Published April 2021

The Good Investment Review

#FindingGood

DO GOOD
3D investing
LEAD CHANGE
AVOID HARM
POWERED BY SQUARE MILE

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".

3D Investing aims to meet this challenge by providing independent evidence that a fund and company lives up to its Responsible investment claims, by profiling them according to the 3D Investing framework:

Do good: By investing in solutions to global social and environmental challenges that make a significant positive contribution to the UN Sustainable Development Goals (SDGs).

Avoid harm: By not investing in companies that make a significant negative contribution.

Lead change: By engaging with investee companies, co-operation with other investors and change activists, and through informing opinion.

Our aim is to help investors, advisers and managers to identify and manage investments to achieve these aims. 3D Investing's evidence-based approach analyses the constituent holdings of each and every investment, so that investors can be confident that their money is being used in a way that really does make a positive difference.

3D investing is part of Square Mile 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

Welcome to the tenth edition of The Good Investment Review, providing you with a deep dive into the world of Responsible investment. The ongoing Covid-19 crisis has prompted a widespread reassessment of how we live our lives - from healthcare and economic wellbeing to our everyday activities and the impact they have on society and the environment. There is no doubt that this re-evaluation has extended to investments, as investors seek to understand how their money can be used for the greater good.

This edition of The Good Investment Review explores some of the important themes surrounding Responsible investment (RI). We begin by providing clarity on the terminology surrounding this style of investing, outlining how we think about and define RI, to help avoid confusion amongst investors. We continue by outlining the growth in RI funds, highlighting new funds that have entered the 3D Investing universe over the last 6 months, and how the performance of RI funds compares to their traditional counterparts.

These themes are further explored by our sponsors, with **Newton Investment Management** discussing common myths associated with this style of investing. **Liontrust** continues by highlighting key lessons learnt from 20 years of sustainable investment, followed by **Aegon Asset Management** who outlines how the UN Sustainable Development Goals (SDGs) can be used as a framework for RI themes.

Our sponsors continue by exploring the importance of ESG and RI at a company level. **Goldman Sachs** review how ESG factors are a key input into the assessment of enterprise strength in an ever-evolving business environment, with **Schroders** providing insight into company culture - why it matters, assessing its effectiveness and how it can be influenced by investors.

RI continues to move to the forefront of the asset management industry, with many calling for a kinder form of capitalism centred on the idea of conscious consumerism. Our sponsors offer insight into the investment opportunities that focus on the environmental and social issues facing the world today.

Wellington Management begins by outlining the innovation opportunities in life essentials, such as health care, affordable housing, clean water and nutritious food sources. **Regnan** (the Responsible investment affiliate of J O Hambro Capital Management) continues by discussing the solutions to move the world's agriculture and food production systems towards sustainability.

With nature under increasing stress, **Federated Hermes** outline the opportunities to reduce our impact on nature and help to conserve biodiversity. These are inextricably linked to the prevention of climate change, one of the major challenges facing the planet. With many supporting the transition to a carbon neutral world, **M&G Investments** discuss the challenges and opportunities for climate solutions over the coming decade. **Pictet Asset Management** further explore Biden's bold environmental plan and how this may reinvigorate the global fight against climate change.

The rationale for investing in decarbonisation is stronger than ever as governments are determined to reduce emissions and consumers are opting for sustainable products. **Ninety One** explore the opportunities for investing in the low-carbon revolution, and **Impax Asset Management** review China's Five Year Plan, and the role this plays as an important step on the path towards net zero.

Finally, **Pennine Wealth Solutions** outline how they view RI and how they are tackling this area of investment.

As always, please contact us if you would like to discuss any aspects of this review.

Who's who in the review

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

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

Contents

Defining 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.

Types of Responsible investment

Ethical exclusion
Avoids industries and company practices that cause harm to people or the planet.

Responsible practices
Considers the operational practices of the companies in which they invest and supports 'best practice' in their respective industries, as well as encouraging them to improve their environmental and social performance.

Sustainable solutions
Seeks to invest in companies that are providing solutions to social and environmental challenges and believes in the long-term financial benefits of doing so.

Impact investing
Wants to use their money to make a wider positive social or environmental impact as well as meeting their financial needs and wants to see evidence of the social and environmental impact.

Market update

Assets under management (AUM) in the 3D Investing universe of Responsible investment funds as of 1st March 2021 was

£221 Billion

This represents a £63 billion increase since the last issue, a 40% increase over six months. This is partly due to improvements in data collection, but also reflects the above market returns of Responsible investment funds in particular and ongoing fund launches. It is clear that there has been no let up at all in the pace of change.

314 Funds

21 funds have been added to the 3D Investing universe over the last six months, an increase of 7%. There is a clear impetus behind environmental infrastructure funds with three new launches. At the same time, there has been a move toward sustainable multi asset funds as asset managers recognise the fast-growing demand and seek to meet that with all-in-one solutions.

Fund name	3D Investing summary
ASI Multi-Asset Climate Solutions	A true multi asset fund investing in green real estate, green bonds, equities and infrastructure proving climate solutions.
BNP Paribas Energy Transition	Seeks to benefit from investing in best in class companies that are part of the energy transition.
Davy Low Carbon Equity	Invests in leaders in tackling climate change in their given sectors, while avoiding the fossil fuel industry.
Downing Renewables & Infrastructure Trust	A diversified clean energy infrastructure trust.
Federated Hermes SDG Engagement Equity	This fund aims to deliver positive societal and environmental impacts through engagements with companies focused on the UN SDGs. The emphasis is on change and investors should be aware that the portfolio is exposed to controversial areas.
Home REIT PLC	This fund invests in housing for the homeless.

Fund name	3D Investing summary
JP Morgan Emerging Markets Sustainable Equity	An emerging markets fund seeking to invest in companies with better ESG performance.
M&G Climate Solutions	An impact fund that invests in companies providing solutions to climate change.
M&G Sustainable Multi Asset Balanced	A multi asset fund with 20% to 60% equities with some focus on impact but mostly invested in companies with Responsible investment business practices.
M&G Sustainable Multi Asset Cautious	A multi asset fund with up to 35% equities with some focus on impact but mostly invested in companies with Responsible investment business practices.
M&G Sustainable Multi Asset Growth	A multi asset fund with up to 55% to 100% equities with some focus on impact but mostly invested in companies with Responsible investment business practices.
Morgan Stanley Global Balanced Sustainable	A multi asset ESG fund aligned with the 1.5°C climate target.
Morgan Stanley Sustainable Fixed Income Opportunities	Invests in government and corporate bonds with some exclusions and minimum ESG credentials for sovereign debt.
NN (L) Green Bond	An impact fund of hypothecated bonds whose proceeds are used for verified environmental purposes.
NN (L) Green Bond Short Duration GBP Hedged	An impact fund of hypothecated short-dated bonds whose proceeds are used for verified environmental purposes.
Pictet Nutrition	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.
Regnan Global Equity Impact Solutions	A true impact fund with every stock having a clear impact rationale.
Residential Secure Income PLC	This fund invests in social housing, shared ownership and retirement housing with impact reporting.
Triodos Sterling Bond Impact	Combines a Responsible investment approach with sustainable themes.
Triple Point Energy Efficiency Infrastructure Company	Invests in energy efficiency projects in the UK.
VH Global Sustainable Energy Opportunities	A diverse renewable infrastructure fund.

There have been a number of IPOs of investment trusts in the renewables and energy efficiency markets. With existing clean energy funds at sizeable premiums to net asset value, these present a chance to access this growing market without paying such hefty premiums. Both the VH Global Sustainable Energy Opportunities Trust and the Downing Renewables & Infrastructure Trust have broader remits than most of the existing trusts. As the clean energy market matures, there is a much lower emphasis on government subsidies, which are being phased out, and the scope is more global and diversified in terms of technologies. There is also exposure to energy efficiency projects, which is the basis for Triple Point's recent Energy Efficiency Infrastructure Company.

Another successful IPO was the launch of the Home REIT. This is a fund investing in housing for the homeless and formed in partnership with housing charity, Shelter.

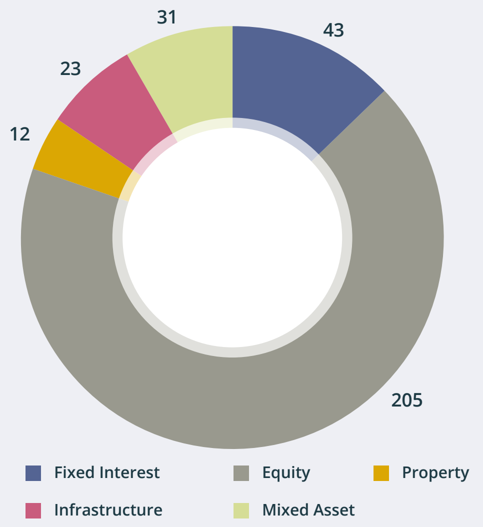
There has been no let up on the climate theme which continues to accelerate, with two new funds wholly focused on solutions to climate change. The M&G Climate Solutions fund is an equity fund that adopts the same impact methodology as the existing M&G Positive Impact fund but solely invests in clean energy, green technology and the circular economy. In contrast, the ASI Multi Asset Climate Solutions fund is a true multi asset fund, investing in clean energy infrastructure, green real estate and green bonds as well as equities. The fund is a partnership with The Big Issue Group, who provide guidance in the form of an impact committee and benefit from a share of the management fee, thereby supporting the work of The Big Issue.

The multi asset theme has been further embraced by M&G with the launch of three new funds that invest in equities, government bonds, corporate bonds, infrastructure and cash. They adopt a positive ESG tilt whereby securities with higher ESG standards are preferred, with a net exposure to holdings with an improving ESG score. This is combined with a climate focus that excludes harmful sectors and requires a significantly lower carbon intensity than the peer average. In addition, 20% to 50% of the portfolio is invested with a positive impact objective.

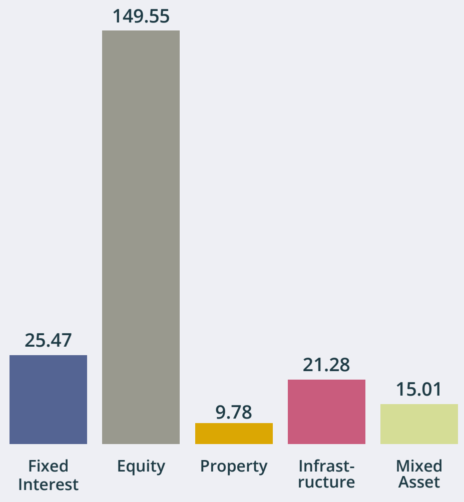
Two further impact funds have been launched, including the Triodos Sterling Bond Impact fund, as featured in the previous issue of **The Good Investment Review**, and the Regnan Global Impact Solutions fund. Regnan may be an unfamiliar name to many, given that the company was formerly concerned with engagement, but is now the impact investing arm of J O Hambro Capital Management. The fund is run along similar lines to the Federated Hermes Impact Opportunities fund, which is unsurprising given that the manager formerly ran the latter fund.

Two thirds of the funds remain invested in equity, both in terms of numbers of funds and assets under management. In the favourable markets, equity funds have grown by more than the other asset classes, with 9 out of 21 new funds being equity based.

Fund Distribution by Asset Class (No.of funds)

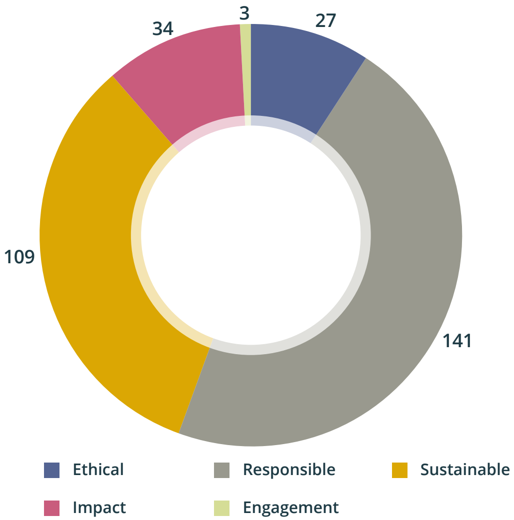


Fund Distribution by Asset Class (AUM £Billion)

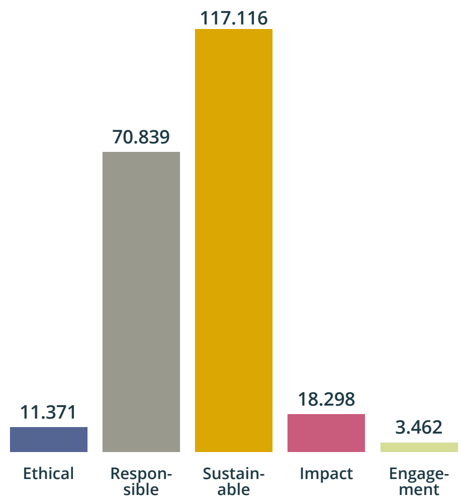


Funds focusing on Responsible investment practices and sustainable solutions are by far the most prevalent, both in terms of funds under management and by number of funds. Over the last six months, the growth in terms of numbers of new funds has largely come from sustainable solutions funds. It is also notable that the number of impact funds in the 3D Investing universe now outnumbers the number of funds based on ethical exclusion, with sustainable funds making up the lion's share of new fund launches.

Fund Distribution by Approach* (No. of funds)



Fund Distribution by Approach* (AUM £Billion)



*Please refer to page 6 for a detailed description for the approaches referenced above, an overview is provided below:

Ethical exclusion: Avoiding companies on the basis of pre-determined ethical criteria.

Responsible practices: Mitigating harmful impacts by supporting social and environmental best practice.

Sustainable solutions: Focus on investment in environmental or social solutions.

Impact investing: Must be intentional and measure the impact as well as investing in companies that make a positive impact.

Engagement: Effecting change through dialogue with management.

3D accredited funds

3D Investing accreditations provide an extensive, evidence-based audit, offering an independent verification of a fund or company's Responsible investment credentials and credibility.

What to expect

3D CORPORATE CERTIFICATION
An independent audit of the quality of ESG standards of an asset manager, helping to identify leaders in Responsible investment.

3D FUND CERTIFICATION
An independent verification of the extent to which funds meet their Responsible investment objectives.

3D IMPACT RATING
An additional rating for certified funds that meet a minimum threshold for positive social and environmental impact.

Below are the range of funds that have a 3D Investing accreditation, certifying the extent to which Responsible investment funds do good, avoid doing harm and lead change. (as at 31st March 2021)

Fund	Accreditation	Description
7IM Sustainable Balance	Certified Fund	This fund combines a portfolio of direct stocks managed by Sarasin with collective investment funds including ETFs and infrastructure.
Aegon Global Sustainable Equity	AA	This fund is distinctive for its focus on investing in positive change.
ASI Global Equity Impact	AA	Mixes ESG with a clear focus on positive impact in line with the UN Sustainable Development Goals.
Baillie Gifford Positive Change	AAA	A concentrated impact fund with sophisticated impact reporting and an exposure to emerging markets.

Fund	Accreditation	Description
BNY Mellon Sustainable Global Dynamic Bond	Certified Fund 3D	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	Certified Fund 3D	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	Certified Fund 3D	Combining 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	Certified Fund 3D	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.
Federated Hermes Impact Opportunities	AAA 3D	Eight core impact themes with incorporation of ESG and active engagement.
Fidelity Sustainable Water & Waste	A 3D	Has a pure focus on water and waste and also seeks above average ESG performance whilst reporting on key impacts.
Impax Asian Environmental Markets	AA 3D	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.

Fund	Accreditation	Description
Impax Environmental Leaders	AA 3D	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	AAA 3D	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	AA 3D	The fund invests in companies benefiting from the transition to a more sustainable economy, with clear themes and few controversies.
Jupiter Global Sustainable Equities	AA 3D	Low carbon global fund with fully integrated ESG. Clear focus on business practices and positive impact.
Liontrust Monthly Income Bond	A 3D	A relatively high monthly income and demonstrates a preference for companies with strong ESG credentials.
Liontrust Pan European Growth	AA 3D	This fund is a leader amongst sustainable European equity funds and is the Euro denominated version of the fund.
Liontrust SF Cautious Managed	A 3D	A mixed asset fund with a 60% allocation to global equities that benefits from good ESG management.
Liontrust SF Corporate Bond	A 3D	Like other ethical corporate bond funds, there is a high weighting in financials and a relatively low social impact but the fund benefits from strong ESG analysis.
Liontrust SF Defensive Managed	A 3D	A mixed asset fund with a 45% allocation to global equities that benefits from good ESG management.
Liontrust SF European Corporate Bond	A 3D	One of only a few funds to provide exposure to European bonds with evidence of 'best of sector' ESG selection.
Liontrust SF European Growth	AA 3D	A leader amongst European equity funds.

Fund	Accreditation	Description
Liontrust SF Global Growth	AAA	A global equity fund which balances thematic investment with an ESG approach.
Liontrust SF Managed	A	A mixed asset fund with a 20% allocation to fixed interest and the remainder in equities.
Liontrust SF Managed Growth	AA	A growth fund with freedom to invest without reference to asset allocation benchmarks.
Liontrust SF UK Growth	AA	Some themes evident as well as a best of sector approach.
Liontrust UK Ethical	A	Similar to the SF UK Growth fund but avoids animal testing.
M&G Climate Solutions	AAA	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	AAA	A concentrated impact fund with a bespoke impact reporting.
M&G Sustainable Multi Asset	A	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	A	A multi asset fund with 20% to 60% equities with some focus on impact but mostly invested in companies with Responsible investment business practices.
M&G Sustainable Multi Asset Cautious	A	A multi asset fund with up to 35% equities with some focus on impact but mostly invested in companies with Responsible investment business practices.
M&G Sustainable Multi Asset Growth	A	A multi asset fund with up to 55% to 100% equities with some focus on impact but mostly invested in companies with Responsible investment business practices.

Fund	Accreditation	Description
Montanaro Better World	AAA	A global equity fund with six core themes and a focus on impact.
Ninety One Global Environment	AAA	A concentrated fund with a wholesale focus on environmental solutions and positive carbon impact.
Ninety One UK Sustainable Equity	AA	A UK equity fund that is differentiated by its positive impacts.
Pictet Clean Energy	A	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	AA	An environmental fund that seeks to keep within sustainable limits.
Pictet Global Sustainable Credit	CERTIFIED FUND	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	A	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.
Rathbone Ethical Corporate Bond	CERTIFIED FUND	A UK corporate bond fund with rigorous exclusion criteria and a small amount in charity bonds.
Rathbone Global Sustainability	AA	A high conviction fund that combines ethical screening with a thematic approach based on the UN Sustainable Development Goals.
Regnan Global Equity Impact Solutions	CERTIFIED FUND	A true impact fund with every stock having a clear impact rationale.
Sarasin Responsible Corporate Bond	AA	A UK corporate bond fund with a clear thematic approach.
Sarasin Responsible Global Equity	AA	A large cap fund which combines a thematic approach with ethical exclusions and ESG integration.

Fund	Accreditation	Description
Sarasin Sustainable Global Real Estate Equity	AAA 3D	An open ended fund investing in global property shares with good ESG management.
Schroder Global Energy Transition	AA 3D	Investing in multiple aspects of the renewable energy transition whilst avoiding fossil fuel production.
Schroder Global Sustainable Growth	A 3D	This fund has a clear focus on sustainability with strong ESG and reporting.
Storebrand Global ESG Plus	Certified Fund 3D	An indexed global equity fund that incorporates rigorous climate change criteria.
Storebrand Global Solutions	AA 3D	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	Certified Fund 3D	Invests in residential property at the lower end of the affordability spectrum and with specific sustainability criteria.
Triodos Global Equities Impact	AA 3D	A global equity fund investing in large cap stocks with a 'best of sector' approach.
Triodos Pioneer Impact	AAA 3D	A thematic fund investing in multiple social & environmental themes.
Triodos Sterling Bond Impact	AA 3D	A bond fund with a focus on positive impact.
UBAM Positive Impact Emerging Equity	AAA 3D	This is a highly distinctive fund that makes a true impact in emerging markets.
UBAM Positive Impact Equity	AAA 3D	A concentrated impact fund that benefits from a partnership with the Cambridge Institute for Sustainability Leadership.
Wellington Global Impact	AAA 3D	One of the earlier impact funds with significant emerging markets exposure.
Wellington Global Impact Bond	AAA 3D	Each bond has a direct positive social impact and this is substantiated through a comprehensive impact report.
WHEB Sustainability	AAA 3D	A thematic equity fund investing in sustainability themes with excellent impact reporting.

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 the three of the most commonly used sectors – namely IA UK All Companies, IA Global and IA Sterling Corporate Bond sectors. We have compared Responsible investment (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 performance, against the sector as a whole.

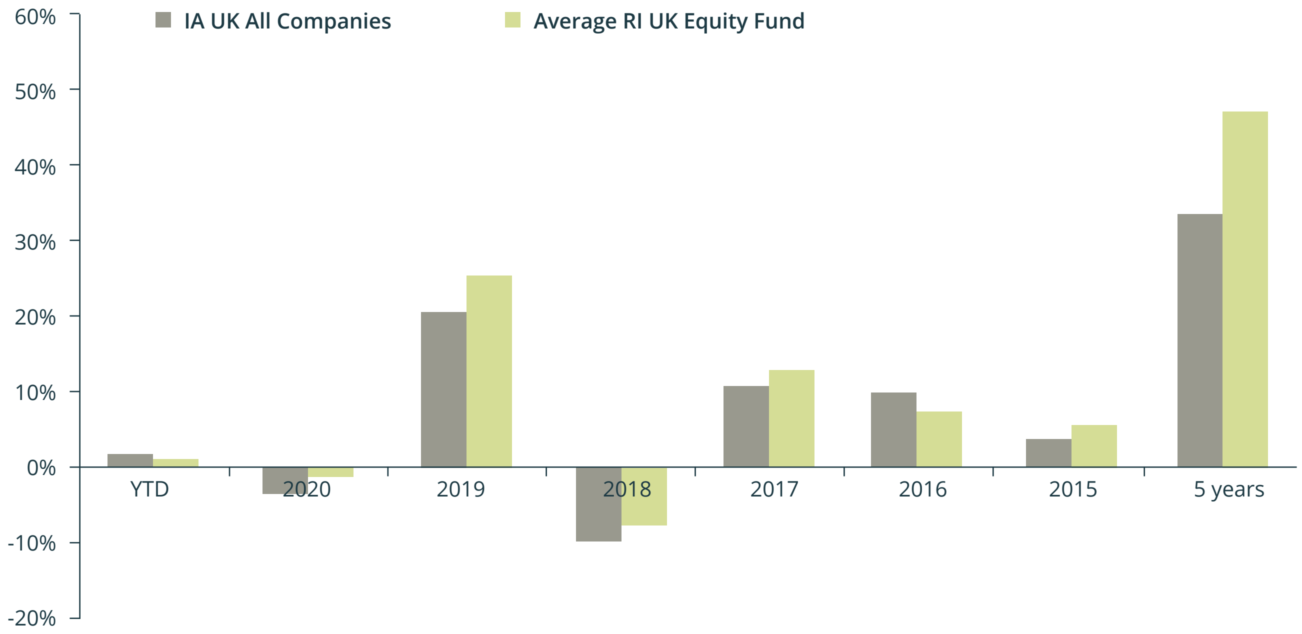
The evidence continues to show that positive impact need not come at the expense of financial returns, and, if anything, investing for positive impact can improve returns.

UK Equities

Fund Name	YTD	2020	2019	2018	2017	2016	2015	5 years
Aegon Ethical Equity	-0.64%	-1.56%	30.33%	-18.03%	12.66%	-1.01%	12.77%	25.98%
ASI UK Ethical Equity	0.81%	-8.82%	32.45%	-14.81%	23.99%	-0.48%	14.80%	37.64%
ASI UK Impact Employment Opportunities Equity	1.50%	-6.03%	41.13%					
ASI UK Responsible Equity	-0.20%	1.44%	32.19%	-6.27%	12.29%	21.22%	-3.38%	75.70%
BMO Responsible UK Equity	-1.00%	-5.94%	22.14%	-7.81%	18.71%	7.45%	6.40%	40.96%
CFP Castlefield B.E.S.T Sustainable UK Smaller Companies	9.12%	2.49%	25.46%	-13.84%	30.62%	9.08%	18.07%	87.11%
Castlefield BEST UK Opportunities	0.82%	-5.53%	17.07%	-0.80%	9.79%	3.82%	7.44%	31.16%
EdenTree Responsible and Sustainable UK Equity	0.51%	-6.30%	25.60%	-12.89%	11.88%	3.60%	7.60%	23.95%
Jupiter Responsible Income	0.05%	-8.28%	21.02%	-13.11%	8.43%	6.96%	0.87%	16.61%
Liontrust Sustainable Future UK Growth	1.22%	5.34%	30.21%	-6.65%	20.74%	8.05%	9.75%	76.69%
Liontrust UK Ethical	1.00%	2.81%	37.83%	-7.31%	22.52%	4.53%	10.56%	77.60%
Ninety One UK Sustainable Equity	-1.10%	8.51%	33.62%					
Premier Miton Ethical	-0.54%	9.70%	37.62%	-17.44%	17.88%	3.20%	13.30%	61.96%
Schroder Responsible Value UK Equity	6.12%	-14.41%	10.40%	-0.14%	6.45%	27.28%	-4.23%	34.08%
Threadneedle UK Sustainable Equity	-0.09%	-0.84%	21.13%	-7.38%	13.52%	6.26%		40.30%
IA UK All Companies	2.06%	-6.01%	22.24%	-11.19%	13.99%	10.82%	4.86%	37.07%
Average RI UK Equity Fund	1.17%	-1.83%	27.88%	-9.73%	16.11%	7.69%	7.83%	48.44%

Outperformed sector average

Data as at 1st March 2021. Total return with net income re-invested.
Source: Financial Express



Data as at 1st March 2021. Total return with net income re-invested.
Source: Financial Express

The relative performance of Responsible investment UK Equity funds compared to the UK Equity market as a whole has, by and large, been strong, with continued relative outperformance since the Covid-19 pandemic. The absolute performance of UK Equity funds has been weaker than their global counterparts over the past 5 years, with concerns over Brexit and now Coronavirus, hanging heavy on the market. However, Responsible investment funds have delivered significantly better returns, on average, over this period. The small sample size must be treated with caution and the outperformance can be, to some extent, explained by the large underweight in large fossil fuel companies which make up a significant portion of the FTSE100 Index but which are largely absent from Responsible investment funds in the sector.

Global Equities

Fund Name	YTD*	2020	2019	2018	2017	2016	2015	5 years
AB SICAV I - Sustainable Global Thematic Portfolio	-1.30%	34.24%	23.90%	-8.03%	32.33%	14.57%	0.49%	138.95%
Aegon Global Sustainable Equity	4.94%	57.61%	38.16%	-8.11%	20.24%			
Allianz Global Sustainability	-1.88%	13.26%	27.50%	-3.53%	14.59%			
ASI Global Equity Impact	-1.98%	23.13%	23.33%	-10.16%				
ASI Global Ethical Equity	-0.17%	14.10%	19.59%	-5.67%	12.96%	30.46%	-10.59%	87.43%
Baillie Gifford Positive Change	3.45%	80.08%	25.86%	5.38%				
BlackRock SF Systematic ESG World Equity	0.19%	14.92%	24.62%	-4.10%	14.78%	27.78%		104.22%
BMO Responsible Global Equity	-1.78%	19.79%	28.37%	-4.45%	16.64%	22.20%	8.36%	108.69%
BMO SDG Engagement Global Equity	2.00%	15.74%						

Outperformed sector average

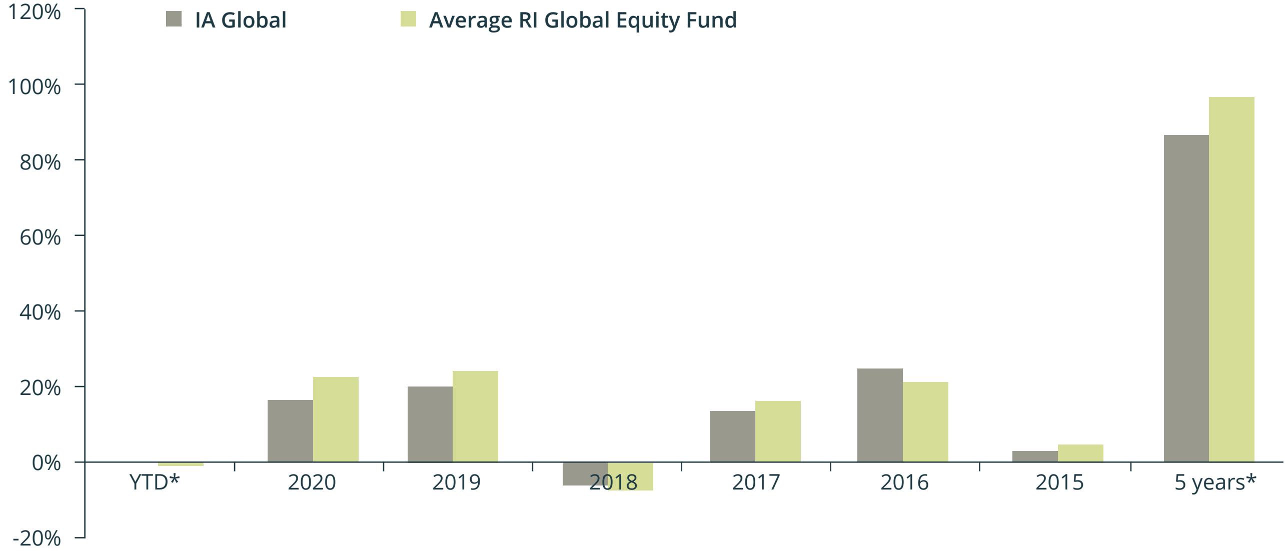
Fund Name	YTD*	2020	2019	2018	2017	2016	2015	5 years
BMO Sustainable Opportunities Global Equity	-2.61%	22.49%	29.52%	-1.80%	17.94%	21.86%		121.52%
BNP Paribas Climate Impact	0.02%	29.16%	29.44%	-7.36%	13.51%	34.59%	4.96%	135.85%
BNP Paribas Global Environment	-1.67%	20.74%	22.24%	-8.88%	15.52%	32.34%	2.97%	103.26%
BNY Mellon Sustainable Global Equity	-0.82%	19.62%	28.08%					
Brown Advisory Global Leaders Sustainable	0.72%	16.96%						
Candriam SRI Equity World	-0.41%	14.53%	21.72%	-4.40%	6.89%	27.84%	3.67%	83.87%
C WorldWide Global Equities Ethical	-2.40%	20.27%	26.75%	-0.24%	16.72%	8.44%	10.84%	99.92%
Davy ESG Equity	-1.57%	13.47%	23.69%	-0.55%	11.27%			88.23%
EdenTree Responsible and Sustainable Global Equity	3.22%	10.81%	18.14%	-10.51%	13.46%	23.48%	-3.40%	70.35%
FF Sustainable Water & Waste	-1.79%	7.54%	25.98%					
FP WHEB Sustainability	-3.20%	20.01%	21.03%	-6.00%	16.07%	19.43%	7.06%	85.58%
GS Global Equity Partners ESG Portfolio	-0.96%	17.28%	25.27%	-1.96%	11.68%	20.56%	1.81%	100.64%
GSI Global Sustainable Value	1.26%	6.23%	20.21%	-7.09%	8.60%	27.82%		67.54%
Federated Hermes Global Equity	0.55%	15.46%	21.29%	-8.21%	12.94%	26.29%	6.37%	86.30%
Federated Hermes Impact Opportunities	-0.88%	24.20%	25.60%	0.77%				
Impax Environmental Leaders	-1.48%	21.38%	22.95%	-9.04%	14.60%			105.98%
Impax Environmental Markets	1.78%	25.53%	26.49%	-8.85%	12.59%	34.07%	3.99%	121.86%
Impax Global Equity Opportunities	-1.69%	18.35%	26.97%	0.33%	21.19%	19.38%		120.64%
Janus Henderson Global Sustainable Equity	-1.86%	32.98%	32.57%	-6.32%	18.73%	21.81%	3.91%	140.92%
JSS Sustainable Equity - Global Climate 2035	-2.41%	10.04%	22.20%	-5.62%	7.15%	25.12%	-0.85%	67.47%
Jupiter Ecology	-1.52%	20.55%	26.06%	-14.55%	12.87%	20.25%	3.77%	75.40%
Jupiter Global Sustainable Equities	-3.31%	18.82%	29.18%					
Kempen (Lux) Global Sustainable Value Creation	2.11%	15.61%	27.64%					
Liontrust Sustainable Future Global Growth	-2.15%	32.30%	29.45%	1.27%	18.81%	17.28%	6.46%	142.26%

Outperformed sector average

Fund Name	YTD*	2020	2019	2018	2017	2016	2015	5 years
M&G Positive Impact	-2.19%	22.06%	28.73%					
Mirova Funds - Mirova Global Sustainable Equity Fund	-2.60%		26.87%	-1.48%	17.81%	18.29%	11.41%	
LF Montanaro Better World	-1.96%	35.78%	29.80%					
Ninety One Global Environment	-3.48%	47.76%						
NN (L) Global Equity Impact Opportunities	-4.12%	20.87%	22.81%	-6.18%	21.29%	14.72%	3.32%	92.63%
Nordea 1 Global Climate and Environment	-0.09%	27.20%	32.03%	-12.14%				
Pictet Global Environmental Opportunities	-2.57%	30.76%	34.54%	-11.92%	21.50%	23.47%	5.48%	127.80%
Quilter Investors Ethical Equity	0.00%	11.84%	27.21%	-15.45%	11.96%	28.99%	2.88%	71.15%
Rathbone Global Sustainability Fund	-3.03%	32.22%	24.81%					
Sarasin Responsible Global Equity	-1.28%	19.09%	30.40%	-9.48%	21.39%	-1.02%	1.78%	109.34%
Schroder ISF Global Climate Change Equity	-1.70%	45.84%	19.70%	-5.87%	18.52%	21.81%	7.22%	142.76%
Schroder ISF Global Sustainable Growth	1.51%	24.59%	28.03%					
Smart Data Equity	1.55%	12.89%	21.68%	-15.02%	21.41%	-12.19%		45.29%
Sparinvest Ethical Global Value	5.19%	2.62%	14.83%	-9.79%	12.92%	31.74%	9.04%	67.81%
Stewart Investors Worldwide Sustainability	-1.43%	19.90%	11.49%	-0.27%	13.77%	26.63%	5.38%	86.51%
Storebrand Global Solutions Lux	-2.23%	33.95%						
Triodos Global Equities Impact	-3.56%	12.41%	17.72%	-0.87%	13.75%	12.72%	10.37%	66.83%
Triodos Pioneer Impact	-1.70%	28.75%	28.31%	-10.32%	15.48%	8.05%	12.13%	86.58%
UBS (Lux) Equity Fund - Global Sustainable (USD)	1.48%	15.69%	23.33%	-2.47%	13.31%	28.68%	-0.33%	113.19%
UBS (Lux) Equity SICAV - Global Impact (USD)	0.28%	12.56%	17.42%	-8.91%				
Wellington Global Impact	0.81%	27.40%	24.88%	-12.25%				
IA Global	0.34%	15.27%	21.92%	-5.72%	14.02%	23.33%	2.77%	90.67%
Average RI Global Equity Fund	-0.72%	22.86%	25.17%	-6.19%	15.70%	21.17%	4.39%	98.99%

Outperformed sector average

Data as at 1st March 2021. Total return with net income re-invested.
Source: Financial Express



Data as at 1st March 2021. Total return with net income re-invested.
Source: Financial Express

Like their UK Equity counterparts, Global Equity Responsible investment funds have outperformed the sector average over the last 5 years, with the average Responsible investment fund having outperformed the IA Global average in 4 out of the last 5 years. It is telling that the more thematically driven funds have yielded the best returns and that there is no trade-off between positive impact and financial returns. If anything, the reverse appears to be the case, with sustainability-driven funds benefitting from long-term tailwinds and avoiding some of the environmental and social headwinds.

Sterling Corporate Bonds

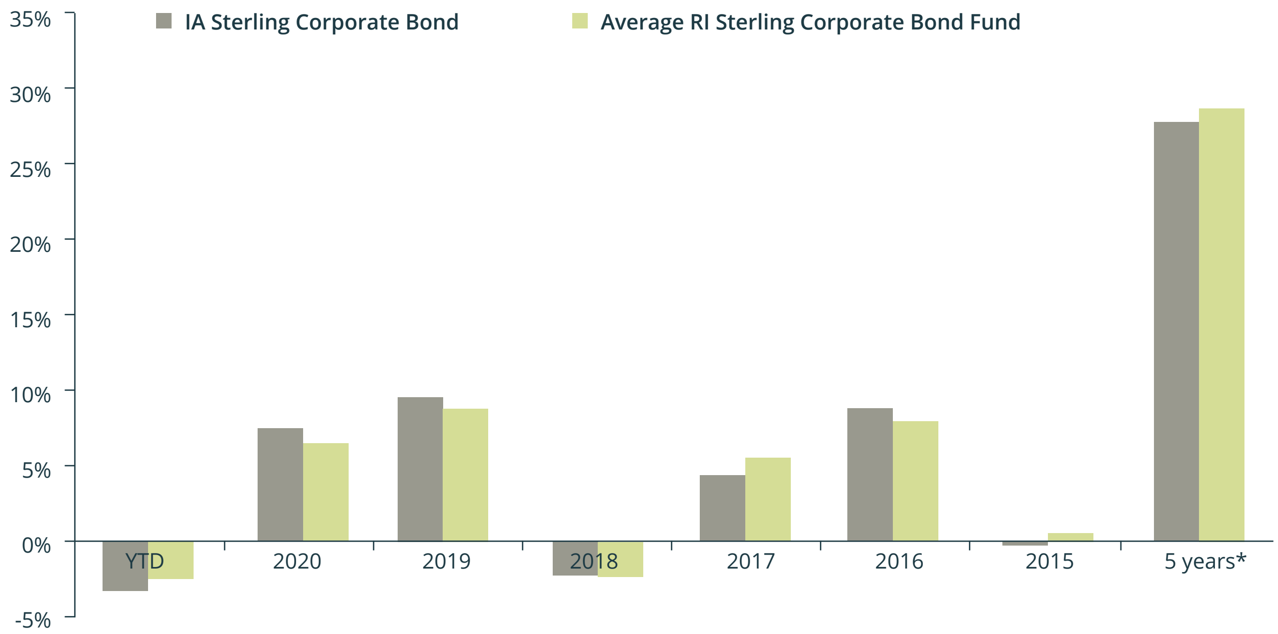
Fund Name	YTD	2020	2019	2018	2017	2016	2015	5 years*
Aegon Ethical Corporate Bond	-3.09%	7.29%	8.09%	-2.38%	3.96%	7.71%	0.84%	22.57%
ASI Ethical Corporate Bond	-4.00%	7.61%	9.91%	-3.34%	4.79%	9.14%	-0.39%	26.18%
BMO Responsible Sterling Corporate Bond	-4.32%	7.30%	8.09%	-2.53%	3.56%	8.52%	-0.81%	21.04%
BNY Mellon Sustainable Sterling Bond	-3.45%	7.29%	8.82%					
EdenTree Responsible and Sustainable Short Dated Bond	-0.64%	2.29%	2.88%	-0.39%				
EdenTree Responsible and Sustainable Sterling Bond	-1.42%	5.74%	8.01%	-2.80%	8.07%	4.79%	0.04%	25.75%
Liontrust Monthly Income Bond	-0.93%	5.51%	9.42%	-3.02%	8.81%	9.49%	1.46%	37.58%
Liontrust Sustainable Future Corporate Bond	-2.91%	7.02%	11.77%	-3.65%	7.25%	10.47%	0.89%	35.80%
Rathbone Ethical Bond Fund	-2.38%	8.94%	12.27%	-3.08%	10.54%	7.07%	1.58%	39.37%

Outperformed sector average

Fund Name	YTD	2020	2019	2018	2017	2016	2015	5 years*
Royal London Ethical Bond	-2.91%	7.71%	10.02%	-1.27%	6.78%	8.79%	0.55%	32.04%
Royal London Sustainable Managed Income Trust	-3.63%	8.13%	9.28%	-0.93%	5.46%	8.87%	0.36%	29.41%
Sarasin Responsible Corporate Bond	-4.00%	9.26%	9.36%	-2.33%	4.89%			
Threadneedle UK Social Bond	-1.79%	4.49%	5.57%	-0.50%	3.68%	9.21%	-0.01%	20.36%
IA Sterling Corporate Bond	-3.31%	7.77%	9.49%	-2.22%	5.06%	9.08%	-0.27%	28.27%
Average RI Sterling Corporate Bond Fund	-2.73%	6.82%	8.73%	-2.18%	6.16%	8.40%	0.45%	29.01%

Outperformed sector average

Data as at 1st March 2021. Total return with net income re-invested.
Source: Financial Express



The performance of Responsible investment Sterling Corporate Bond funds has been more mixed. However, in absolute financial terms there is very little to distinguish Responsible investment Sterling Corporate Bond funds from their conventional counterparts.

Data as at 1st March 2021. Total return with net income re-invested.
Source: Financial Express

Feature Article: Walking the walk

With an increasing number of asset managers waving the Responsible investment flag, investors and advisers seek to understand how these factors are integrated beyond opportunistic product pushes. How can you tell whether a company really 'walks the walk' when it comes to Responsible investment?

The desire to know more about the company providing a product is reflected in public concern over how goods are produced. From organic and fair trade, to boycotting companies associated with sweatshops, consumers want to know what sort of company they are really dealing with, as well as the sort of product they are buying.

This is all quite logical. After all, what is the point in buying a product on the basis of its ethical or eco credentials when the rest of the products made by the manufacturer are harmful?

This extends to investment products. Research from financial advisers conducted over the last quarter of 2020, found that over three quarters (79.8%) of those surveyed believe ESG and Responsible investment should be integral to a company's culture. As asset managers continue to launch new products in this space, advisers and investors want to know that the company offering a Responsible investment fund is responsible in the way that it conducts the rest of its business.

> "Advisers and investors want to know that the company offering a Responsible investment fund is responsible in the way that it conducts the rest of its business."

So how do you tell whether a company is really responsible? This is the question that 3D Investing and Square Mile have sought to address in the launch of a new Corporate Certification scheme. This is a form of audit of an investment provider to demonstrate the extent to which the provider 'walks the walk' in terms of Responsible investment. Asset managers can be very good at showcasing specific Responsible investment initiatives, but this does not always tell the whole story, nor does it provide a consistent way of comparing asset managers and identifying who are the true leaders. In order to do this, a clear framework is required which does not just look at processes but considers the outcomes of these processes. It also demands clear metrics that cannot be fudged.

In practice we assess four key areas, awarding Bronze, Silver and Gold Ratings for each, with a certified company being able to display a certification label, as well as using a detailed report to demonstrate independent verification of its commitment to Responsible investment. These can be summarised as follows:

RI Capability

What investment has the asset manager made in Responsible investment systems and staff, going beyond bought-in ratings; and what level of confidence do we have in their ability to conduct holistic ESG assessments?

RI Commitment

Does the asset manager practice what it preaches in terms of internal operational practices, such as paying its fair share of tax, a commitment to zero carbon targets and the procurement of renewable energy and philanthropy? What proportion of total assets are invested in Responsible investment vehicles (SFDR Article 8 or 9)? Is there a clear and codified commitment to Responsible investment in the asset manager's culture?

Leading Change

Is there evidence of systematic engagement with investee companies and what evidence has the asset manager provided to demonstrate systematic monitoring of progress and change? Is engagement a risk management exercise or is it also undertaken to effect positive change? Is the asset manager a leader or a follower, in terms of the promotion of Responsible investment and participation in wider initiatives? Does the asset manager disclose the rationale for voting decisions and what is the extent of any votes against environmental and social issues?

RI Reporting and Communication

How substantive is the evidence of engagement, voting and sustainable outcomes; and does the reporting demonstrate consistent commitment across the group? What level of confidence do we have in the quantity, accessibility, depth and breadth of reporting?

By John Fleetwood
Director of Responsible and Sustainable Investing at Square Mile and 3D Investing Founder

Breaking the myths

With Responsible investing and environmental, social and governance (ESG) factors getting more attention now than ever before, it's important to demystify some of language involved and explore some of the questions that arise when looking at this area of investing.

BNY MELLON
INVESTMENT MANAGEMENT

Why is ESG investing important?

For a range of reasons. For some it's because investors want to play their part in building a fairer, more sustainable world – and they understand the importance of environmental, social and governance issues in creating that. But there's also an increasing body of evidence that suggests a focus on ESG considerations can boost a fund's performance. Certainly it may help avoid exposure to problems that can lead to falls in a company's value. Just look at corporate scandals – from oil spills to data breaches – to see the damage caused to share price of their businesses. In some cases they can even go out of business.

What is an ESG fund?

An ESG fund is an investment portfolio in which environmental, social and governance factors have been integrated into the process used to buy and sell companies (or in the case of bonds[1], the debt of companies). This means the selections of stocks and companies in the fund have usually passed tests or have been analysed on how sustainable they are regarding ESG. However, fund management groups don't all follow the same process, so just because a fund has a label denoting it as sustainable or an ESG one, doesn't mean it has used as vigilant a process as another.

Does an ESG fund mean it's environmentally friendly? Are they like ethical funds?

Not necessarily. ESG are factors in analysing companies, they are not moral judgements on what the company does as a business. One fund, for instance, might avoid any company engaged in the oil and gas sector; another might invest in those kinds of companies as long as they're working towards sustainable solutions. And the environment is just one aspect of ESG. Some companies you may not consider to be environmentally friendly but are well-rated when it comes to their social or governance actions.

What is Responsible investment?

Responsible investment is an approach that recognises and takes into consideration the importance of ESG factors. The latter is a component of the former – if Responsible investment was a house, ESG would be a room in it. Investors adopting this approach believe the generation of long-term sustainable returns depends on stable, well-functioning and well governed environmental, social and economic systems. They also show stewardship as they promote active ownership on behalf of the clients.

What is active engagement?

This is when owners of a company's shares or bonds – investors – talk with its management to try to persuade the adoption, or cessation of certain actions. In ESG terms, that might mean persuading them to take climate change seriously, or to have more diversity on their boards. It could also mean rejecting a CEO's pay package or persuading a company to be more open about its working practices. In this way, owners of shares in a company – or owners of its debt – have significant powers to influence behaviours. Think of it as the power to nudge a company to act in a more responsible, sustainable way.

> "Think of active engagement as the power to nudge a company to act in a more responsible, sustainable way."

How can I compare one ESG fund with another?

Not easily. You can compare their performance, certainly. But even if they are invested in the exact same market, they may have two completely different approaches to ESG analysis. For instance, one may have an in-house team that specialises in it; another may invest only in those constituents of an ESG index. This would give the two funds a far different universe of companies from which to select. However, governments and regulators worldwide are recognising this problem. Work on a common set of standards is underway in many places, which would help investors to get more information and greater transparency.

What are SDGs? Why do they matter?

Sustainable Development Goals (SDGs) are 17 specific measures of economic development designed to maintain a balance of environmental and social needs and address shortfalls in areas such as poverty and gender equality. These UN-backed aspirational goals are aimed at making the world a better place by 2030. They include: zero hunger, no poverty, affordable and clean energy and quality education. Today some investment funds have been built around these goals, investing in companies that aim to make the aspirations in the SDGs a reality. Again, as ESG and impact are rooms in the house of Responsible investment, so too is SDG.

What is the importance of the Paris Accord (Agreement)?

It is an important international treaty designed to tackle climate change. The agreement came into effect in November 2016. Its central aim, driven by concerns over global warming, is to strengthen the international response to the threat of climate change by keeping a global temperature rise this century well below two degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The agreement was signed by 197 countries parties and ratified by 187.[2]

By Andrew Parry
Head of Sustainable Investment at
Newton Investment Management

1 Bonds: A loan of money by an investor to a company or government for a stated period of time in exchange for a fixed interest rate payment and the repayment of the initial amount at its conclusion.

2 As of November 2019. Source Encyclopaedia Britannica. 2020

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

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Lessons from 20 years of Sustainable investment

Over the 20 years we have been running the Liontrust Sustainable Future (SF) funds, the key lesson proved, rather than learned, is that integrating sustainability into stock selection can enhance returns.

LIONTRUST

At launch in 2001, our goal was to deliver strong performance by investing in sustainable companies and also engaging with these businesses to encourage best practice on environmental and social issues. At the time, these were radical notions: most investors were certain incorporating impact into investment was a distraction at best and, at worst, guaranteed to deliver worse returns. The prevailing mindset remained in line with Milton Friedman's dictum that the business of business is business, meaning shareholders should care only about profit maximisation and not worry about how it is achieved.

Today, the picture is very different with almost all listed companies reporting on corporate social responsibility and ESG. A landmark came in 2019 when the usually conservative US Business Roundtable issued a statement on the purpose of corporations. The Roundtable periodically sends out Principles of Corporate Governance and each version since 1997 had endorsed shareholder primacy – that businesses exist principally to serve shareholders. In 2019, they moved away from this and included a commitment to all stakeholders, not just shareholders but also customers, employees, suppliers and wider communities.

Over the years, the key to our performance has been investing in companies that have been successful because they help to make our world cleaner, healthier and safer. We have provided capital to companies, for example, that are decarbonising electricity generation, developing innovative vaccines, building our communication infrastructure and making roads safer. These highlight the importance of identifying structural growth and we continue to believe investors underestimate the speed, scale and persistency of such trends.

We look at the world through the prism of three mega trends - *Better resource efficiency* (cleaner), *Improved health* (healthier) and *Greater safety* and *resilience* (safer) - and 21 themes within these. Our approach involves looking ahead, often years into the future, and making decisions based on how we believe things will develop. What this means in practice is that our thinking within themes changes over time and this is clear from the autos sector, for example. Few would argue against the fact the car defined the 20th Century but we are approaching a tipping point for humanity's relationship with the automobile.

> "We look at the world through the prism of three mega trends - Better resource efficiency (cleaner), Improved health (healthier) and Greater safety and resilience (safer)."

We launched the SF portfolios with a refusal to invest in companies exposed to petrol or diesel engines, believing the economics of a sector that emits poison into the air were no longer viable. We saw regulation shift in this direction in 2009, with the EU introducing a 130g/km C02 target for new passenger cars, dropping to 95g/km by 2021. Beyond emissions, the industry has faced the problem that cars are fundamentally dangerous: while deaths caused by road accidents in the UK have been falling since the 1960s, thousands still die every year. Better tyres are one way to improve safety but the initial focus remained on people within the car –

and data show half of those dying are pedestrians or cyclists. Again, we saw this as a problem that needed solving and identified stocks innovating in smart sensors and automated driving.

We continue to seek ways to get ahead of regulatory and societal curves, with driverless cars no longer the stuff of science fiction. Emissions have been an issue for decades, but something more fundamental is now at work: the problem is not should we buy diesel, petrol, hybrid or full electric, but rather whether to own a car at all. We see the transport sector shifting focus from traditional internal combustion engine and powertrain cars to auto safety, multi-modal transport and trains.

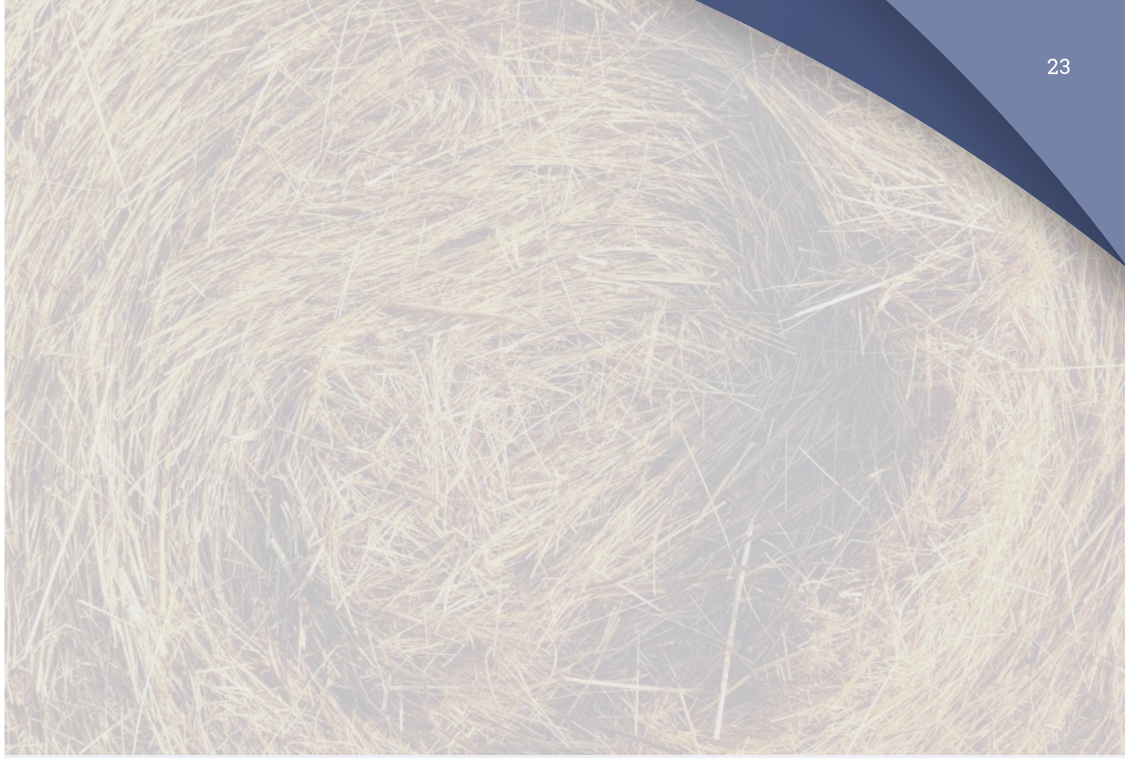
As long-term sustainable investors, we have faced questions over the years on whether ESG would survive the next downturn and Covid-19 has brought renewed scrutiny on this. Our answer remains firmly in the affirmative but rather than debating sustainability itself, we address the question via our investment process and funds.

As stated, we begin with 21 themes focused on the shift towards a more sustainable economy. Building on this, we also require strong business fundamentals and excellence in ESG, and our holdings tend to have processes in place to manage customer relationships, employees and supply chains. We had no better insight into the pandemic than anyone else, but our chosen companies have been thinking about resilience in the face of structural change for years. They have been grappling with how to offer decent work in stressed supply chains, to reduce business travel and to create the incentive structures and diversity to form boards that make the best decisions at critical times.

Our view remains that as we look past Covid-19, the tools and techniques companies have developed to outperform in the face of a climate emergency, an obesity epidemic or failing boards will be the making of sustainable investment.

For a comprehensive list of common financial words and terms, see our glossary **here.**

By Peter Michaelis
Head of the Sustainable Investment team at Liontrust



Key Risks and Disclaimer

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How useful are the SDGs?

The Sustainable Development Goals (SDGs) were adopted by all United Nations Member States in 2015 as a universal call-to-action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. This is a noble purpose, but how have the SDGs become the hot topic in Responsible investment? And how useful are they?

AEGON Asset Management

The 17 SDGs provide a framework for identifying sustainable themes and initiatives to help to solve the many and varied sustainability challenges facing the world.

For countries and governments to achieve the SDG goals they will need the support of the private sector. While the SDGs are a useful tool to help identify sustainable initiatives, we believe they are not the best way to think about sustainability impacts at the individual company level. Rather, the nature of the goals is to spur governments into making policy changes.

Looking at things from a micro rather than macro perspective, the picture becomes less clear. When analysing and investing in companies, it is easy to map certain investments to some of the goals. For example, an electric car manufacturer will sit comfortably in SDG 13 (Climate action), but what about the other end of the value chain? The lithium miner is an essential piece of the puzzle in creating those cars.

"The 17 SDGs provide a framework for identifying sustainable themes and initiatives to help solve the many sustainability challenges facing the world."

No third-party screening tool will give any credit to this activity because the direct impact of the company is less favourable. But no lithium miner means no electric vehicle. This means the SDGs become an imprecise tool to describe the sustainability impacts of a portfolio of listed equities.

The other issue with SDG's is that there is a lot subjectivity involved from a corporate and investment perspective. The goals were written for governments and the targets attached reflect that. So, if a company is claiming to align with the goals, they should be aligning with the targets. Some of these targets translate to the private sector more easily than others, as illustrated in the two examples below.

With SDG 7 (Affordable Clean Energy) the target is better infrastructure for renewables. This is an easy theme to invest in.

In contrast SDG 3 (Health and Well-being) has targets based on factors such as infant mortality, which is difficult to align with the activities of many healthcare companies.

The fact that the goals were designed for governments hasn't stopped companies aligning themselves with SDG badges. But there is nobody assigned to verify these badges and to call out the worryingly rampant practice of 'rainbow-washing', where a vast range of SDGs, many rather tenuous, are linked to a company. We have discovered many examples of companies making ludicrous claims, such as a tobacco company claiming to align with nine of the SDGs, including Health & Wellbeing.

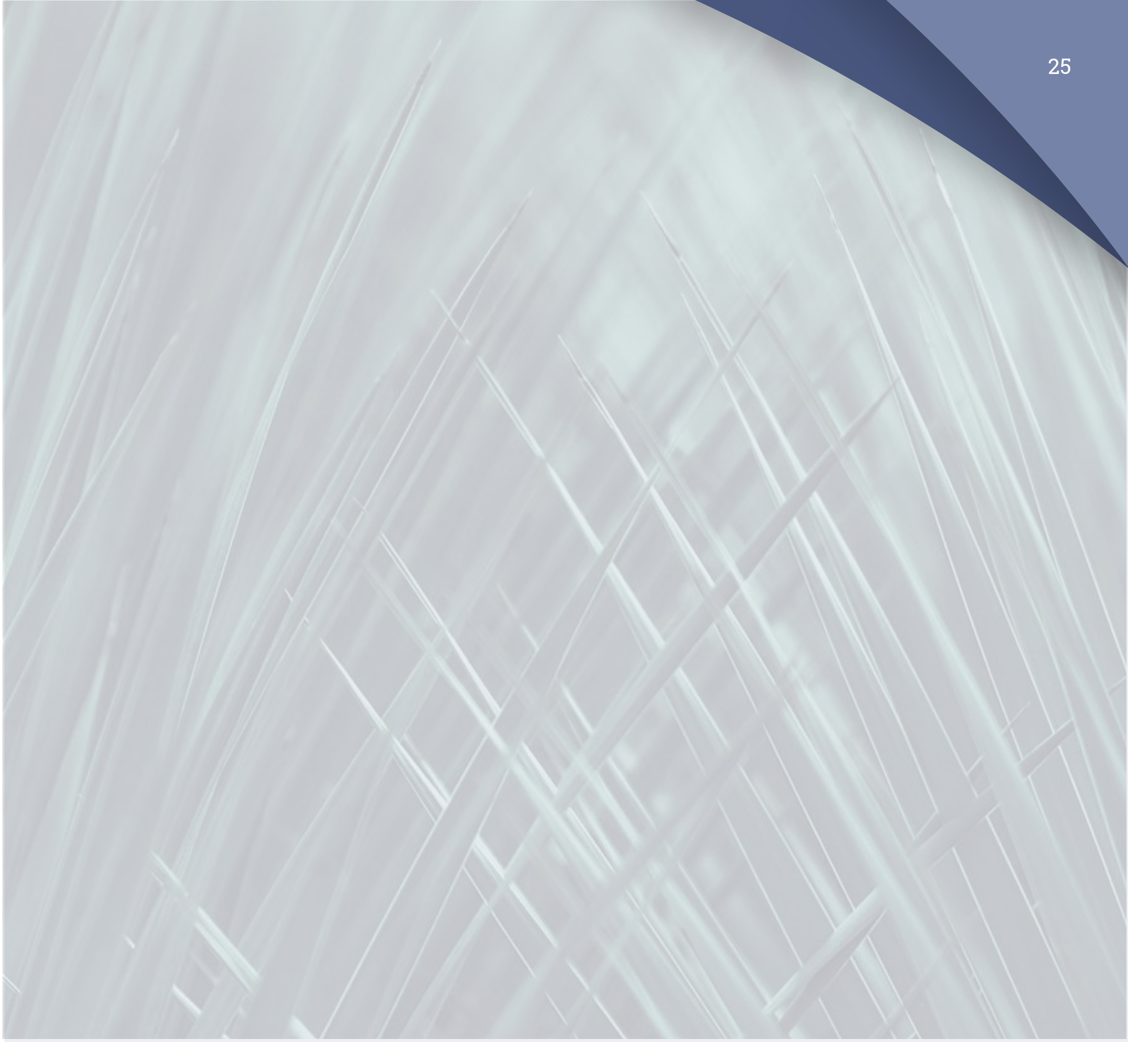
> "The framework requires diligent bottom-up analysis and a willingness to look beyond the obvious impacts. But it is worth it, as it leads to stronger and more sustainable portfolios."

We also find the kind of companies that typically make these claims are those that are larger and have the resources to commit to disclosure around how they align. This adds further to our concern around the large-cap, developed-market bias that is so prevalent in systems designed to quantify the world of sustainable investment.

Summary: A useful if flawed tool

The SDGs provide a valuable tool for identifying themes and initiatives for sustainable investment. But they do have significant limitations, which investors should understand. We have built our own framework to identify second and third-order impacts, such as the contribution of lithium miners to clean transport. We believe this is a better way of identifying sustainable companies. Such a framework requires diligent bottom-up analysis and a willingness to look beyond the obvious impacts. But it is worth it, as it leads to stronger and more sustainable portfolios.

By Miranda Beacham
Head of UK Responsible Investment at Aegon Asset Management



ESG Amplified

One of the most difficult tests in modern history, COVID-19 has generated the deepest plunge in economic data on record. As companies navigate the challenging environment, the spotlight is on social responses, with corporate actions towards employees, customers, suppliers and broader society moving to the forefront of Environmental, Social and Governance (ESG) analysis.

Short-term decisions, if managed well, can strengthen corporate foundations to enable survival through the downturn and ensure recovery in the aftermath of the pandemic. Innovative social responses have the potential to build positive brand equity among customers and improve employee morale.

Of course, some companies do not have the ability to limit the negative impact on key stakeholders, with cash flows being severely dented by a sharp collapse in demand for their goods or services. As a result, we think good corporate governance in the 'new normal' will see heightened focus on capital allocation decisions, particularly those that may undermine a company's resilience and ability to respond to an unforeseen shock.

Meanwhile, it is imperative that the climate transition continues. Encouragingly, the coronavirus crisis has strengthened rather than delayed corporate commitments to a decarbonized future, and both companies and governments continue to give green investments the green light.

We believe companies managing ESG risks and opportunities are built on firmer foundations to brace and survive downturns.

Goldman Sachs Asset Management

Corporates Rise to the Social Challenge

The pandemic has progressed analysis of social issues from a values-based approach to a key operational question. For example, health and safety: while always important, it is paramount during a pandemic. Today, health and safety risks are particularly acute for consumer product companies given continued, if not increased, demand for food, beverages, and other consumer products. Health and safety issues can result in large supply-chain disruptions. In the UK, at the height of the lockdown in the second quarter, we identified a retailer who prioritized the safety of its employees and closed its online store to reorganise its warehouse for social distancing. However, the crisis has also highlighted shortcomings, e.g. many large restaurant chains in the US have limited sick pay policies and their employees may not benefit from recent fiscal support.

We believe that effective management of social factors has the potential to translate into investment performance, which is why they are embedded in our investment analysis. This view is also supported by research, with one study finding that companies with good human capital management benefit from a lower cost of debt, higher credit ratings and lower stock price volatility[1].

The Climate Transition Continues

Though many companies have committed to deploying capital to mitigate longer-term environmental risks, this past year they have faced an intertemporal trade-off between near-term liquidity preservation and medium- to long-term climate investments. This is certainly true for the auto industry, for whom the climate transition is a key investment. Challenged by a precipitous drop in sales and closed production plants, the near-term focus lies on liquidity management rather than environmental efforts.

However, we believe that carmakers investing in electric vehicles (EVs) are poised to perform well over the long

> "We believe companies managing ESG risks and opportunities are built on firmer foundations to brace and survive downturns."

term. Stringent emissions standards, particularly in Europe and China, will continue to steer automakers towards EV production. Indeed, some European automakers have cut dividends in order to preserve liquidity and in turn EV investments. In addition, we think any fiscal support for the sector will introduce additional incentives to support EV purchases, as observed in China, the world's largest EV market.

Overall, we think sectors with activities that have a large environmental footprint will retain their green investment commitments.

Good Governance in the New Normal

Investors are starting to focus even more intently on good governance. How companies allocate capital and the policy choices governments make will help determine how well they respond to future economic shocks.

Amongst sovereigns, progress on governance factors can signal stable and improving economic performance. For example, in Emerging Markets, governance considerations such as strength of institutions, political stability, and regulatory quality, are essential for determining both potential growth prospects and policy responsiveness in times of stress.

Governance factors also underpin our assessment of debt sustainability. This is an important consideration in the current environment where countries face weaker growth prospects due to virus containment measures and as a result of lower tourism, slower global growth and, for certain economies, falling commodity prices.

Over the medium term, we believe a number of Emerging Markets governments will strengthen their governance frameworks and adopt structural reforms to diversify their economies away from over-reliance on a particular commodity export, while COVID-19 motivates raised investments in healthcare infrastructure and technology.

ESG factors are material business issues and focus on the 'what' and the 'how' of corporate activity. The COVID-19 pandemic has led to greater attention on these factors, as an important input to our assessment of enterprise strength in an ever-evolving business environment.

Related Insights from GSAM: **Electric Vehicles – The Road Ahead**

By Claire Hedley
ESG Investing Strategist at Goldman Sachs

[1]The Materiality of Human Capital to Corporate Financial Performance: Investor Responsibility Research Center Institute (IRRCi) and co-authored by Larry Beeferman and Aaron Bernstein with the Labor and Worklife Program at Harvard Law School.

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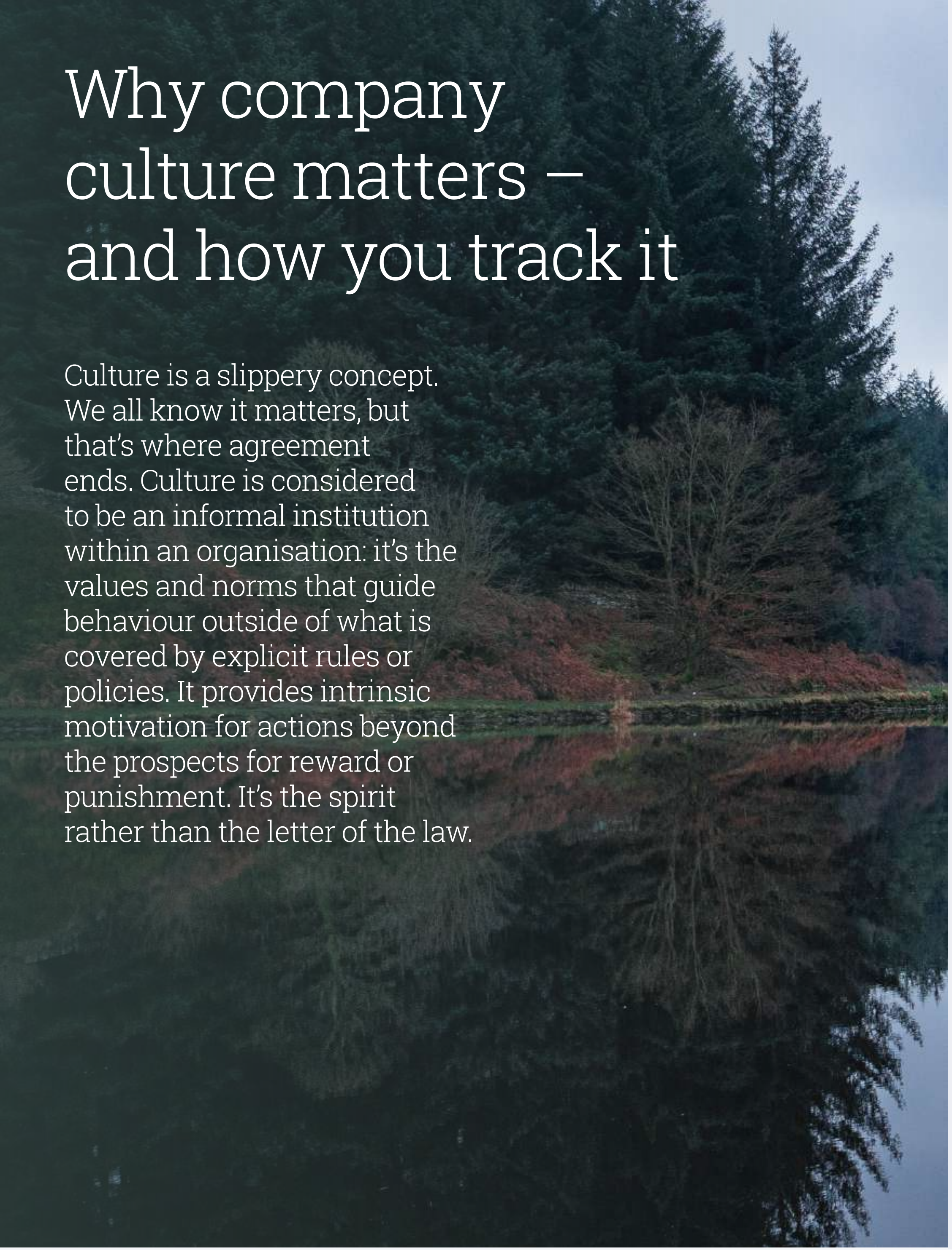


Why company culture matters – and how you track it

Culture is a slippery concept. We all know it matters, but that's where agreement ends. Culture is considered to be an informal institution within an organisation: it's the values and norms that guide behaviour outside of what is covered by explicit rules or policies. It provides intrinsic motivation for actions beyond the prospects for reward or punishment. It's the spirit rather than the letter of the law.

Schroders

Why does corporate culture matter?

A business's culture influences its ability to innovate and adapt in response to unforeseen problems and challenges. It determines openness to dissent and debate which can reduce the risk of fraud and "cover-ups".

For example, companies such as Barings, the former UK investment bank, operated a culture where mistakes were not tolerated. So rather than reporting his mistake upfront, 28-year-old trader Nick Leeson tried to make back the money he'd lost in unauthorised trades and eventually drove the company to its infamous 1995 collapse.

> "A business's culture influences its ability to innovate and adapt in response to unforeseen problems and challenges."

How do you assess the effectiveness of corporate culture?

A company's articulation of its culture should be read more as goals – or as advertising – than indicative of reality. The challenge is figuring out whether they "walk the talk". An MIT study finds that 80% of large companies publish their corporate values on their website, but there is a negligible or even negative correlation between official statements and employee views.

Job review websites

When it comes to employee reviews, review website Glassdoor is the most popular source of data given its breadth: 70 million reviews for over 1 million employers around the world. Glassdoor has its shortcomings, but it does benefit from policies and standards that have been shown to reduce the polarisation of results and try to prevent companies from cheating.

Job review sites are one of many "go to" sources when analysing company culture and we have undertaken numerous engagements based on employee comments we have found on Glassdoor.

Employee turnover

What about companies without a meaningful presence on any of these sites? An alternative approach is to try and deduce something about corporate culture from more measurable outcomes, for example, employee turnover. If staff are loyal to an institution and stay for a long time, it suggests they're doing something right.

Diversity (of all sorts) throughout an organisation can also be a reasonable indicator that a company has a culture of respect and collaboration.

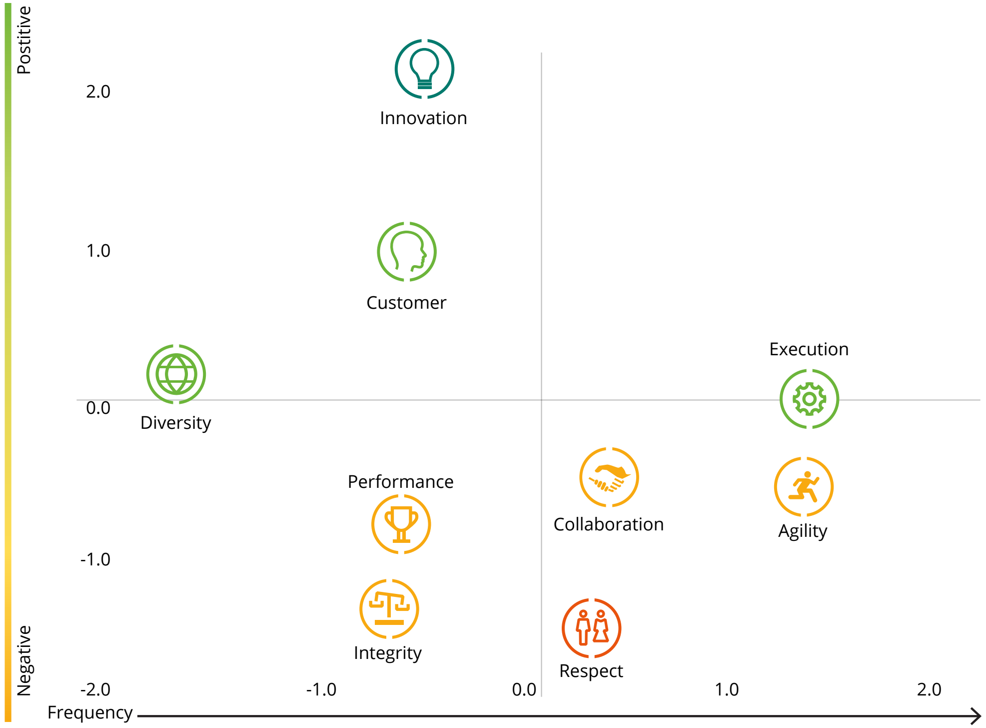
Academic research

The Culture500 is a tool developed by MIT that uses Glassdoor to profile US companies. It covers companies that collectively employ over 30 million people, over one-quarter of private sector employees in the US. For each company, it scrapes reviews for the nine most frequently cited values and ranks these by frequency (the percentage of reviews that mention the value) and sentiment (whether it is discussed in positive or negative terms). We can compare this with official corporate statements to get a high-level idea of the internal culture of a company.

For example, the chart below shows the mapping for Amazon. It will surprise few people to see that the company is highly regarded for innovation, but criticised for a lack of respect. This is consistent with what we hear from the media and whistle-blowers about treatment of warehouse workers.

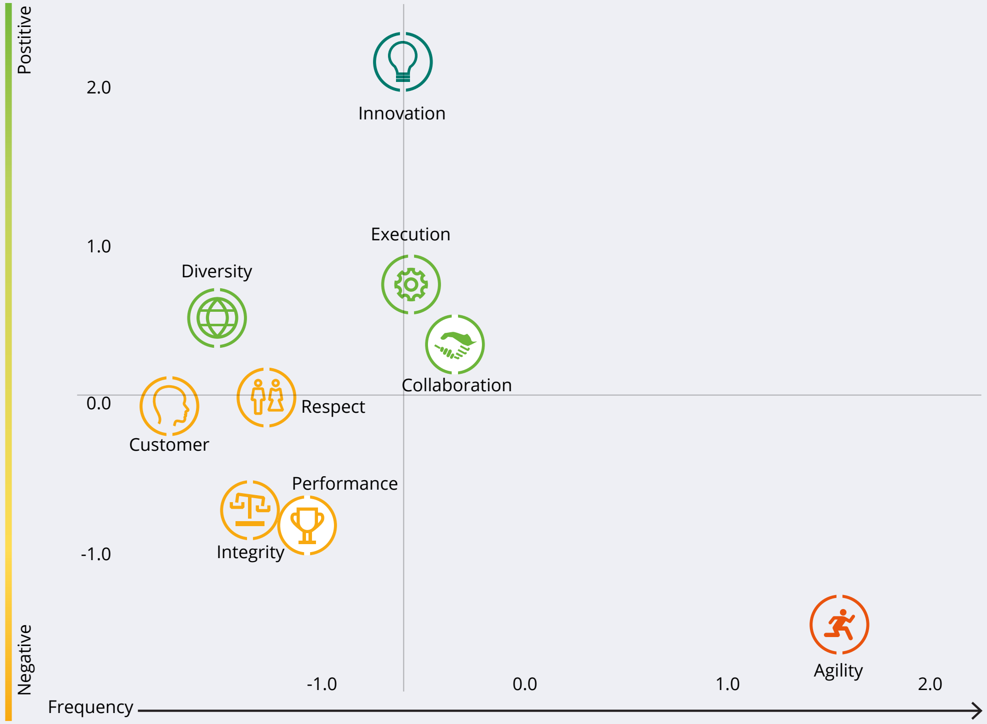
For Alphabet, the parent company of Google and its subsidiaries (below), we can see that positive comments on innovation are offset by surprisingly negative mentions of agility. In general, values such as respect, diversity and collaboration are more highly ranked than at Amazon, providing some reassurance given historic employee unrest over discrimination. Interestingly, the entire big tech sector is less likely than any other industry to have integrity in its values.

Amazon Culture500 mapping



Source: Culture500. Note that the values for each company are normalised so that zero is the average for each value and the axes show standard deviations above or below the average on each dimension. Companies cannot strictly be compared side-by-side based on the values in their company-level mappings, but the site also provides comparison tools within industries for each of the nine values. 503330

Alphabet Culture500 mapping



Source: Culture500. Note that the values for each company are normalised so that zero is the average for each value and the axes show standard deviations above or below the average on each dimension. Companies cannot strictly be compared side-by-side based on the values in their company-level mappings, but the site also provides comparison tools within industries for each of the nine values. 503330

> "We should encourage an effective corporate culture by prompting executives to talk about culture fluently, frequently and - above all - consistently."

How can investors influence culture?

Culture cannot be installed from the outside. Even if investors could influence it, it is not clear that we should try to. There may be more of a role for investors to engage where there are glaring problems. In these cases, we can initiate a conversation with the management team and potentially push for new leadership or changes in incentive structures to try and establish a fertile environment for cultural change. For example, we have engaged with financial institutions in our portfolio to ensure sales staff are not compensated primarily on quantitative targets which could encourage excessive risk-taking or fraudulent activity.

However, in some cases investor pressure may be part of the problem. Particularly in the US market, where analysts tend to be more focused on short-term results, trying to please investors may push companies towards certain practices that could destroy long-term value.

This highlights the danger of focusing our (and companies') attention on easy-to-measure factors and looking for short-term "wins" from engagement. As long-term shareholders, our most important consideration should be that managers' incentives are aligned with long-term success and that we support companies that may need to sacrifice short-term earnings or dividends for long-term investment.

We should conduct thorough research using a mosaic of qualitative as well as quantitative sources and use our findings to engage with the company and its other stakeholders.

Lastly, we should encourage an effective corporate culture by prompting executives to talk about culture fluently, frequently and - above all - consistently.

By Katherine Davidson
Fund Manager of the Schroder Global Sustainable Growth Fund, Schroders

Important information

Impact investing: Innovations in life essentials

Providers of the most basic human needs may not seem like a fertile hunting ground for active investors who are seeking to outperform market indices. But we have found that disruptive impact companies and issuers which are working to solve the world's most pressing social and environmental problems are often underappreciated market opportunities. And, in our view, many have the potential to generate attractive long-term financial returns and social and environmental benefits.

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Did you know?

- Access to affordable housing may be one of the most cost-effective ways to reduce childhood poverty[1].
- The world's demand for fresh water is expected to grow by 70% by 2050[2].
- Immunisation prevents between 2 million and 3 million deaths every year[3].
- Globally, one person in nine suffers from hunger, while one in three is malnourished[4].

Here, we discuss some of the innovations we are seeing from the companies and issuers in our impact portfolios which are working to improve access to health care, affordable housing, clean water and nutritious food sources.

Establishing impact themes

Our investment universe includes companies and issuers from 11 impact themes. We developed these themes in 2012 before the UN had established its 17 Sustainable Development Goals (SDGs), which now provide a widely accepted set of impact aims. Nevertheless, there is a significant degree of overlap between our themes and the SDGs.

We group our 11 themes into three broad categories: life essentials, human empowerment and environment. Here, we look in more detail at the four themes in our life essentials category.

Affordable housing

We believe that investments in affordable housing can help to deliver health and wellness benefits, lead to better educational outcomes and create economic value for disadvantaged or underserved communities. Within the impact investing universe:

- Many companies combat homelessness by building low-cost manufactured homes, refurbishing dilapidated or abandoned buildings or employing efficient modular construction to create inexpensive living spaces.
- Issuers are offering debt instruments to help finance low-cost or multi-family housing; others provide affordable mortgage financing.

Sustainable agriculture & nutrition

With the global population expected to reach 10 billion by 2050[5], we will probably need to produce more food with less resource-intensive methods. In our view, enterprises developing solutions for sustainable food production can help to reduce food insecurity, improve human health and mitigate the adverse impacts of large-scale agriculture, which has historically been a severe draw on natural resources and a major source of pollution.

- Impact companies are helping to improve the quantity and quality of livestock through vaccines and disease-preventing antiparasitic drugs.
- Enterprises are helping rural farmers to increase crop yields with technologically advanced irrigation systems and forms of precision agriculture.
- Companies are developing new sources of plant-based protein, a promising step towards improving human health, ending hunger and reducing the agriculture sector’s carbon footprint.

Clean water & sanitation

We have seen many advances in infrastructure and technology that improve water quality or deliver it more safely and efficiently. In our view, these provide an essential service that can potentially bring huge health benefits and underpin economic development. Water infrastructure may also be a key to communities’ efforts to adapt to climate change.

- Impact companies are providing water and waste-water treatment services to towns and cities with the stated goal of supporting economic growth and environmental sustainability.
- Businesses are manufacturing water-safety and flow-control products, as well as facilitating water testing, treatment and filtration.
- Bond issuers are financing essential improvements to underground infrastructure for water delivery.

Health

Providing affordable, effective health care is a challenge in many countries. In particular, it can be very difficult to reach vulnerable populations or deliver multifaceted, long-term treatments for complex diseases. We believe that private-sector companies, not-for-profit hospitals and local governments can provide much-needed solutions.

- Pioneering health care technology companies are developing precision medical equipment that improves patients’ quality of life.
- Businesses are specialising in women’s heath, providing insurance to underserved populations or developing treatments for age-related diseases.
- Lab equipment companies are building tools that facilitate genomic research with potentially lasting benefits for society.
- Not-for-profit hospitals are issuing debt to help with charity care or advanced research.

How to invest in these themes?

We believe that equities and bonds are equally important to impact investing, and both have large and rapidly expanding universes of opportunities. Yet some impact themes (such as affordable housing) are easier for fixed income investors to access while others (such as financial and digital inclusion) are more accessible for equity investors. In fact, we believe the two asset classes provide complementary impact exposures and can be blended together within a broader portfolio to create compelling synergies.

For more information **here.**

By Campe Goodman and Tara Stilwell
Portfolio Managers at Wellington Management

Campe Goodman, CFA
Fixed Income Portfolio Manager

Tara Stilwell, CFA
Equity Portfolio Manager

[1] Multiple studies cited in “A Place to Call Home: The Case for Increased Federal Investments in Affordable Housing,” Campaign for Housing and Community Development Funding.

[2] “Nature-Based Solutions for Water: World Water Development Report,” United Nations, 2018.

[3] “Leaving no one behind: All children immunized and healthy,” UNICEF, July 2019.

[4] “Zero Hunger,” World Food Programme, 2020.

[5] “World’s population will continue to grow and will reach nearly 10 billion by 2050,” World Bank, July 2019

Important information

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Feeding the world sustainably

How we feed ourselves has to change. With agriculture and food production accounting for nearly 25 per cent of the world's greenhouse gas emissions, reforming agriculture is essential to address the looming threat of global warming. Without change, emissions are forecast to grow more than 30 per cent by 2050.

Modern agriculture's impact upon climate change is just one issue, albeit a gravely important one. Large-scale food production is doing terrible damage to the environment. Runoff from fertilisers, pesticides and herbicides is polluting waterways and marine habitats, irrigation is depleting aquifers and soil is being degraded by reliance on chemicals. A third of the planet's soil has already been degraded. Without significant change, 90 per cent of soil on earth will be degraded by 2050.

But despite the above toll, cropland and pastureland will increase over the next three decades by 600 million hectares, destroying forests and natural ecosystems.

The agricultural challenge

The challenge is how to feed a global population that will hit 10 billion by 2050 — requiring 50 per cent more food than we produce today — without inflicting further damage on struggling ecosystems.

Regnan

There is cause for optimism though. A global shift towards sustainable agriculture and food production is beginning to happen. In turn, this is opening up attractive opportunities for investors as new technologies and business models start to gain traction.

At Regnan we see four areas for investment that will drive the transformation of food production, while minimising waste and developing new sustainable and affordable food products.

Soil health

The first is regenerative and organic farming aimed at improving soil health.

It sounds dull and dirty but organic matter – essentially dead and decomposing plant and animal debris alongside billions of living creatures like bacteria, fungi, insects and worms – plays a vital role in soil health. A 1 per cent increase in soil organic matter helps soil hold 20,000 more gallons of water per acre. Organic matter is also a powerful store for carbon dioxide that helps combat climate change.

The investment opportunity lies in the carbon credits that can be generated by better soil management. Business models are being developed that monitor and measure soil carbon using various technologies and then create markets for soil carbon that can be brought into the public space.

Controlled farming

The second opportunity is controlled farming that can be conducted in cities as indoor or vertical farms or larger-scale state-of-the-art greenhouse farming close to urban areas.

This is a real growth area in developed economies. Controlled-farming start-ups and businesses in the United States and Europe are developing models focused on feeding a rapidly growing urban population using artificial intelligence and other advanced technologies. Controlled farming is essential to support the rapid growth of cities and the increasing urbanisation of the world.

The growing risk of extreme weather is another driver here, as controlled farming can be better protected, lowering the risk of crop loss.

> "Ultimately, the companies behind these solutions are not only solving the challenges we face but are also well-positioned for growth in the future."

A war on waste

A third area of investment opportunity within sustainable agriculture is the growing industry aimed at reducing the enormous waste in food supply chains.

Shockingly, close to a third of all food produced is lost to waste. This not only means that fewer meals are available for those in need, but it also increases the land area and resources required to make up lost food, putting additional stress on the food system as well as adding to greenhouse gas emissions. Food is lost across the food supply chain, from growing to storage, processing and distribution right through to the food thrown out by retailers and households.

ReFED, a non-profit organisation aiming to end food waste, says a 20 per cent reduction in American food waste over the next decade would be equivalent to removing about 4 million cars from the road.

Some of the more promising innovations and solutions to the problem of food waste include platforms connecting farmers with pre-determined buyers for food that might otherwise go to waste. Farmers who have produced crops that might be less presentable from a marketing perspective have pre-determined buyers to take that product and turn it into other value-added food products, like juices or similar products.

Plant-based meat

Finally, the growth of a new plant-based meat industry is an example of a move to sustainable food products that replace resource-intensive agriculture.

Livestock production is enormously greenhouse intensive. The opportunities afforded by the plant-based products are huge from a sustainability perspective, and particularly as those products are getting better and better.

As I have outlined above, solutions are emerging to move the world's agricultural and food production systems toward sustainability. Ultimately, the companies behind these solutions are not only solving the challenges we face but are also well-positioned for growth in the future. As innovative solutions often at the early stages of adoption and with large potential markets, we think they represent attractive long-term investment opportunities.

By Mohsin Ahmad
Fund Manager, Regnan Global Equity Impact Solutions Fund (distributed by J O Hambro Capital Management)

Impact Opportunities: investing to limit biodiversity loss

Nature is critical for human existence, but it is under increasing stress – because of us. Human activity, such as consumption, eating habits and energy needs, has altered almost 75% of the earth's surface.

Federated Hermes International

What is biodiversity?

Biodiversity is the variety of life found on earth from all sources, including terrestrial, marine, and other aquatic ecosystems and the ecological complexes. The main causes of biodiversity loss are deforestation, unsustainable agriculture and the illegal wildlife trade – and they are also contributing to the emergence of zoonotic diseases, such as Covid-19. Such is the impact of human activity on nature, scientists believe we are now entering a new geological era, the Anthropocene, used to describe the most recent period in the earth's history.

Forests are declining at an alarming rate owing to agricultural expansion and climate change, while almost 1m animal and plant species are threatened with extinction[1]. According to the WWF's Living Planet Report 2020, global wildlife populations fell by 68%, on average, between 1970 and 2016, with some Australian populations plummeting by up to 97%.

It is estimated that damage to our ecosystems and the associated loss of biodiversity could cost the global economy $10tn by 2050[2]. For many, the coronavirus has acted as a wake-up call: we cannot continue our current relationship with nature. Now more than ever, investors must take action to consider the impact of their investments.

Several of our impact themes seek to reduce our impact on nature and therefore help to conserve biodiversity, particularly through the reduction in material and water usage and greenhouse gas emissions. These themes are also inextricably linked to the prevention of climate change. They include:

Energy transition

Renewable energy helps to reduce the depletion of non-renewable resources – and it reduces air pollution and cuts carbon dioxide emissions too. Within this theme, we invest in companies such as US-based specialty finance firm Hannon Armstrong, the first US public company solely dedicated to investments in climate change solutions. Through every investment, the company aims to help reduce carbon emissions, as well as have other tangible environmental benefits, such as reducing water usage. We believe Hannon Armstrong is well-positioned as climate change solutions are likely to be crucial in the world's recovery from the coronavirus pandemic.

Another example of a company invested in is Spanish wind turbine manufacturer Siemens Gamesa Renewable Energy, the largest offshore wind turbine manufacturer in the world. Just one of their turbines can provide enough energy to power about 18,000 average European households each year[3]. Siemens Gamesa is embracing the transition to a low-carbon future – and, as a leader in the renewable energy industry, it is helping address the dual crisis of climate change and unprecedented biodiversity loss.

Future mobility

Intuitive, cleaner and connected vehicles can help to reduce pollution and the consumption of fossil fuels. Exposure in our portfolio includes German car parts supplier Hella and Belgian battery-materials manufacturer Umicore.

Water

Freshwater ecosystems are among the most degraded and threatened ecosystems at the global scale. Two of our holdings, Xylem and Ecolab, provide products and services that help to preserve our water ecosystem, such as helping to reduce water usage by implementing more water-efficient processes. Several of our impact themes seek to help conserve nature and biodiversity.

Circular economy

Reusing and recycling helps to lessen our usage of new materials and reduce waste. These practices can also lower pollution by decreasing energy, electricity, and water consumption and the need for landfills. Our exposure ranges from pallets and container maker Brambles to the world leader in reverse vending, Tomra.

Impact enablers

Providing solutions that help to improve processes (e.g. software and technology), can reduce material usage, cut pollution and enable sustainable production. We hold Ansys, an engineering simulation software company, and Lonza, a speciality chemical services company, in our portfolio.

By Ingrid Kukuljan
Head of Impact Investing at Federated Hermes

[1] Source: 2019 Global Assessment Report on Biodiversity and Ecosystem Service

[2] Source: Global Futures report from the World Wild Fund for Nature (WWF)

[3] "Powered by change: Siemens Gamesa launches 14 MW offshore Direct Drive turbine with 222-meter rotor," published by Siemens Gamesa in May 2020

Risk profile

Past performance is not a reliable guide to future performance.

The value of investments and income may go down as well as up and you may not get back the original amount invested.

Emerging markets risk: The performance of the Fund will have significant dependence on the economic environment of emerging markets. Because of this (i) the Fund's investments may be difficult to buy and sell, (ii) the price of the Fund's investments are likely to go up and down more than shares of companies in developed markets, (iii) the exchange rate of foreign currencies in emerging markets are subject to greater fluctuations, (iv) there may be restrictions on removing the funds or other assets from the jurisdiction, (v) there is less publicly available information about the companies, (vi) there may be higher costs, (vii) the markets may not be as well regulated, (viii) there may be governmental interference, (ix) there may be higher inflation and more social, economic and political uncertainties than in developed markets.

For more information on risks please refer to the Key Investor Information Document and Prospectus.

The coming decade for climate solutions

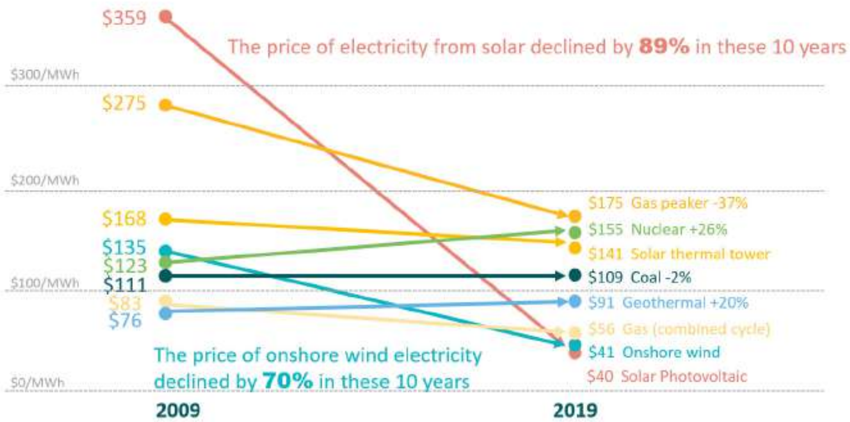
In what has been a very volatile start to the decade in humanitarian, economic and political terms, let's take a look at the long-term challenge of climate change to understand how it is progressing and how it may have been impacted by recent events.

Will the collapse in fossil fuel prices destroy the economic case for renewable energy?

Subsidies for renewable power have been in the process of being phased out for some time. This is a positive step not a negative one. As scale has increased and the industry's journey along the learning curve has continued, solar and wind are able to compete without external support. The cost of solar is a tenth of what it was a decade ago, both solar and onshore wind are now cheaper alternatives to natural gas, despite commodity price falls.

Decarbonizing power, the price of electricity from new power plants

Electricity prices are expressed in 'levelized costs of energy' (LCOE). LCOE captures the cost of building the power plant itself as well as the ongoing costs for fuel and operating the power plant over its lifetime



Source: Lazard Levelized Cost of Energy Analysis, Version 13.0. OurWorldinData.Org, December 2020.

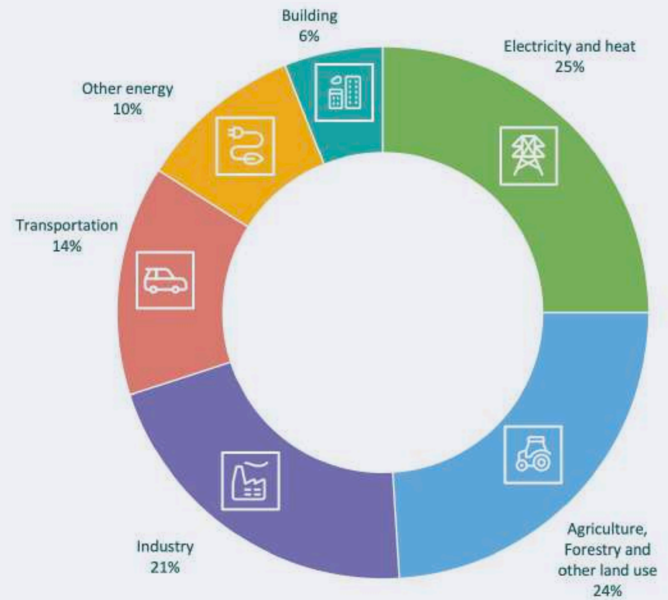
M&G Investments

Climate solutions....more than just renewables?

Over 50% of global CO2 emissions are caused by power generation, therefore it remains a critical part of reducing CO2 emissions. Yet, renewable energy alone will not be able to solve this issue, other areas of emissions will need to be scrutinised and solutions found.

Promoting the use of sustainable timber will also encourage the wider adoption of sustainable forestry, which addresses the release of CO2 in the industry. Companies such as US listed Weyerhaeuser, which operate over 25m acres of sustainable forests in North America will play a vital part.

Global C02 emissions by industry/category



Source: The Intergovernmental Panel on Climate Change (IPCC) 2014 Report

Buildings are one of the biggest consumers of energy, improved technology enables them to be more efficient today. For example, a company such as Danish-listed ROCKWOOL International provides stone wool insulation for new builds and for retrofit. It enables a vast reduction in energy consumption of a building and helps reduce the amount of power generation needed. It will play a crucial part in addressing the climate challenge.

The circular economy will have a significant role to play in reducing emissions. We need to increase 'reuse, reduce and recycle' in order to stop products going to landfill at the end of their usefulness and reduce the level of pure product required for new products. This will have a major impact as up to 45% of non-energy greenhouse gases could be addressed by these measures according to some estimates[1].

An example is US-listed decking producer Trex, which makes outdoor decking from recycled plastic. It has shown itself to be a higher-quality, more durable and lower-emission alternative to traditional timber decking.

The US and China: Enter the Eagle and the Dragon.

In the space of six short weeks in 2020, the future of the Paris Climate Deal was transformed by two significant events.

On 22 September 2020, shortly after US President Donald Trump called the Paris Agreement "a one-sided deal" and criticised China for being "the world's largest source of carbon emissions", President Xi Jinping of China announced that China would scale up its intended nationally-determined contributions (under the Paris climate agreement) by adopting more vigorous policies and measures. In practice, this would see China achieving a peak in carbon dioxide emissions before 2030 and carbon neutrality before 2060. Xi added that "the human race cannot ignore the warnings of nature over and over again". He also urged other countries to pursue a "green recovery of the world economy in the post-COVID era".

Then on 3 November 2020, the US elected a new President, and one that has a very different approach to the challenges of climate change. Joe Biden made climate change one of the key pillars of his campaign and has re-joined the Paris Climate Deal in one of his first acts as the 46th President.

Biden's team have already started planning to restrict oil and gas drilling on public lands and waters, increase mileage standards for cars, block new pipeline projects that transport fossil fuels, provide federal incentives to deploy renewable power, and mobilise other nations to make deeper cuts in their own carbon emissions.

Market mechanisms have begun rewarding environmentally-friendly companies with higher valuations. This is due to them being recognised as less exposed to regulation and less likely to become redundant over the longer term. The more this continues, the more we will notice management teams incorporating climate solutions into their operations, products and services.

Climate challenge can be thought of as a three-legged stool for the stakeholders that need to participate: **Consumers**, **Industry** and **Government**. Studies from across the world now show populations are concerned about climate change and are willing to change their own behaviour. Industry can now see the economics working in favour of sustainability and are willing to commit capital to the effort and starve funding for 'de-merit' activities. That then leaves Government – while European governments have taken a lead, the final awakening of both the Chinese and US governments will provide the much-needed impetus to reach our carbon targets over the coming decades.

In the M&G Climate Solutions Fund we have a focus on clean energy, green technology and the circular economy. All key areas for investment and growth as we transition to a carbon neutral world over the coming decades.

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

We are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser.

By Randeep Somel
Fund Manager at M&G Investments

[1] Source: Ellen MacArthur Foundation, Completing the Picture, Adapted from Material Economics Analysis for the Energy Transition Commission, Mission Possible, Reaching Net Zero Carbon emissions from harder to abate sectors by mid-century, (2018).

A climate-aware US ushers in a new era for clean energy

Biden's bold environmental plan will reinvigorate the global fight against climate change and turbo-charge the clean energy industry.

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Asset Management

The election of Joe Biden as the new US President places the world's biggest economy back at the heart of international efforts to limit global warming. The Democrats' environmental agenda is as bold as they come. A pledge to re-join the Paris Climate Accord within a day of taking office and a promised USD2 trillion of new green investment are the pillars of a grand strategy that aims to make the US carbon neutral by 2050. It's a change of direction that comes at a critical time for global climate diplomacy. In the past few months alone, China, Japan and Korea have announced their own newly ambitious net-zero carbon goals while the EU has set aside EUR7 trillion to decarbonise its economy.

In many ways, these developments testify to the success of the Paris accord. A key feature of that agreement is that it binds signatories to the ratcheting up of their commitments over time. Yet having the world's largest economy back in the Paris club clearly changes the complexion of the battle against global warming. Nowhere more so than within the clean energy industry.

Powered by the US's know-how and financial heft, the sector looks poised to enter a dynamic new era. Billions of dollars of new private and public investment can be expected to flow into green infrastructure and environmental technology. In other words, clean energy could become the key pillar of the 21st century economy.

Four cleaner years?

Biden's plans would restore the US's environmental credentials on several fronts. He has pledged to decarbonise electricity generation by 2035 by transitioning to renewables. This will involve, among other things, doubling the rate of solar panel rollout to reach a total of 500 million installed units in the next five years. His plan also contains measures to phase out fuel-based cars in favour of electric vehicles.

In addition, Biden is committed to cleaning up the building sector – which the International Energy Agency estimates accounts for more than a third of both the world's final energy consumption and carbon emissions. The programme will involve upgrading six million buildings to boost energy efficiency. Beyond climate change, the new administration will also tackle other pressing environmental issues, such as air, water and plastic pollution.

Clean energy: the new race

Biden's ascent to the White House will inevitably set the US on an ambitious new course. But the global repercussions of his victory will be similarly transformative. For one thing, having the world's largest greenhouse gas emitter commit to reducing emissions will benefit the entire planet. Able to draw on American willpower, technological prowess and financial heft, the clean energy industry will be better funded and more innovative than ever before. This is crucial because reversing climate change requires money and imaginative thinking.

Electric vehicles appear to be crucial to the pursuit of a carbon-free economy for many countries. Just a month after announcing its net zero goals, China unveiled a road map for phasing out conventional gas-burning cars by 2035. China, already the world leader in electric vehicles, has said it would invest to build its own supply chain that will reduce foreign reliance.

Next-generation infrastructure to support increased transmission of clean energy is also likely to be a key battleground. China has the world's longest and most powerful ultra high-voltage direct current (UHVDC) line stretching over 2,000 miles – more than the distance between London and Moscow – to deliver solar and wind power to 50 million households. Europe and the US are also planning to upgrade the grid with UHVDC lines.

> "The alignment of the US's climate change policy will provide a massive shot in the arm for the global clean energy industry creating investment opportunities for decades to come."

A green tipping point

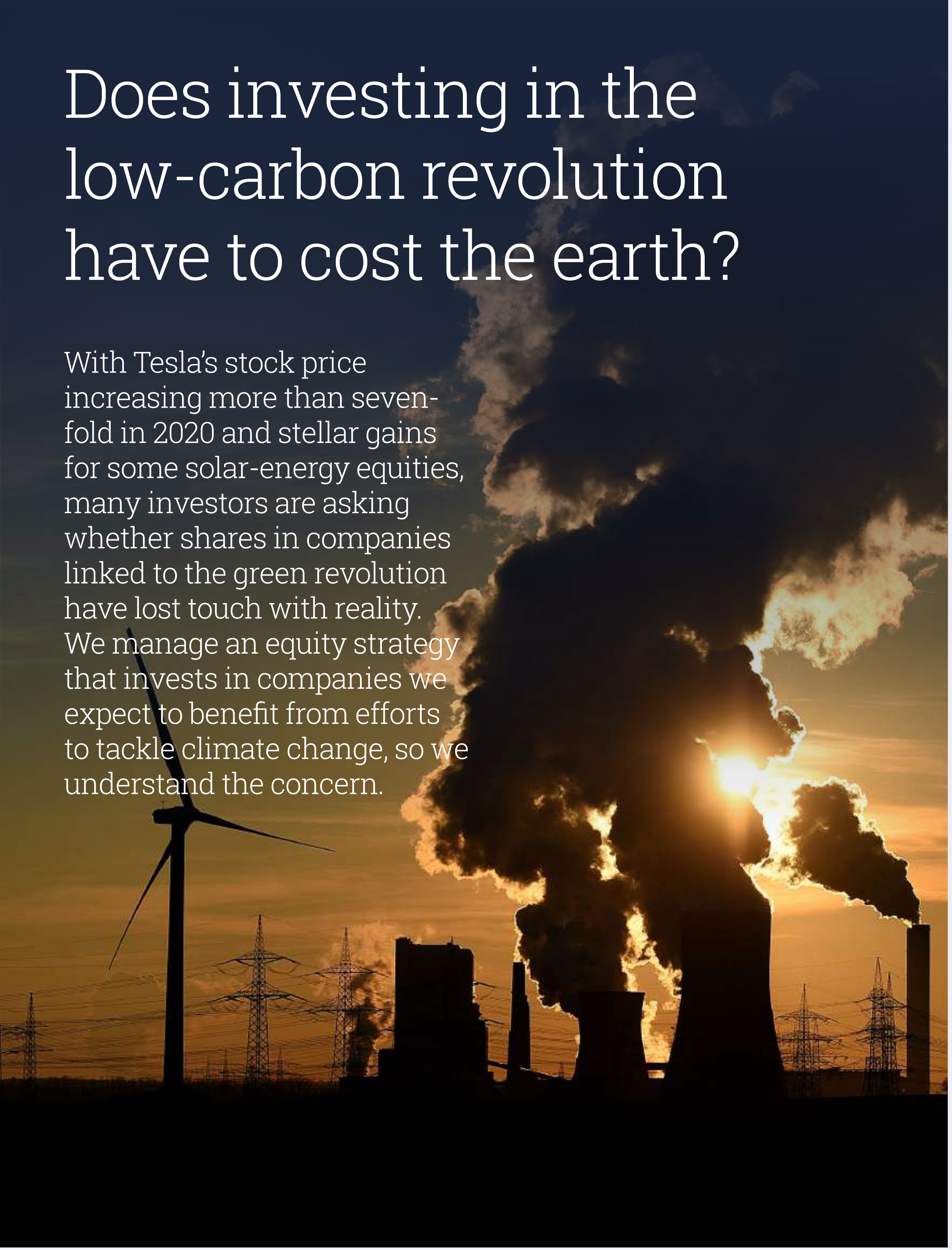
With Biden's inauguration set to add new momentum to global climate action, the world is at a tipping point. Not least because his victory comes at a time when the economic forces driving a green transition are gaining strength. Many renewable energy technologies are now achieving economies of scale unthinkable just a few years ago and have consequently become cost competitive with fossil fuels.

The alignment of the US's climate change policy with those of other economies will provide a massive shot in the arm for the global clean energy industry. It will serve as a catalyst for billions of new private and public investments in the sector and set in motion what is certain to be a new clean energy race.

By Dr Stephen Freedman
Senior Product Specialist
Sustainability and LT Research at
Pictet Asset Management

Does investing in the low-carbon revolution have to cost the earth?

With Tesla's stock price increasing more than seven-fold in 2020 and stellar gains for some solar-energy equities, many investors are asking whether shares in companies linked to the green revolution have lost touch with reality. We manage an equity strategy that invests in companies we expect to benefit from efforts to tackle climate change, so we understand the concern.



Ninety One

We don't hold Tesla in our portfolio. But we do own shares in other companies whose products and services help to avoid greenhouse gas emissions from transport, as well as from electricity generation, factories, offices, homes and other sources.

Like most investors, we hate paying too much for a stock. Fortunately, we think there are plenty of companies making the global economy more sustainable whose shares represent good value. But it's increasingly important to invest selectively.

Capturing decarbonisation-fuelled growth

Conceptually, the case for investing in businesses whose products address the world's carbon problem is straightforward. 'Decarbonising' the economy requires far-reaching changes to the way the world produces and consumes. That's going to present enormous opportunities for some companies, and existential challenges for others.

For equity investors, the idea is that the winners from decarbonisation may be able to grow faster than other companies, so their shares have the potential to outperform. The faster the low-carbon transition occurs, the more we'd expect these stocks to outpace the market.

Last year saw a big acceleration of decarbonisation, despite (and in some ways because of) the pandemic. Among the major developments, China, Japan and South Korea committed to 'net-zero'; the European Union put clean-tech at the heart of its COVID-recovery plan; and the UK adopted one of the world's most ambitious carbon goals. Joe Biden's US election win capped a remarkable year in global climate policy, bringing to the White House a president with a strong environmental agenda. Not surprisingly, this boosted the shares of companies seen as well-placed to benefit from the low-carbon transition.

Varied valuations

Given governments' determination to reduce emissions – coupled with consumer preferences for sustainable products, and the fact that green technologies are becoming better and cheaper – we think the rationale for investing in decarbonisation is stronger than ever. But are the shares of 'carbon-avoiding' companies now overpriced?

It's certainly true that shares generally became more expensive last year. The strong gains for global equities in the latter part of 2020 were accompanied by an increase in the price-earnings ratio of broad benchmarks like the MSCI All Countries World Index (ACWI).

The companies we focus on (again, which don't include Tesla, but all of which help avoid carbon emissions) were no different. Their average valuation also increased, but only in line with the MSCI ACWI's valuation gain, although their share-prices went up by more than the index. In fact, the gap between the two valuations, which is usually fairly slim anyway, narrowed slightly.

Keen mathematicians will appreciate that, for the difference between the two price-earnings ratios to remain stable, the above-market price increases of the decarbonisation stocks must have been accompanied by correspondingly higher profits.

What does this tell us? First, it shows that investors are no more excited about some stocks with the potential to benefit from decarbonisation than they are about shares generally. We think this is because the market is yet to grasp the economic transformation required to get anywhere near 'net-zero'. A few green-tech companies and sectors dominate the headlines, but the low-carbon revolution taking place throughout supply chains and across industries is still largely being overlooked.

Second, we think it confirms that a selective approach to investing in decarbonisation is more important than ever. Some low-carbon areas look expensive to us, including some hydrogen and residential-solar businesses. But parts of the electric-vehicle supply chain, for example, are still being priced in line with the traditional auto sector, rather than tomorrow's clean-tech transport system (and nowhere close to Tesla's approximately 170x earnings valuation).

Of course, whether Tesla, the MSCI ACWI or any other stock represents good value depends on how successful you think the respective companies will be in the future. Like beauty, value is in the eye of the beholder. But we might all agree that there are multiple ways for investors to align a portfolio with the low-carbon growth trend. And they needn't come with a hefty price tag.

By Graeme Baker and Deirdre Cooper
Co-Portfolio Managers, Ninety One Global Environment at Ninety One

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China's Five-Year Plan: a missed opportunity or more to come?

Big things were expected on the climate agenda at the National People's Congress. So how did environmental objectives fare and do we now have more clarity on China's route to net zero?

IMPAX Asset Management

The conclusion of the National People's Congress was met with frustration by international climate commentators. Expectations were that China's 14th Five Year Plan would outline ambitious actions on climate, following China's recent surprise announcement committing to carbon net-zero by 2060. While these hopes largely failed to materialise, we believe President Xi may be biding his time to unveil more detail ahead of COP26 in November. We believe this is an inflection point in China's green development, ushered in by significant structural shifts towards a market-based approach and increased delegation away from the centre.

The road to the National People's Congress

China committed to reach peak carbon emission around 2030 in its Nationally determined contributions (NDC) submitted under the 2015 Paris Agreement. In September 2020, alongside the landmark announcement committing to carbon neutrality by 2060, China stated that it would strengthen its NDC and peak emissions before 2030.

In December 2020, on the fifth anniversary of the Paris Summit, China updated this commitment, including pledges to 1) Reduce carbon emissions per unit of GDP by over 65% from 2005 levels; 2) Increase non-fossil fuels in primary energy consumption to around 25%; 3) Increase the forest stock volume by 6 billion cubic meters from the 2005 level; and 4) Increase wind and solar power generation capacity to at least 1,200 GW.

International commentators therefore expected a further ratcheting up of China's climate targets within the Five-Year Plan, for example bringing forwards the peak emissions target ahead of 2030. However, we believe President Xi may well be holding back further statements of ambition to maximise their impact in advance of COP26. Triggers for further measures could include an updated US pledge (expected in April at the Biden-hosted Major Economies Meeting), or at the outcome of bilateral talks with the new US administration. This was the pattern of target escalation between leading emitters in the run up to the 2015 Paris conference.

Delegation away from the centre

While disappointed with the absence of clear targets restricting new coal capacity in the high-level 14th Five Year Plan, we believe this reflects the changing approach at central government level. We are observing a shift away from detailed central planning to the setting of high-level goals (such as renewable energy consumption mix for each province), subsequently delegated to provincial and local officials to consider how they will be achieved. This approach aligns the achievement of the high-level goals with the career development of local officials. We believe this will be more effective than the previous approach whereby local governments had an embedded interest in building out coal capacity.

Under the new approach, local governments will need to either grow local renewable capacity or purchase renewable energy from other provinces. This latter option is more expensive and negative for local investment, employment, and economic growth. Building renewable energy locally (rather than coal capacity) is the obvious choice.

Carbon trading scheme

In addition to the 'delegation' to local governments of the means to meet centrally-set goals, China is indicating a medium to long-term intention to shift away from top down 'command-and-control' administrative directives towards market-based policies such as carbon pricing, to help wean China off coal both for electricity generation and industry.

Launched earlier this year, the national carbon trading scheme will only have an immediate impact on smaller coal-fired generators due to its narrow sector coverage. However, generous allocation of quotas and likely low prices, mean its reach and impact should increase over time.

It is worth remembering that EU carbon markets were initially ineffective at sufficiently pricing carbon and encouraging fuel switching. Prices remained below €5 a tonne between 2005 and 2018. However, with regulations refined (and an effective carbon central bank introduced), the EU emissions trading system today is fulfilling its purpose, facilitating the transition away from coal.

An inflection point for green development

Following the approval of the 14th Five Year Plan by the National People's Congress, the relevant ministries and local governments will now formalise their more detailed plans during the second half of the year. This will focus on achieving high-level goals including on renewable energy and carbon peaking. Some provinces and cities have already announced earlier peak years.

We are at an inflection point in green development in China, borne out by: 1) clean solutions (such as solar, wind, electric vehicles) becoming increasingly cost competitive; 2) a continued emphasis on energy efficiency (the Five Year Plan targets 14% reduction in energy consumption per unit GDP and 18% reduction of CO2 intensity of GDP); and 3) a transition from a quantity- to a quality-driven approach in infrastructure investment and pollution control effort as a whole.

We remain very optimistic that environmental equities in our key opportunity set (including renewables, energy efficiency, pollution control, water & waste) will continue to benefit from policy support and investment needed to achieve the goals of peaking emissions before 2030 and reaching carbon neutrality by 2060.

By Oscar Yang
Portfolio Manager at Impax Asset Management

The story from Chorley

Yes, Chorley in Lancashire! home to a small model portfolio manager called Pennine Wealth Solutions (PWS). In 2016 PWS launched their Positive Pennine Portfolio range. To date it has attracted £25.2m from 610 investment accounts held by over 400 retail investors.

The beginning

The PWS team understood very quickly that they had to attract the regular investor, people who had thought this a 'specialist area' and not for them. Their own investor surveys showed that there was a willingness to at least place a portion of their investments into ESG and Impact portfolios.

"It's when the everyday, average investor utilises ESG solutions, that the world can start to change. The weight of invested money means that even the small investor can contribute towards great improvements."

Back in 2016, IFAs were way behind the curve. It's taken COVID and multiple lockdowns to accelerate their understanding and involvement. *"We had to train and educate the IFAs"* says Sean Fisher, Business Development Manager. Several sessions and visiting guest speaker specialists from WHEB, Liontrust, and the 2030 Hub helped greatly.

The Positive Portfolios utilised third party ESG and Impact analysis right from the start.

Pennine
WEALTH SOLUTIONS LLP

Any movement along the ESG continuum is welcome. However, we are a bit dubious of many of the recent additions to the ESG bandwagon. A sprinkle of E, and a touch of G, do not make an ESG leader. The S is often lost altogether.

"We are heavily into utilising investments that work towards the UN goals. The more impact we have, the better", says Sean. We score very highly in terms of doing good.

The influence of John Fleetwood's work saw to that.

Key information

Marketing Manager at PWS Jayne Raven has created a **second website** to inform the investor.

"These types of investors need two types of data. They want the usual financial information, but equally important is impact and ESG information. How does their pension do good? The more data the better."

Investment returns from the Positive Pennine Portfolios have been very strong. By August 2021, they will have a 5-year track record. Fact sheets are available from the **Pennine Wealth Solution website.** Any concerns about performance have been blown out of the water.

PWS have been recognised as a GOOD EGG by consumer website Good with Money. The sustainable goods website Blue Patch also recognises Positive Pennine.

Jayne and Sean are also responsible for the quarterly PWS investment seminars. 100-150 investors watched the latest video recording. They can speak directly to their portfolio managers. Ask questions, share thoughts. During lockdown these have continued as webinars.

Jayne adds, *"by meeting many of our investors on a regular basis, we can communicate far better. They feel close to what is happening with their money. This encourages them to stay invested for the longer term. Not to panic with short term dips in the market."*

Over 100 investors attended the (Blackburn) 2020 investor seminar

What about the future?

PWS want to attract more investors and build our influence further. *" You will always find us at the Impact end of the ESG continuum. By matching investor needs with solutions that have a positive impact."*

They have considered a passive range of the Positive Portfolios but don't believe this is technically available yet.

As IFAs understand the huge variance in the ESG range of investments, PWS hope to appeal to those attracted to Impact Solutions. *"We believe the pandemic has created a universal conscious need for a more caring and sustainable world. We have a key role to play."*

By George Critchley
Senior Partner at Pennine Wealth Solutions

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

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