be fairly valued, or have to be sold at a large discount to raise cash, we may temporarily suspend the fund in the best interest of all investors.

The fund could lose money if a counterparty with which it does business becomes unwilling or unable to repay money owed to the fund.

Operational risks arising from errors in transactions, valuation, accounting, and financial reporting, among other things, may also affect the value of your investments

Further details of the risks that apply to the fund can be found in the fund's Prospectus.

The views expressed in this document should not be taken as a recommendation, advice or forecast

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Beyond Profit

Schroders

Understanding the impact that companies have on people and planet is crucial in determining their true costs and ultimately the impact-adjusted profits they generate.

The way in which we invest not only shapes the financial returns we achieve for our clients but also the type of impact that their investment portfolios may have on society and the environment. The relationship between financial and non-financial factors has rapidly evolved and we see a fundamental shift in how companies are viewed and valued. Understanding the impact that they have on people and planet is crucial in determining their true costs and ultimately the impact-adjusted profits they generate.

Impact is the third pillar of investing

There is more than just the relationship between risk and return. A third dimension – impact – must, in our view, be embedded into a holistic investment process. Only by considering these three pillars together can we understand an asset's real investment potential and achieve the best outcomes for our clients.

ESG integration is rapidly becoming a baseline expectation for the investment industry. ESG integration means that fund managers and analysts systematically and explicitly consider ESG factors alongside or within traditional financial analysis. It means a broader assessment of the world in which we operate: one which captures sustainability risks and opportunities in our investment decision-making.

ESG integration

At the end of 2020, Schroders achieved our goal of becoming a fully ESG-integrated firm[1]. Integration will look different through the lenses of different asset classes, but we believe it is imperative to have a robust framework that allows for consistency where possible across the fundamental elements of how we assess investment opportunities. But importantly, the landscape is evolving, and we need to ensure that the depth of our ESG integration is keeping pace with the growing expectations of our clients.

Schroders' Sustainability Accreditation Framework was launched in 2017 and last year, we further embedded the concept and practices associated with ESG integration across asset classes and regions. This meant supporting investment teams in deepening the way they integrate ESG. For example, we encouraged investment teams to fully utilise and broaden their usage of the proprietary ESG models and tools we have developed. How this looks specifically for the 60+ investment teams across Schroders, each with their own investment philosophy and approach, differs. What matters is a consistent level of ESG capability and application of the ESG resources the Sustainable Investment team has to offer.

2022 will see the launch of Integration 2.0, the next iteration of our ESG integration process. This will see the firm raising the level of what best practice in integration looks like and what we will expect investment teams to demonstrate. We believe that we need to continuously challenge ourselves on what constitutes best practice as we strive to maintain our leadership position in the market and continue to meet the needs of our clients.

Active ownership

Crucially, sustainable investment is not just about making investment decisions, it is also about what we do after we have made them. This year, we have begun to formalise the requirements of our approach to active ownership, as well as the expectations arising from our Climate Transition Action Plan into the Sustainability Accreditation Framework. In both cases, we will introduce more tightly defined criteria for what investment teams will need to do and evidence in order to maintain their 'ESG integrated' status, which is reviewed annually by the Sustainable Investment team.

Schroders has a long history of active ownership, spanning over 21 years. In 2022, we published our Engagement Blueprint, which sets out the long-term outcomes we desire to see from companies in each of the thematic areas. The document aims to bring transparency to our investee companies and our clients, whilst also giving our internal investment teams guidance for their engagements on the most material issues.

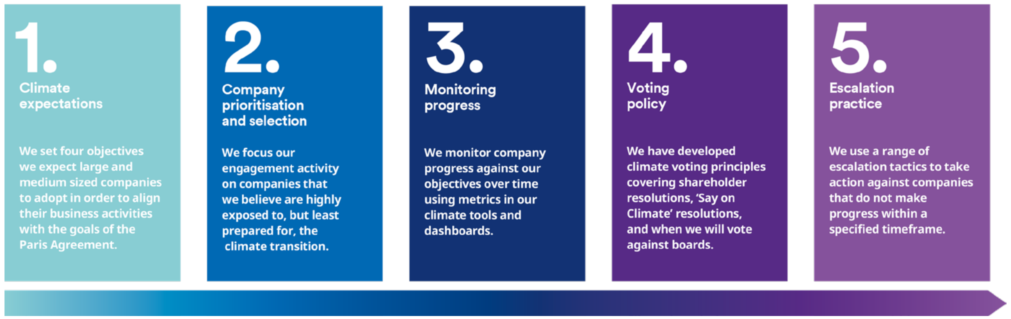
We recognise that effective engagement requires continuous monitoring and ongoing dialogue. Where we have engaged repeatedly and seen no meaningful progress, we will escalate our concerns. Decisions on whether and how to escalate are based on the materiality of each issue, its urgency, the extent of our concern and whether the company has demonstrated progress through previous engagements.

The possible actions we may take to escalate an engagement are outlined in the Engagement Blueprint.

Climate engagement

Climate engagement is a core part of our active ownership strategy. Engaging and working with companies to transition their business models to decarbonise in line with a net zero or 1.5°C pathway is an important step in supporting those businesses to adapt and thrive. Our climate engagement and escalation framework sets out how we will use our influence as investors to help drive the transition to a low carbon economy.

Schroders' climate engagement and escalation framework



ESG integration and active ownership are core parts of a robust sustainable investment strategy. It is no longer enough to just consider ESG factors on an ad hoc basis, we believe they must be systematically integrated through a robust framework that allows for consistency across investment strategies. We also believe the same formality and rigour should apply to active ownership and it is through continuous monitoring and dialogue that we can encourage companies towards a more sustainable future.

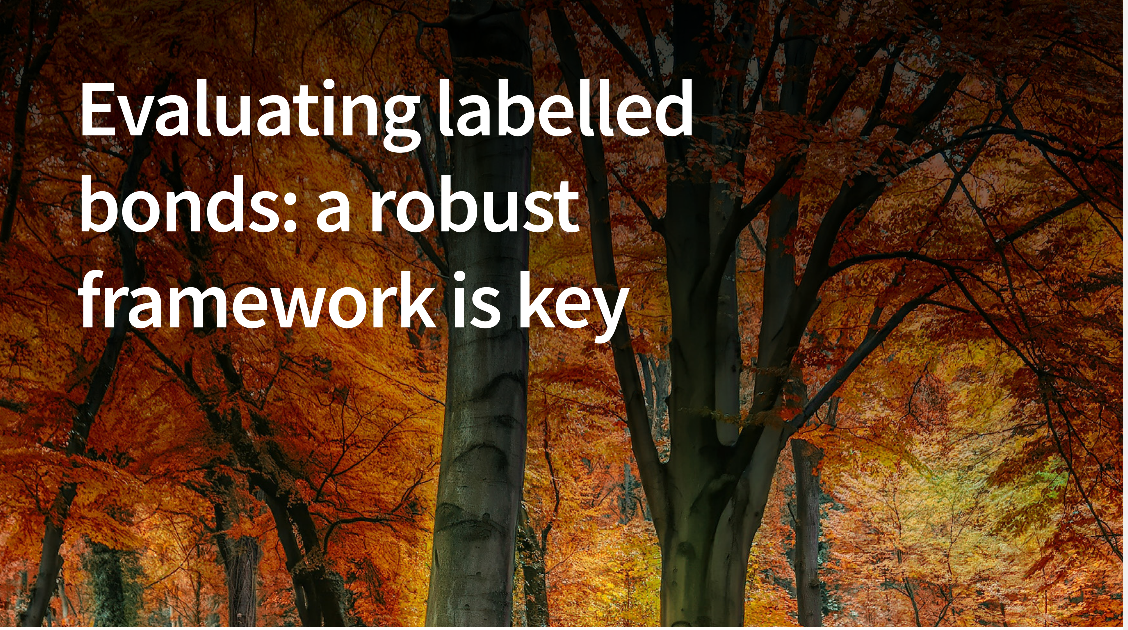
To read our latest sustainability insights click here and visit schroders.com to find our more about our sustainable investment funds.

By Katie Green
Investment Director, Sustainable Investing Team at Schroders

Important information

[1] For certain businesses acquired during the course of 2020 and 2021, we have not yet integrated ESG factors into investment decision-making. There are also a small number of strategies for which ESG integration is not practicable or now possible, for example passive index tracking or legacy businesses or investments in the process of or soon to be liquidated, and certain joint venture businesses are excluded.

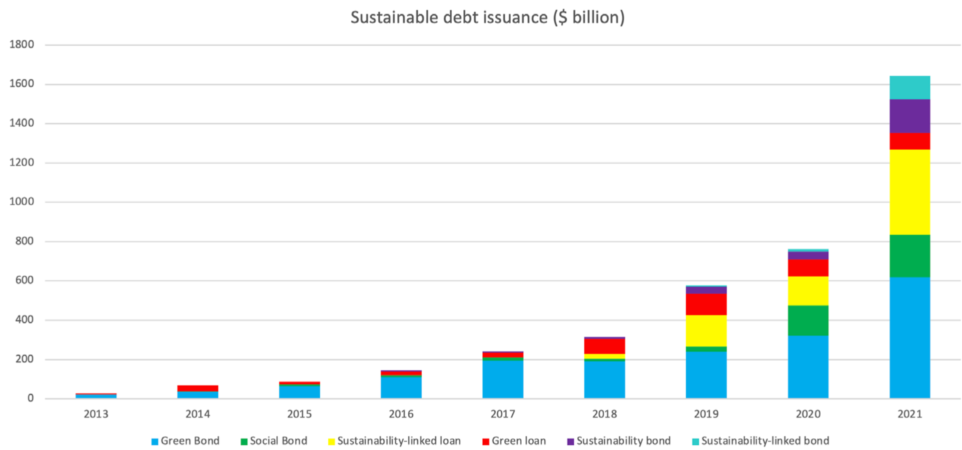
Evaluating labelled bonds: a robust framework is key



WELLINGTON MANAGEMENT®

The sustainable debt market is growing rapidly as issuers face increased pressure from investors and regulators to finance a more sustainable future. Sustainable debt issuance doubled to over US$1 trillion in 2021 and is predicted to exceed that figure in 2022. Green bonds remain the most common product within the labelled bond universe and are forecast to account for 52% of the total sustainable bond supply in 2022, while sustainability-linked bonds (SLBs) are the fastest-growing segment.[1]

We explore the importance of establishing a robust framework to assess the suitability of labelled issuance for our portfolios.



Labelled bonds at a glance

Use of proceeds bonds

With their key performance indicators (KPIs) and use of proceeds (UoP) outlined at issuance, green, social and sustainable bonds allow investors to target social and environmental objectives through their fixed income allocations.

We have also identified some secondary benefits of UoP bonds:

- **Transparency**: issuers report on the exact projects proceeds were allocated to, the amounts, the impact and achievement (or not) of targets. This helps us to measure and report on our investments' impact.
- **Downside protection**: in some periods of volatility, UoP bonds have not sold off as quickly as their non-green counterparts. While this may lead to a green premium in the secondary market, it highlights that green bonds may exhibit stickier characteristics and offer more stable returns at such times.

Sustainability-linked bonds

SLBs allow issuers to raise finance without ring-fencing the proceeds for a social or environmental project. Instead, they tie the future coupon payment to a sustainability performance target (SPT) — for example, an overall reduction in greenhouse gas emissions associated with products manufactured. Some issuers have faced criticism for SLBs that lack robustness or incentive to allocate the proceeds towards sustainable objectives.

Nevertheless, we see a place for robust SLBs within our portfolios. We have identified some secondary characteristics enhancing their appeal:

- **Accountability**: SLBs offer an alternative mechanism for companies to prove their commitment to sustainability. With coupon payments tied to the achievement of a target, SLBs impose a direct financial penalty on the issuer if their target is not met.
- **Flexibility**: SLBs give issuers greater flexibility than UoP bonds. They allow more types of issuers to enter the sustainable debt market and thereby facilitate a larger collective effort towards increasing the sustainability of more issuers' operations.

Building a framework

We have developed a framework to help us stay true to our commitment to high integrity impact investing and combatting greenwashing. Below, we outline our best practices.

UoP bonds

1. **Threshold for use of proceeds**: Without standardisation in the labelled bond market, the percentage of proceeds allocated to social or environmental projects will vary.

To maximise the materiality of our investments, we favour bonds where over 90% of the proceeds are to be allocated to eligible projects.

2. **Lookback period**: Some UoP bonds are issued to refinance an existing or historical project. While we accept some exposure to refinancing for long-term projects, we typically have a maximum lookback period of two years, to keep our financing tilted towards new projects.
3. **Sustainability of operations**: Some sectors are excluded from our universe, as we believe they are fundamentally misaligned with our impact objectives; we will not invest in UoP issuance from these sectors. Where an issuer's business model does not qualify for impact, but we approve at the security level, we consider the sustainability of their operations/business practices in our investment process.
4. **Valuation**: Once we have determined whether a bond is eligible for our universe, fundamental analysis ensures that the bond is suitable according to the risk and return targets of our portfolios.

Sustainability-linked bonds

SLBs' more flexible structure, combined with a lack of regulation, creates opportunities for greenwashing. We pay close attention to SLBs' structure to ensure that the issuance aligns with our high-integrity approach to impact investing.

1. **Sustainability performance targets**: We favour issuers with ambitious SPTs and meaningful financial penalties for missing future goals — for example, via a coupon step-up. We avoid issuers which set targets in line with what the issuers were planning to achieve through their ordinary business activities or which have minimal penalties, such as a step-up that is small or implemented late in the coupon payment cycle.
2. **Consistent KPIs**: We favour issuers which use consistent KPIs to monitor progress towards an SPT. We feel issuers should report historical KPI levels, use consistent base rates and be held accountable through engagement and potentially divestment if their KPI reference changes.
3. **Sustainability of operations**: We won't invest in SLBs from issuers in sectors which are misaligned with our impact objectives.
4. **Valuation**: It's critical to assess financial characteristics to determine suitability according to portfolio risk and return targets.

Our engagement edge

Through engagement, we advise bond issuers and their representatives on how to robustly structure a sustainable bond. These dynamic discussions allow us to identify which issuers are serious about working towards their sustainability goals and ensure that sustainable debt is issued with real world impact in mind.

Conclusion

The rapid evolution of the sustainable debt market poses challenges for investors using an ESG or impact lens.

While the labelled bond market currently lacks adequate regulation, we expect the proposed European Green Bond Standard to increase the transparency and robustness of green issues. This may lead to a new gold standard for green bonds, pressuring issuers to obtain the label. The same principles could also be used to develop a social and sustainable bond standard, increasing uniformity across sustainable debt issuance.

Irrespective of regulation, we believe responsible asset owners should have a robust framework for analysing labelled issuance and that this will help to establish more robust ESG standards and increase the likelihood of generating real world impact.

To find out more, please visit wellingtonfunds.com/impact-investing.

By Campe Goodman, CFA

Fixed Income Portfolio Manager at Wellington Management

By Paul Skinner

Investment Director at Wellington Management

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[1] Data source: Crédit Agricole | In the UK, issued Wellington Management International Limited (WMIL), a firm authorised and regulated by the Financial Conduct Authority (Reference number: 208573). In Europe (ex. UK and Switzerland), issued by Wellington Management Europe GmbH which is authorised and regulated by the German Federal Financial Supervisory Authority (BaFin).

A multi-asset approach to sustainability

Rathbones
Look forward

Will McIntosh-Whyte, manager of Rathbones' range of four risk-rated sustainable multi-asset funds, answers our questions about why sustainable investing makes sense, what he hopes to achieve with this range and what some of the challenges and opportunities are in managing sustainable multi-asset portfolios.

Why is sustainable investing gaining traction?

The intense focus on sustainable investing that led up to last year's COP26 climate conference has understandably taken a back seat to the horrific devastation among the Ukrainian people that we are all watching on a daily basis. Russia's invasion has also set off a chain of consequences that have spread through many markets and significantly added to the uncertainty surrounding the global outlook. Still, there's no reason to believe that the huge increase in demand for sustainable investing that we've witnessed over the last few years is about to change. This has been driven in large part by people wanting to not only reflect their values in their investments, but also make a positive impact with them. The trend has been given extra impetus from regulatory changes requiring advisers and investment managers to add ESG considerations to their suitability checks. So yes, sustainable investing is on the rise, but how you go about it is crucial – how do you know if your approach is truly sustainable, for the planet and for investment returns?

How can you cut through the noise and green-signalling to identify what is truly sustainable?

Though it's rarely acknowledged, there is lot of grey area, nuance and subjectivity involved in analysing companies for their sustainability credentials. It requires an active, common-sense approach by those who have experience and expertise in the area. For this reason, our day-to-day management of the Rathbone Greenbank Multi-Asset Portfolios (RGMAPs) is supported by Rathbone Greenbank Investments (Greenbank), who have been pioneers in the development of sustainable investing since 1997. Their ethical, sustainable and impact (ESI) research team use their proprietary database of profiles on companies, governments, and other entities to independently scrutinise every asset in our funds against our pre-determined and clear sustainability criteria.

What are the benefits & drawbacks of using third-party ESG data?

While we do use ESG data from external providers as part of our analysis, we do not rely on that alone. We find these external sources a useful starting point for our own research as it can be a quick way to identify red flags that would rule something out or highlight areas of operational strength or weakness to investigate further. We're also able to take some of the raw data points such as health and safety stats, emissions, etc. and feed them into our own database. As with any external information source, it's important to understand the methodology used in order to know what the data is and – more importantly – isn't telling you.

Can you tell us more about your criteria, and how you define 'sustainable'?

For us, sustainable means investing in companies and entities which are benefiting people and planet by working in ways or providing goods and services that support sustainable development. To do this in practice, all equities and corporate bonds within our portfolios must align to one of Greenbank's eight sustainable development categories which map to the UN Sustainable Development Goals.

These eight categories focus on crucial areas of sustainability such as energy and climate, health and wellbeing and resource efficiency. We also believe that some areas are simply inconsistent with sustainable development, such as oil and gas companies and miners, which is why we screen them out of our portfolios.

Can you achieve true diversity in a sustainable portfolio? Doesn't the sustainability criteria limit your choices?

We believe it is not only possible, but necessary to create sustainable portfolios that are genuinely diversified. It's simply not enough to just be 'sustainable'. Everything in the portfolio has to either generate a return or hedge a risk, and you need to have the right balance of both. What we don't want to be is just another questionably diversified '60-40' fund with a sustainable badge thrown on it.

Given that all investments must support sustainable development, providing diversification while keeping true to your sustainability principles can be done, it just takes a little more work.

How does risk management for sustainable multi asset portfolios compare with managing risk for a traditional multi-asset portfolio?

In order to construct portfolios effectively and manage risk, we use our forward-looking Liquidity, Equity-type risk and Diversifiers (LED) framework, which is the same one we've been using for years in our other multi-asset portfolios. Because fixed income, equities and alternative investments can behave in different ways, even compared with similarly labelled investments, we want to make sure that assets are categorised by their liquidity and correlation to equities, particularly during periods of market stress. This helps protect our portfolios adequately and limit drawdowns.

This is a financial promotion relating to a particular fund range. Any views and opinions are those of the investment managers, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. The value of investments may go down as well as up and you may not get back your original investment.

By Will McIntosh-Whyte
Fund Manager at Rathbones

Liquid Biopsy – flesh or blood?

A disruptive promise

Tissue-based biopsies – presently the standard diagnostic method to detect disease from a physical sample taken from the body – are invasive. And when the tumour/disease site is difficult to access, surgical removal can be risky.

Liquid biopsy aims to displace tissue-based biopsy. These *invitro* diagnostic tests – meaning they're performed outside a living organism, e.g. in a test tube – diagnose disease by identifying 'biomarkers' within liquids. Some of these biomarkers we've all heard about already – like glucose or cholesterol – but the WHO definition includes all kinds of body-derived substances, structures or processes that can be used as a harbinger of disease.

Liquid biopsy has three critical advantages over tissue-based biopsy:

1. Lower risk, non-invasive, less painful – based on a blood sample. Some biomarkers can even be detected in urine or saliva samples.
2. Generates a complete genetic profile of the tumour/disease.
3. Enables repeat testing, at fast turnaround times.

Regnan

A promising solution for cancer diagnosis

Cancer remains one of the world's deadliest and fastest-growing diseases, responsible for 1 in 6 deaths worldwide, 70% occurring in low-to-middle income countries, according to the WHO.

Yet, due to cancer's insidious, shapeshifting quality – invading the body through the bloodstream and tissue, establishing itself in one organ before immigrating to another – diagnosis and treatment remain gargantuan challenges.

But liquid biopsy could be a revolutionary diagnostic anti-cancer weapon. When 'metastizing' through the body, cancer sheds cells, or fragments of cells, into the bloodstream. Aiming to detect these traces, liquid biopsy has the potential to monitor cancer progression in real time, enabling clinicians to adapt treatment accordingly.

A multi-market opportunity

While the origins of liquid biopsy date back to the 19th century, the rapid evolution and plunging costs of its base technologies NGS (next-generation sequencing) and PCR (polymerase chain reaction) propelled it into 21st century commerciality.

Yet the liquid biopsy market is still nascent, and future size estimates range from approximately $20bn to $100bn, compared to an estimated $60bn for the entire invitro diagnostics market.

But the total addressable market size depends on how early liquid biopsy can diagnose cancer. Early-stage cancers are easier to treat as they are less likely to have metastasized significantly beyond their place of origin. In fact, the average 5-year survival rate for early-stage cancer is 91%, and only 26% for later-stage cancer. And 5-year survival rates vary significantly between cancers – 99% for prostate cancer but just 8% for pancreatic cancer.

Another factor is that early detection is technically more difficult – early-stage localised cancers shed less genetic material into the bloodstream, resulting in high signal-to-noise ratios, making detection more difficult.

The most established but smallest market for liquid biopsy is therapy selection for late-stage cancer, with liquid biopsy presently used mainly to predict treatment response. A less established but bigger market is monitoring, where liquid biopsy can be used on a long-term basis to monitor treatment response and disease recurrence.

However, liquid biopsy's potential for early detection/screening of cancer is sparking the real excitement. At present, most cancers have no associated screening tests. But several companies are now developing 'pan-cancer' screening tests aimed at detecting over 50 types of cancer – in a single blood sample.

Remaining challenges

Achieving clinically useful outcomes

Earlier diagnosis is only useful when diagnosed cancers can be treated earlier. Hence, liquid biopsy only delivers on its promises if it improves cancer patients' survival rates. But increased screening can create the illusion of improving survival rates, even if it doesn't enable more effective treatment. So, we need to interpret the statistics with care.

More importantly still, treatment needs to evolve if we are to make early cancer detection clinically useful. Within liquid biopsy, locating the original of early-stage tumours is a key hurdle to treatment. A 1999 thyroid cancer screening programme rolled out in South Korea highlighted the challenge – although incidence rates rose, there was no impact on mortality rates.

Sensitivity and specificity

As noted above, early-stage tumours shed low concentrations of cells/fragments, and low detection sensitivity produces false negatives, meaning that incidents of disease can go undetected. On the other hand, low specificity in detection produces false positives – biomarkers are detected but the patient doesn't develop cancer. By combining multiple tumour-specific biomarkers into a single test, liquid biopsy companies aim to overcome these challenges, even if critical threshold levels remain hotly debated.

Reimbursement

The pathway to financial reimbursement for diagnostic tests is complex, particularly in the US. The viability of pan-cancer screening as far as large payors is concerned likely depends on both legislative change and the industry's ability to drive cost reductions. In short, insurers need to see clinically useful outcomes.

Liquid biopsy's promise is clear – a non-invasive means to identify/track the evolution of a disease, allowing continuous adaptation of the treatment regimen. Although the promise is particularly salient for cancer, liquid biopsy must overcome significant technical and reimbursement challenges if it is to realise its full potential.

By Maxine Wille, CFA

Investment Analyst, Regnan Equity Impact Solutions team at Regnan

Investing in a net zero future: how we manage climate risk while maximising transition-related opportunity

During his speech at COP26 on the 3rd of November 2021, UK Chancellor of the Exchequer Rishi Sunak declared the need to “rewire the entire global financial system for Net Zero”.[1] To this end, he announced the UK’s intention to become the world’s first ‘Net Zero Aligned Financial Centre’.

Federated Hermes Limited

Of course, as professionals, voters and private citizens, we are all responsible for helping to ensure a sustainable future. However, as investors we have a duty to align that role with another, equally important responsibility: delivering strong returns for our clients. To do that, it’s vital we, the Global Equities team at Federated Hermes, analyse and measure both how climate change risk can negatively affect investments and how the shift to a low-carbon economy creates valuable investment opportunities.

Assessing risk: The Task Force on Climate-related Financial Disclosures (TCFD) framework

The detail behind the Chancellor’s announcement makes reporting aligned with the standards set by the Task Force on Climate-related Financial Disclosures (TCFD) mandatory for businesses across the UK economy by 2025.[2]

The TCFD was created by the Financial Stability Board; its purpose is to help stakeholders better understand the financial system’s exposure to climate-related risk. For investors, the TCFD framework enables more informed investment decisions by improving the transparency and consistency of climate-related reporting by companies.

The framework divides climate-related disclosures into four interlinked thematic areas that represent core elements of how organisations operate: governance, strategy, risk management and, metrics and targets.

Figure 1: TCFD framework thematic areas

Risk management

Of the four thematic areas in the TCFD framework, risk, is critical from an investment perspective. It is therefore a significant focus, both in terms of our internal investment process and in our engagement[3] and stewardship work as a business.

Our firmwide reference document *Climate change expectations for investee companies*[4] creates a clear and concise framework of six proactive measures we expect the companies we invest in to undertake. The document also sets out expectations regarding governance, scenario analysis, supply chain risk, building consensus, and metrics and targets. We also support and encourage asset-level reporting of impacts by companies.

Internally, our firmwide commitment to responsible investing and our approach to integrating ESG factors are explicitly laid out in our Responsible Investing Policy[5], as well as our Sustainability Risks Policy[6]. This is backed up by our commitment to the UN's six Principles for Responsible Investment[7]. As a team, we have also worked with leading groups on integrating climate considerations into our investments at the corporate, portfolio and stock level.

Integration of climate considerations

The risks and opportunities from climate change can be broadly categorised as either transition or physical risks.

Transition risks are business-related risks stemming from the shift towards a decarbonised, net-zero economy. For example, as a team, we use a scenario tool[8] to analyse the alignment of our portfolios with various climate scenarios. At the same time, we consider whether companies have set rigorous science-based targets[9] (SBTs) for emissions reduction, and we road test these to examine whether they are achievable.

Physical risks are risks arising from the impact of changes in weather and climate on economies, industries and individual businesses. As a team, we approach physical risk initially using a sectoral lens, followed by a geographic lens, to identify materiality for companies.

Governance and strategy

Governance

Federated Hermes' focus on governance is both internally and externally facing. Our investment approach includes consideration of good governance at every step in the investment chain, from idea generation, through portfolio construction, to risk management and reporting.

Strategy

To enhance collaboration across the business, we at Federated Hermes created an internal Climate Change Working Group. The Group is tasked with the development of an enhanced climate change strategy, and Net Zero Statement and policy.

Externally, we are members of multiple organisations aimed at ensuring an aligned approach and enhancing pressure on investee companies to act. These include the Net Zero Asset Managers initiative[10], the Institutional Investors Group on Climate Change[11] (IIGCC) – a European organisation whose members are responsible for assets under management worth 50 trillion euros – and the global investor-led initiative Climate Action 100+.[12]

> **Addressing net zero is complex and involves the broader but intertwined issues of resource sustainability and protection of the natural environment.**

Metrics and Targets

We, as a team, use a wide and ever-growing range of data to support our investment decisions.

These include:

- Carbon footprinting.
- Science-based targets from the Science Based Targets initiative (providing clearly defined pathways to emissions reduction).
- Data showing how companies are adapting their strategies.
- Calculation of 'green' versus 'brown' revenues (i.e., revenue from clean versus polluting sources).
- Evidence from company engagement case studies.
- Use of proprietary QESG scores[13] in stock selection.
- Factoring cost of carbon into decision making.
- Our proprietary ESG Dashboard (including data quality, relative metrics, qualitative assessment).
- Our Portfolio Monitor (highlights best and worst performers, compliance with international norms, exposure to controversial activities e.g., spills, litigation; exposure to high-risk areas).

Addressing the emissions targets challenge

We believe that companies who better manage their exposure to physical and transition risks will outperform their peers over the long-term. Achieving the goal of net zero is therefore a necessary component of our fiduciary duty to maximise returns. Our portfolios will be positively tilted towards companies which are better at managing the material environmental risk in their business. Our expectation is that through this climate focus, our portfolios will maintain a lower carbon exposure than the benchmark.

Addressing net zero is complex and involves the broader but intertwined issues of resource sustainability and protection of the natural environment. However, we must not shy away from the issue: it is vital to act now to accelerate the transition by keeping a sharp focus on achieving emissions reductions aligned with net zero. Collaboration with all stakeholders, including clients, companies and regulators, will be essential to success.

By Louise Dudley
Portfolio Manager at Federated Hermes Global Equities

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[1] "COP26 Finance Day speech" by Rishi Sunak, UK Chancellor of the Exchequer, published by GOV.UK as at 3 November 2021. https://www.gov.uk/government/speeches/cop26-finance-day-speech. Net zero refers to the balance between the amount of greenhouse gas produced and the amount removed from the atmosphere.

[2] "Chancellor sets out ambition for future of UK financial services," Published by HM Treasury on GOV.UK as at 9 November 2021. https://www.gov.uk/government/news/chancellor-sets-out-ambition-for-future-of-uk-financial-services

[3] Using the rights of influence as financial stakeholders to actively engage companies or assets and other stakeholders to further the long-term interests of end investors.

[4] For more information visit https://www.hermes-investment.com/uki/wp-content/uploads/2021/05/fhi-responsibility-office-climate-change-expectations-1120.pdf

[5] For the full policy visit https://www.federatedinvestors.com/policies/responsible-investing-policy.do

[6] For the full policy visit https://www.hermes-investment.com/ukw/wp-content/uploads/2021/03/ifh-corporate-sustainability-risks-policy-03-2021.pdf

[7] For more information visit https://www.unpri.org

[8] 2° Investing Initiative (2DII)'s Paris Agreement Capital Transition Assessment (PACTA)

[9] The Science Based Targets initiative (SBTi) drives climate action in the private sector by enabling companies to set science-based emissions reduction targets. For more information visit https://sciencebasedtargets.org

[10] For more information visit https://www.netzeroassetmanagers.org

[11] For more information visit https://www.iigcc.org

[12] For more information visit https://www.climateaction100.org

[13] Our proprietary QESG scores combine specialist ESG research from external bodies including Sustainalytics, MSCI, Bloomberg, the Carbon Disclosure Project, WRI and Trucost with fundamental insights gained through direct engagement by our stewardship team, EOS at Federated Hermes.

A net zero future demands real action now

The path to net zero is complex but cutting real-world carbon emissions is crucial in order to preserve our financial and physical futures.

At Fidelity, we have carefully considered the different ways in which managing climate risks and accelerating the low-carbon transition could be made integral to our investment and stewardship processes. To this end, we launched our Climate Investing Policy in 2021, which we firmly believe will be effective in mitigating climate-related risks and reducing real world emissions.

Our path to net zero is anchored on targets

From an investment perspective, we are aiming to **halve the carbon footprint of our investment portfolios by 2030**, from a 2020 baseline, starting with equity and corporate bond holdings; and reach **net zero for holdings by 2050**. We have set specific emissions reduction targets for real estate and our default workplace retirement solution FutureWise.

Our net zero plan for the portfolios we manage on behalf of clients comprises two strands - integrating climate factors into investment management and transition engagement.

Fidelity INTERNATIONAL

1. **Integrate climate factors into investment management**
   - Further integrate climate change analysis into portfolio construction and issuer analysis.
   - Invest in net zero issuers and climate solutions.
   - Climate-focused stewardship: engage with companies on minimum climate standards and vote against those that do not meet them.
   - Use Fidelity's proprietary Climate Ratings, which leverage our in-house research capabilities, to assess the net zero ambition and alignment of investee companies. This will be used to align our own portfolios to a 'net zero by 2050' pathway, starting with funds that promote ESG characteristics and those with a sustainable investment objective.
2. **Target highest emitters through transition engagement**
   - Target companies in high impact sectors for intensive engagement to accelerate their transition pathways where achievable. Where companies show no progress towards (and no potential for) transition after an engagement period not exceeding three years, we will look to divest.
   - Focus engagement initially on thermal coal production, as the transition away from thermal coal represents the single biggest opportunity to reduce carbon emissions over the next decade. In due course, we expect to expand transition engagement to include utilities and power generators reliant on thermal coal, leading to a phase out of thermal coal exposure by 2030 for OECD markets and by 2040 globally.

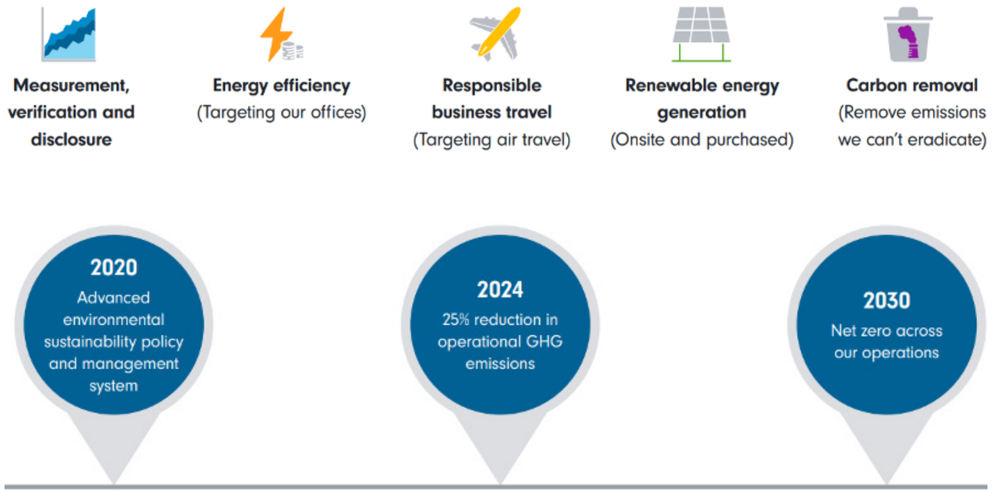
These unexpected climate events underline the fact that sustainability as a concern has moved well beyond philosophical, populist, political or ideological debates. They are pure economic risks. Understanding how capital is allocated in this transformed landscape is more important now than ever.

The private sector has a key role to play in facilitating the shift to clean energy, but in a way that scales genuine alternatives for baseload power generation in the many countries that remain dependent on fossil fuels while also addressing the social challenges for workers and communities impacted by the transition. The race to net zero can't afford to leave anyone behind.

Making sure we walk the talk

We also want to achieve net zero emissions across our corporate operations by 2030. After all, we have to do what we ask others to do. Fidelity's business operations are guided by five principles to reduce emissions. Like other companies, we have different priorities that evolve due to factors like changes in regulations, public expectations, and market and environmental risks.

Our five principles to get to net zero



Source: Fidelity International, 2021.

Our path to net zero will prioritise avoidance and reduction over substitution and carbon removal. This is an essential tenet to a responsible carbon reduction hierarchy because it improves the prospect of meaningful corporate transformation.

Our corporate sustainability policies support this hierarchy. An example of how we avoided nearly half of the emissions from energy use in our London office is by moving about 1,000 employees to a more energy-efficient building in 2019. Elsewhere, we have applied substitutes to minimise our carbon footprint. For example, in India, we switched to electric passenger cars from those that run on fossil fuels.

For the residual emissions we can't eradicate, we plan to implement carbon dioxide removal (CDR) measures to achieve net zero based on best practices. These include nature-based solutions or proven carbon capture technology.

It is estimated that around a quarter of global carbon emissions and more than half of the global economy are covered by net-zero commitments, according to the Race to Zero Campaign supported by the United Nations Framework Convention on Climate Change. This is just the beginning - how companies achieve these commitments may be more vital for a truly lasting impact. We want to continuously challenge ourselves, and we hope this will inspire others to stretch their environmental targets.

The next decade is going to be crucial. We can't solve climate change ourselves and are committed to using whatever means we have - working in partnership with our clients, companies, and governments - to get to the net zero future we all need.

By Jenn-Hui Tan

Global Head of Stewardship and Sustainable Investing at Fidelity International

Important information

The value of investments, and the income from them, can go down as well as up, so you may get back less than you invest.

A focus on securities of companies which maintain strong ESG credentials may result in a return that at times compares unfavourably to similar products without such focus. No representation nor warranty is made with respect to the fairness, accuracy or completeness of such credentials. The status of a security's ESG credentials can change over time. Investors should note that the views expressed may no longer be current and may have already been acted upon.

Environmental risks dominate the outlook for the next decade

The World Economic Forum's Global Risks Report 2022 highlights the impetus for sustainable investing, says Abbie Llewellyn-Waters, Jupiter's Head of Sustainable Investing.

Every year the World Economic Forum (WEF) publish their Global Risks Report, highlighting major risks measured on likelihood and disruptive impact. 2020 was a historic year for this report[1] as it was the first time that the top five risks were all environmental. World leaders were clear on the key systemic risks: extreme weather, policy inertia, biodiversity loss, natural disaster and human-made damage to the planet.

Then the pandemic hit, and all normality was shaken. We entered 2022 amidst uncertainty of inflationary impact on the economy, persistent speculation on central bank policy and meaningful concern over pressure on household income. Then the tragedy of war struck in Ukraine, confronting the bleeding edge of intersectionality and stakeholder needs. It is more important than ever to focus on the long-term horizon.

JUPITER ASSET MANAGEMENT

The risks posed by climate change and nature-related challenges have not abated, with the urgency to act amplified by the more recent WEF 2022 Global Risks Report[2] where climate action failure, extreme weather and biodiversity loss were ranked as the greatest threats to the global economy.

Aligning capital allocation decisions to a decarbonised, resource efficient and inclusive world remains at the forefront of our investment thinking. The imperative for sustainable investing, in our view, has never been greater.

Climate action

There are several opportunities for acceleration of policy alignment this year. The UN COP15 for the Convention on Biological Diversity, which began in October 2021, is set to continue in Kunming, China in April 2022. Following last year's delayed COP 26 Conference, the UN Climate Change Conference 2022 (COP 27) is set to take place in Sharm El-Sheikh, Egypt in November.

COP27 will be an important opportunity for countries to exercise their ratchet mechanisms following COP26 in Glasgow in November 2021, as the policy trajectory has been firmed to address emissions reduction and biodiversity decline. While the outcome of the conference could have gone further, the direction of travel is clear. We have held the view for some time that there needs to be global collaboration around carbon pricing and there was positive momentum from COP26 around these policy measures.

Governments have pledged to revisit and strengthen their 2030 targets to align with the Paris Agreement goal of limiting global warming to 1.5 degrees Celsius above pre-industrial levels. We are hopeful that the ambition gap will be addressed; the cost of not doing so is high. Alongside the huge impacts of climate change on people and planet, according to the latest WEF Global Risks Report, complete climate inaction will lead to losses projected to be between 4% and 18% of global GDP with different impacts across regions.[3] We expect to see greater collaboration, led by the reiteration of joint commitment from the US and China, and that there will be not only a rapid, but also a just, transition to a low carbon future.

As investors, we need to see clear actionability and irreversibility from companies as they move to decarbonise their processes. Companies able to tangibly reduce carbon emissions, rather than offset them, will in our view be better positioned to deliver sustainable returns as increasingly we see externalised costs becoming an internalised cost of doing business.

Balancing act

Following climate and environmental risks, social risks of 'social cohesion erosion' and 'livelihood crisis' round out the top five risks cited in the 2022 Global Risks Report. The acceleration of these risks is jarring. Social risks only entered the top 10 last year and have rapidly risen up the scale. We anticipate this to accelerate in the wake of the current conflict. The impact of Coronavirus on global inequality is already recognised and the ongoing threat of the disease has continued to exacerbate imbalances. Inequalities are expected to widen, with the World Bank estimating that, if nothing is done, by 2030, 51 million more people are projected to live in extreme poverty compared to the pre-pandemic trend. Extreme poverty is defined as living on less than $1.90 a day.[4]

These glaring statistics highlight the importance that the transition to a low carbon future is a just transition, uniting action on climate change with social justice. At COP26, for the first time the 'Just Transition' was core to the agreement, acknowledging the importance of fairness in how the burden of addressing climate change is borne.

We anticipate this rhetoric will continue among policy leaders, particularly as the COVID vaccination rates in the poorest parts of the world remain low. According to the latest WEF Global Risks Report, nearly 70% of the populations of high-income countries are fully vaccinated, compared with just 4.3% for low-income countries.

Low vaccination rates have clear implications for individual health but also have knock-on effects which adversely impact worker availability and productivity and can lead to supply chain disruption and weakened consumption. As with climate change, combatting COVID fully requires a global response that accounts for the needs and requirements of all, not just developed economies.

Compensating vulnerable nations for loss and damage caused by climate change also started to enter the dialogue last year and sets a trajectory for commitments on financing by richer nations to lower-income countries. The developed world has enjoyed more than a century of unprecedented economic growth at significant environmental cost. It is imperative for the global climate action success that developing nations avoid a similar environmental crisis.

> **Inequalities are expected to widen, with the World Bank estimating that, if nothing is done, by 2030, 51 million more people are projected to live in extreme poverty compared to the pre-pandemic trend. Extreme poverty is defined as living on less than $1.90 a day.[4]**

Investment outlook

Balancing the interests of three core stakeholders – Planet, People and Profit – is essential if we are to make inroads into the greatest challenges facing the long-term health of the global economy. However, with these risks and challenges also come huge opportunities for companies that position themselves to lead the transition to a more sustainable world by contributing to rapid decarbonisation and promoting a fairer, more equitable world. By actively seeking to invest in these companies, asset managers can generate attractive financial returns for their clients over the long term and align their savings with real-world, measurable sustainable outcomes.

By Abbie Llewellyn-Waters
Head of Sustainable Investing at Jupiter Asset Management

Important Information

[1] The Global Risks Report 2020 | World Economic Forum (weforum.org)
[2] Global Risks Report 2022 | World Economic Forum (weforum.org)
[3] World Economic Forum Global Risks Report 2022. Page 31.
[4] World Economic Forum Global Risks Report 2022. Page 16.

3D Responsible Ratings

The 3D ratings are awarded to Responsible Investment funds which have been assessed against the 3D framework of 'do good', 'avoid doing harm', and lead change'. This enables funds to be compared in a systematic and objective manner by way of consistent profiling.

REVIEWED

Reviewed – A reviewed fund may demonstrate some investment in solutions but this will typically not be its primary focus. As such, the evidence of impact outcomes is likely to be limited. There may be some evidence of screening criteria applied but this could be restricted in scope and so there may be some exposure to ethical controversies. Engagement activities and reporting, meanwhile, will usually be focused at a group level.

BRONZE

Bronze - A Bronze rated fund will typically have some focus on investment in solutions to social and environmental challenges, as well as some evidence of impact but this can vary in standard and scope. There may be some exposure to ethical controversies. Depending on the RI approach applied, there may also be some systematic engagement.

SILVER

Silver - A Silver rated fund will have a high focus on investment in solutions to social and environmental challenges, as well as systematic reporting on environmental and/or social metrics across the portfolio. Typically, there will be a low level of exposure to ethical controversies due to informal or formal screening policies. The manager will typically demonstrate systematic engagement on social and environmental issues at an individual holdings level and participation in collaborative and educational initiatives.

GOLD

Gold - A Gold rated fund will have a very high focus on investment in social and environmental challenges and a very low level of controversies due to formal or informal screening policies. There will be a clear intention to make a positive social and environmental impact with systematic reporting to demonstrate these outcomes. The manager should also systematically engage on social and environmental issues at both an individual holdings level and as part of collaborative and educational initiatives.

Fund Name	3D Rating	Description
7IM Sustainable Balanced	REVIEWED	This fund combines a portfolio of direct stocks managed by Sarasin with collective investment funds including ETFs and infrastructure.
abrdn Global Equity Impact	SILVER	Mixes ESG with a clear focus on positive impact in line with the UN Sustainable Development Goals.
Aegon Global Sustainable Equity	SILVER	This fund is distinctive for its focus on investing in positive change.
Baillie Gifford Positive Change	GOLD	A concentrated impact fund with sophisticated impact reporting and an exposure to emerging markets.
BNY Mellon Sustainable Global Dynamic Bond	REVIEWED	As the name suggests, a flexible, unconstrained approach to asset allocation is adopted by this fund, with a Responsible Investment approach that focuses on encouraging improved corporate behaviour through active engagement.
BNY Mellon Sustainable Global Equity	REVIEWED	A Responsible Investment approach is adopted which combines a focus on investment in businesses that both have durable financial and competitive positions and also positively manage the material impacts of their operations.
BNY Mellon Sustainable Global Equity Income	REVIEWED	A Responsible Investment approach is adopted which combines a focus on investment in businesses that both have durable financial and competitive positions and also positively manage the material impacts of their operations. The financial mandate includes a requirement for equity income.
BNY Mellon Sustainable Real Return	REVIEWED	The fund has an absolute return style strategy, combined with a Responsible Investment approach that seeks to positively manage the material impacts of investee companies' operations whilst avoiding investments that the manager considers to carry high social or environmental costs.
Davy Low Carbon Equity	REVIEWED	Aiming to contribute to the transition to a low carbon world in two ways, by excluding all companies involved in or strongly aligned to the production and distribution of fossil fuels and by investing in companies which demonstrate sound operational practices with respect to the environment

Fund Name	3D Rating	Description
Federated Hermes Global Equity ESG	REVIEWED	A style agnostic approach is adopted that favours companies that the manager considers to be best-in-class in terms of ESG, or whose ESG profile is improving.
Federated Hermes Impact Opportunities Equity	GOLD	8 core impact themes with incorporation of ESG and active engagement.
Federated Hermes SDG Engagement Equity	REVIEWED	This fund focuses on effecting change through active interaction with investee companies to help realise some of the SDGs.
Fidelity Sustainable Water & Waste	BRONZE	Has a pure focus on water and waste and also seeks above average ESG performance whilst reporting on key impacts.
GSAM Emerging Markets Equity ESG	REVIEWED	An emerging markets equity fund seeking to deliver long-term capital growth by investing in companies which the manager either considers to be best-in-class in terms of their ESG credentials, or whose ESG profile is improving.
Impax Asian Environmental	SILVER	This Dublin fund has the highest environmental impact of any emerging markets fund, investing in Asian companies that derive at least 20% of their income from environmental activities, but in practice it is usually much more than this.
Impax Environmental Leaders	SILVER	The fund largely invests in environmental efficiency, water, waste & recycling and environmental testing stocks and follows Impax's Environmental Leaders Strategy which is quite broadly based.
Impax Environmental Markets PLC	GOLD	This is Impax's original fund, an investment fund providing wide exposure to the main environmental themes, with full impact reporting and little exposure to ethical controversies.
Impax Global Equity Opportunities	SILVER	The fund invests in companies benefiting from the transition to a more sustainable economy, with clear themes and few controversies.
Jupiter Global Sustainable Equities	SILVER	Low carbon global fund with fully integrated ESG. Clear focus on business practices and positive impact.

Fund Name	3D Rating	Description
Liontrust Monthly Income Bond	REVIEWED	A relatively high monthly income and demonstrates a preference for companies with strong ESG credentials.
Liontrust Sustainable Future Cautious Managed	REVIEWED	A mixed asset fund with a 60% allocation to global equities that benefits from good ESG management.
Liontrust Sustainable Future Corporate Bond	REVIEWED	Like other ethical corporate bond funds, there is a high weighting in financials and a relatively low social impact but the fund benefits from strong ESG analysis.
Liontrust Sustainable Future Defensive Managed	REVIEWED	A mixed asset fund with a 45% allocation to global equities that benefits from good ESG management.
Liontrust Sustainable Future European Growth	BRONZE	A leader amongst European equity funds.
Liontrust Sustainable Future Global Growth	SILVER	A global equity fund which balances thematic investment with an ESG approach.
Liontrust Sustainable Future Managed	BRONZE	A mixed asset fund with a 20% allocation to fixed interest and the remainder in equities.
Liontrust Sustainable Future Managed Growth	SILVER	A growth fund with freedom to invest without reference to asset allocation benchmarks.
Liontrust Sustainable Future UK Growth	BRONZE	Some themes evident as well as a best of sector approach.
Liontrust UK Ethical	BRONZE	Similar to the Sustainable Future UK Growth fund but avoids animal testing.

Fund Name	3D Rating	Description
LF Montanaro Better World	GOLD	A global equity fund with 6 core themes and a focus on impact.
M&G Climate Solutions	GOLD	As its name suggests, this fund invests in companies that provide solutions to the challenge of climate change, including clean energy, green technology and the circular economy.
M&G Positive Impact	GOLD	A concentrated impact fund with a bespoke impact reporting app.
M&G Sustainable Multi Asset Allocation	BRONZE	An 'all in one' fund combing multiple assets with 30% dedicated to impact equities and the rest undergoing an ESG screen.
M&G Sustainable Multi Asset Balanced	BRONZE	A multi-asset fund with 20%-60% equities with some focus on impact but mostly invested in companies with responsible business practices.
M&G Sustainable Multi Asset Cautious	BRONZE	A multi-asset fund with up to 35% equities with some focus on impact but mostly invested in companies with responsible business practices.
M&G Sustainable Multi Asset Growth	BRONZE	A multi-asset fund with up to 55% - 100% equities with some focus on impact but mostly invested in companies with responsible business practices.
Morgan Stanley Global Sustainable Balanced	REVIEWED	A multi-asset approach adopting an exclusion screen with an ESG tilt that favours companies with better than average ESG scores.
Morgan Stanley Sustainable Fixed Income Opportunities	REVIEWED	This is a global fixed income fund which combines a limited exclusions policy with an ESG tilt and some investment in Sustainable bonds.
Ninety One Global Environment	GOLD	A concentrated fund with a wholesale focus on environmental solutions and positive carbon impact.

Fund Name	3D Rating	Description
Ninety One UK Sustainable Equity	SILVER	A UK equity fund that is differentiated by its' positive impacts.
Pictet Clean Energy	BRONZE	This fund adopts an environmentally themed strategy, which focuses exclusively on companies that provide goods and services that are supportive to a low carbon economy.
Pictet Global Environmental Opportunities	SILVER	An environmental fund that seeks to keep within sustainable limits.
Pictet Global Sustainable Credit	REVIEWED	This is an ESG driven fund that seeks to invest in companies that are regarded as 'best in class' on the most relevant ESG metrics for their sector.
Pictet Nutrition	BRONZE	This is a thematic fund that seeks to invest in companies that both contribute to, and benefit from improving quality, access and sustainability of food production.
Premier Miton Global Sustainable Growth	BRONZE	The fund's primary aim is to provide capital growth over the long term. This is augmented with the statement that it is an actively managed portfolio with a focus on companies with a strong ESG profile and longer-term sustainable growth themes.
Rathbone Ethical Bond	REVIEWED	A UK corporate bond fund with rigorous exclusion criteria and a small amount in charity bonds.
Rathbone Global Sustainability	SILVER	A high conviction fund that combines ethical screening with a thematic approach based on the Sustainable Development Goals.
Regnan Global Equity Impact Solutions	GOLD	A true impact fund with every stock having a clear impact rationale.
Sarasin Responsible Corporate Bond	BRONZE	A UK corporate bond fund with a clear thematic approach.

Fund Name	3D Rating	Description
Sarasin Responsible Global Equity	BRONZE	A large cap fund which combines a thematic approach with ethical exclusions and ESG integration.
Sarasin Sustainable Global Real Estate Equity	REVIEWED	An open ended fund investing in global property shares with good ESG management.
Sarasin Tomorrow's World	BRONZE	This fund is positioned as Sarasin's most rigorously screened fund, combining a clear sustainable thematic approach with exclusion criteria and ESG traffic lighting.
Schroder Global Energy Transition	SILVER	Investing in multiple aspects of the renewable energy transition whilst avoiding fossil fuel production.
Schroder Global Sustainable Growth	BRONZE	This fund has a clear focus on sustainability with strong ESG and reporting.
Storebrand Global ESG Plus	REVIEWED	An indexed global equity fund that incorporates rigorous climate change criteria.
Storebrand Global Solutions	SILVER	An actively managed, global equity fund seeking to invest in sustainable companies whose products and/or services are positively contributing to the UN Sustainable Development Goals.
TM Home Investor	REVIEWED	Invests in residential property at the lower end of the affordability spectrum and with specific sustainability criteria.
Triodos Global Equities Impact	SILVER	A global equity fund investing in large cap stocks with a 'best of sector' approach.
Triodos Pioneer Impact	GOLD	A thematic fund investing in multiple social & environmental themes.

Fund Name	3D Rating	Description
Triodos Sterling Bond Impact	SILVER	A bond fund with a focus on positive impact.
TwentyFour Sustainable Short Term Bond Income	REVIEWED	The managers' primary aim is to deliver superior risk-adjusted returns, whilst maintaining volatility at a suitable level. They believe that they can achieve this goal through the application of both a negative and positive screen.
UBAM Positive Impact Emerging Equity	GOLD	This is a highly distinctive fund that makes a true impact in emerging markets.
UBAM Positive Impact Equity	GOLD	A concentrated impact fund that benefits from a partnership with the Cambridge Institute for Sustainability Leadership.
Wellington Emerging Market Development	BRONZE	Applying high-level exclusions, extensive ESG analysis, and engagement with company management teams, as well as the high-quality Responsible investment capability and resources at Wellington Management to enable positive change.
Wellington Global Impact	GOLD	One of the earlier impact funds with significant emerging markets exposure.
Wellington Global Impact Bond	GOLD	Each bond has a direct positive social impact and this is substantiated through a comprehensive impact report.
WHEB Sustainability	GOLD	A thematic equity fund investing in sustainability themes with excellent impact reporting.

We hope you enjoy this edition of The Good Investment Review. We would love to hear your feedback on this issue. If you have any questions or would like more information, please do not hesitate to contact us at info@squaremileresearch.com

DO GOOD · AVOID HARM · LEAD CHANGE · SQUARE MILE 3D investing

GOOD WITH MONEY
MORE MONEY, FEWER PROBLEMS