7TH EDITION

blue&green tomorrow

simplifying sustainability since 2010

NOVEMBER 2016

SUSTAINABLE INVESTMENT

PUBLISHER'S LETTER

There are no super heroes we know of who put profit before people or planet. Super heroes save the people and save the planet.

There are no real life heroes who decide to put someone in harm's way, or destroy their habitat for personal profit. The thousands of real heroes save people or defend the defenceless, be they human, animal, vegetable or mineral.

There are no great spiritual leaders or world philosophies which say it's cool to screw people and planet over for a margin. They say love one another and do unto others…

But the vast majority of economic activity is predicated on screwing over people and planet for the financial gain of a tiny minority.

This is bizarre when you think about it. Money doesn't actually exist. It's a human construct with no intrinsic value and is just a convenient means of exchange.

People exist. People have intrinsic value. The planet exists. The Planet has intrinsic value.

But we sacrifice and harm people and planet every day for an artifice. This doesn't seem like a good bargain or very sensible. It's certainly not a long-term strategy.

How did it come to this? Why is there so much reckless destruction, just to accumulate a fictional 'asset'? At what point did money become the end in itself?

It could be so different. It can be so different.

Simon

Simon Leadbetter
Publisher, Blue & Green Tomorrow


Every week thousands of people like you read our e-newsletter to catch up with the stories they may have missed, the trends they need to understand and the knowledge that allows them to create a more sustainable investment portfolio and lifestyle.
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NOW WE ARE SIX

"The worst sin towards our fellow creatures is not to hate them, but to be indifferent to them: that's the essence of inhumanity." George Bernard Shaw

2010 seems a very long time ago (six years, in fact) but on Bonfire Night of that year, on the eve of National Ethical Investment Week (now Good Money Week) Blue & Green Tomorrow stepped onto the sustainability stage.

00

2010

Bootstrapping

- Conservatives and LibDems form coalition government
- International Year of Biodiversity
- 2010 European Year for Combating Poverty and Social Exclusion
- Deepwater Horizon
- Arab Spring begins
- Most popular articles - About Us & Newsletter
- SRI: 10.9bn (Dec 2010)

01

2011

The University Years

- International Year of Forests
- Japanese Tsunami
- World population hits 7bn
- Most popular article - Interview with Green Dragon, Ben Goldsmith
- SRI: £11.3bn (June 2011), £10.6bn (Dec 2011)

02

2012

Blue & Green Triumphant: Sustainable Investment Bootcamp

- International Year of Cooperatives
- International Year of Sustainable Energy for All
- Hurricane Sandy
- UN Climate Change Conference agrees to extend the Kyoto Protocol until 2020
- Most popular article - The Guide to Sustainable Investment 2012
- SRI: £11bn (June 2012)

03

2013

A Near Death Experience

- International Year of Water Cooperation
- Snowden
- Pope Francis elected Pope
- Most popular article - Pope Francis speaks out against fracking and environmental devastation
- SRI: £12.2bn (June 2013)

04

2014

Survival

- Scotland votes to remain within the UK
- International Year of Family Farming
- International Year of Small Island Developing States
- UN ICoJ rules that Japan's Antarctic whaling program is not scientific but commercial
- IPCC release final part of Fifth Assessment Report, the world faces "severe, pervasive and irreversible" damage from global emissions of CO2
- Most popular article - University of Oxford votes vegan
- SRI: £13.5bn (June 2014)

05

2015

UK votes for Conservative Government

- International Year of Light
- International Year of Soils
- Volkswagen is alleged to have been involved in world-wide rigging of diesel emissions tests
- Sustainable Development Goals adopted at the UN Sustainable Development Summit
- 2015 United Nations Climate Change Conference
- (COP 21) is held in Paris
- Most popular article - BP Great Australian Bight oil spill
- SRI: £15bn (July 2015)

06

2016

Right Here, Right Now

- UK votes to leave EU
- International Year of Global Understanding
- US and China, together responsible for 40% of the world's carbon emissions, ratify the Paris global climate agreement
- UNEP summit to phase out hydrofluorocarbons (HFCs), as an amendment to the Montreal Protocol
- World's largest marine protected area declared in Antarctica
- Most popular article - Guide to Sustainable Funds 2016

07

2017

The Future's Bright, It's Blue & Green Tomorrow

- International Year of Sustainable Tourism for Development by the United Nations


THE GUIDE to Sustainable Tourism
THE GUIDE to Sustainable Investment
THE GUIDE to Ethical Financial Advice
THE GUIDE to Ethical Funds
THE GUIDE to Sustainable Investment
THE GUIDE to Limitless Clean Energy
The Guide to Sustainable Funds
The Guide to Ethical & Sustainable Financial Advice
The Guide to Sustainable Homes
The Guide to Sustainable Banking
The Guide to Sustainable Spending
SUSTAINABLE TOURISM
SUSTAINABLE TRANSPORT
SUSTAINABLE DEMOCRACY
SUSTAINABLE PHILANTHROPY
SUSTAINABLE CLEAN ENERGY
GUIDE TO ETHICAL ISAs
AFFILIATE DIRECTORY
SUSTAINABLE HOMES
SUSTAINABLE DEMOCRACY
SUSTAINABLE INVESTMENT
SUSTAINABLE BANKING
LOW CARBON INVESTING
SUSTAINABLE INVESTMENT
SUSTAINABLE ENERGY
blue&green

A WARM HELLO FROM OUR NEW MANAGING DIRECTOR

Ben Brougham joins Blue & Green Tomorrow with a first class publishing background. He joins us from Vitesse Media (owner of What Investment). Before that he was at Caspian Media (owner of Real Deals) and Euromoney (owner of Institutional Investor). Most recently he was Event Director for the highly successful New Energy & Cleantech Awards and many other fast-growth company events. Ben writes:

Why would anyone give up a secure job in an established media company to join a riskier venture? Because I believe in the mission of the company and I believe in its founder.

I first met Simon Leadbetter in 2012 at the New Energy Awards, an event which I had put together, now in its tenth year. We've been discussing and debating ideas and roles that I could do for Blue & Green Tomorrow ever since. The stars finally aligned in September this year.

So why would I give up a secure job in an established company to join a riskier venture? Firstly, simply because I don't think it's that risky. But, without risk how can you push boundaries and challenge the status quo?

Blue & Green Tomorrow is doing something incredibly tough and incredibly valuable, incredibly well. While there have been many me-too publications over the years, it's Blue & Green Tomorrow that is still pushing and publishing, six long years after it first published an article.

Six years for any start-up is impressive. I know, having worked for a publisher that owned SmallBusiness.co.uk, Growth Company Investor, Information Age, GrowthBusiness.co.uk and What Investment. Start-ups die at an alarming rate. Simon's impressive tenacity has kept Blue & Green Tomorrow going through thick and thin.

When I sat down with Simon and his partner (and wife) Emily to talk about what I think we could do with Blue & Green Tomorrow there was a crystal clear meeting of minds on ambition and plans.

So this is a warm hello from me. I look forward to meeting as many of you as I can over the coming weeks and months. We've launched our new website this week, we'll be running a readers' survey before Christmas and early in the New Year we'll be holding our first Readers General Meeting and Blue & Green Tomorrow's 6th Birthday Party.

If you have any thoughts please drop me a line at ben@blueandgreentomorrow.com I'd love to hear from you.

Yours kindly,

Ben

Ben Brougham
Managing Director, Blue & Green Tomorrow

Impax ASSET MANAGEMENT

Positive impact measurement: beyond carbon footprinting

Impax's "Specialists" strategy invests in environmental solution providers and seeks to maximise financial returns.

The strategy also delivers a net positive environmental impact.

Impact of £10m invested in the Specialists strategy for one year

CO_2

net CO_2 emmisions avoided
11,200 tCO_2

equivalent to taking
5,000
cars off the road for a year

total water treated or provided
3,600 megalitres

equivalent to
21,900
households' annual water consumption

total renewable electricity generated
4,600 MWh

equivalent to
1,100
households' electricity consumption

total materials recovered/waste treated
1,100 tonnes

equivalent to
1,100
households' waste arising

These environmental metrics can help decarbonise portfolios, offset high emissions or simply improve investor understanding of additional positive outcomes.

Find out more at **www.impaxam.com/about-us/impact-investing**

The UK Green Investment Bank's calculator was used to translate the impact into everyday equivalents (eg cars on the road, household energy use). Based on most recently reported annual impact data for holdings in the strategy as of 31.12.2015. Methodology has been assured by Ernst & Young LLP.

A Q&A WITH SIMON HOWARD, CHIEF EXECUTIVE OF UKSIF

By SIMON HOWARD

Readers of Blue & Green Tomorrow (BGT) will, we hope, have been looking at the animation and tweets coming out of Good Money Week, the annual initiative co-ordinated by UKSIF to promote the idea that "you can make money and make a difference". UKSIF is the UK Sustainable Investment and Finance Association, a group of some 230 financial service firms with an interest in sustainability. The UKSIF team has been busy on GMW but Simon Howard found some time to answer six questions for us:

What has been the most interesting development in sustainable investment in 2016?

There is a great deal to consider - it has been a good year! I have written before for BGT on the excellent developments in fiduciary duty that we have seen from the Pensions Regulator (TPR), but I will flag it once more: TPR has told trustees of defined contribution pension funds that they SHOULD consider all material financial factors. To any sensible person this must have the effect of putting climate change on the agenda of everyone involved in providing pensions for others - whether that is in Defined Benefit (DB) or Defined Contribution (DC) form or in the context of giving advice.

Looking forward it means that a range of other factors such as the impact on the corporate reputation of aggressive corporate tax behaviour and the threat of anti-microbial resistance should begin to be discussed too. In fact I think TPR's statements mean responsible investment will become the standard approach.

Beyond that I continue to note the monthly retail sales statistics from the Investment Association. They have a category called "ethical". In terms of funds currently outstanding ethical accounts for about 1%, but the sales month-by-month in the past year or so have consistently been more than 3%. This is a really interesting gain in market share. Some UKSIF members have suggested it is sales in DC pension schemes showing up.

Also interesting have been some of the comments from the new Prime Minister. Her suggestion that employees and consumers be represented on company boards, and that annual pay votes be binding go further than many commentators were expecting. It all suggests that corporate responsibility may shoot up the political agenda.

Mrs May has also set up the Inclusive Economy Unit (IEU) under Rob Wilson MP. The mission of the IEU, enthusiastically espoused by Mr Wilson when he spoke at Good Money Talks on 24th October, is to encourage better use of private investment and support markets that deliver social impact as well as financial returns, to improve delivery of public services to increase social impact while bringing value for money in the commissioning of public services, and to encourage responsible business, from social enterprise startups to companies that aim at "profit with purpose". If we start seeing developments in the social/impact space it will be extremely exciting.

And the most frustrating development?

I'm an idealist and like things to be simple. It's extremely frustrating that the logical conclusions of COP21 and all the other work being done on responsible and sustainable investing are not being taken up more rapidly. There are successes and there is movement but it is too slow.

What is the biggest theme for sustainable investment in 2017?

UKSIF will continue to work on the fiduciary duty area. We want to translate the "should consider" guidance from TPR into more areas e.g. DB pensions and contract based DC, so we will be doing a lot of work with regulators. But with a lot of political change underway perhaps it's fair to say that the big issue of 2017 may not yet have been identified. It's possible for instance that the UK may see significant fiscal stimulus with a green tinge to it as part of the Brexit-economic mitigation plan. UKSIF is suggesting that!

Do you think we have reached, or are approaching, the tipping point in the take up of sustainable investment?

I don't know about a tipping point but it certainly feels different to me. In the institutional space people know that COP21 meant something and so climate change is on the agenda. TPR opinion cited above and the retail sales figures also suggest change is coming. There is a long way to go and a recession or market collapse won't help but I think things are going our way.

What impact do you think Brexit will have on sustainable investment?

I think sustainable investment is relatively Brexit-immune. At the bluntest level CO_2 priced in sterling or euros is still CO_2. But I don't think a UK government could seriously retreat from existing EU-inspired regulation and if we get a Democrat president in the USA I don't think the global drive will ebb. As I said above we may even see a fiscal package with a greenish tinge, certainly that is what we will be pushing for. People more expert than me tell me that the UK is already ahead of the EU in certain areas of climate regulation and I don't expect that to change. Famous last words. I am worried about fracking, especially if it is proposed as anything other than a bridge technology, but I suspect the protests we will see as fracking comes in will tend to drive "our" issues up the political agenda and not down. Certainly Mrs May's comments on corporate governance do not suggest she is an opponent of change and responsible attitudes. I may be wrong. I hope not. We should remember that the government has a very small majority- they can't be too radical in any area without a referendum behind them.

If you could make one change to benefit sustainable investment, what would it be?

That's a very wide question isn't it? I'm from a fund management background and so my answer will be pretty prosaic- no doubt your other contributors have the really big picture answer. At one level proper pricing of externalities would be a game changer. Combine that with more transparency throughout the financial services value chain and we may get somewhere quite fast. The practical answer for 2017 is as above- more fiduciary duty in regulation.

Company Profile

The UK Sustainable Investment and Finance Association (UKSIF) is the membership association for sustainable and responsible financial services.

We promote responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment.

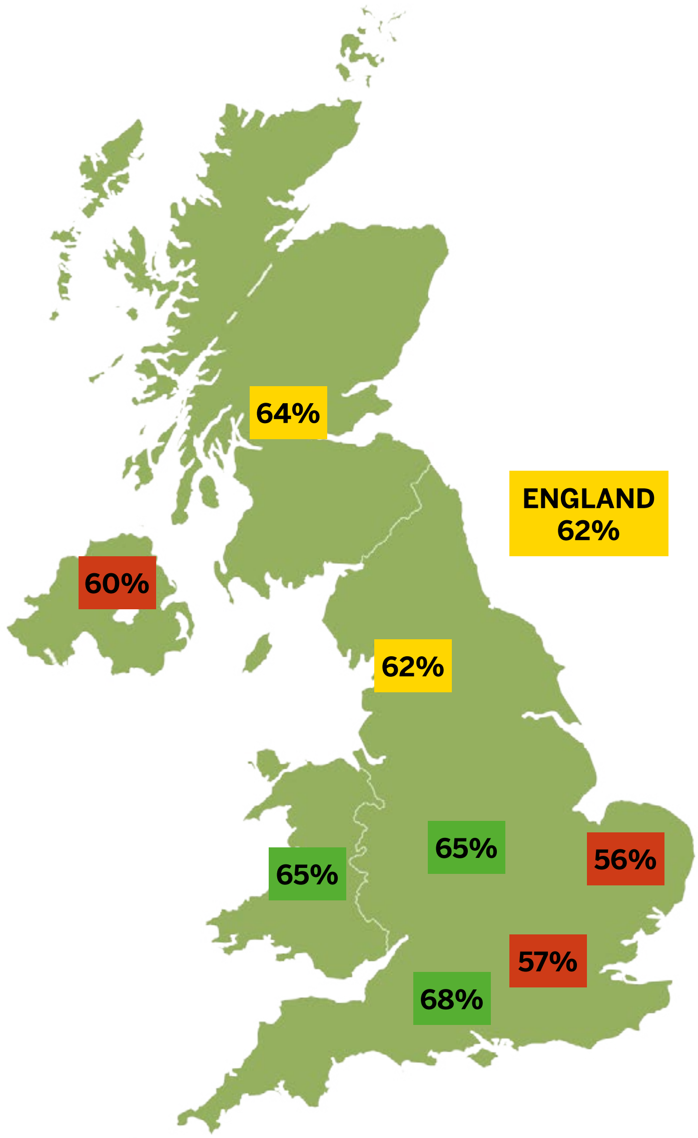
We also seek to ensure that individual and institutional investors can reflect their values in their investments.

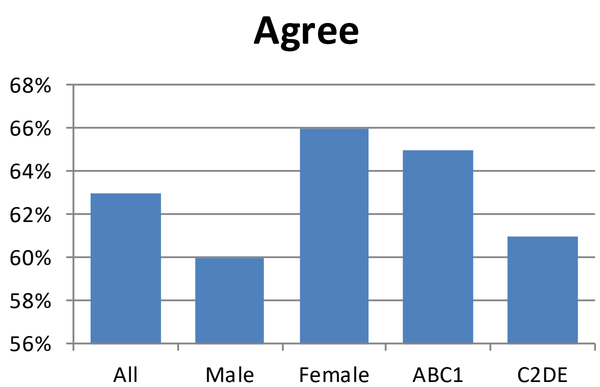
UKSIF

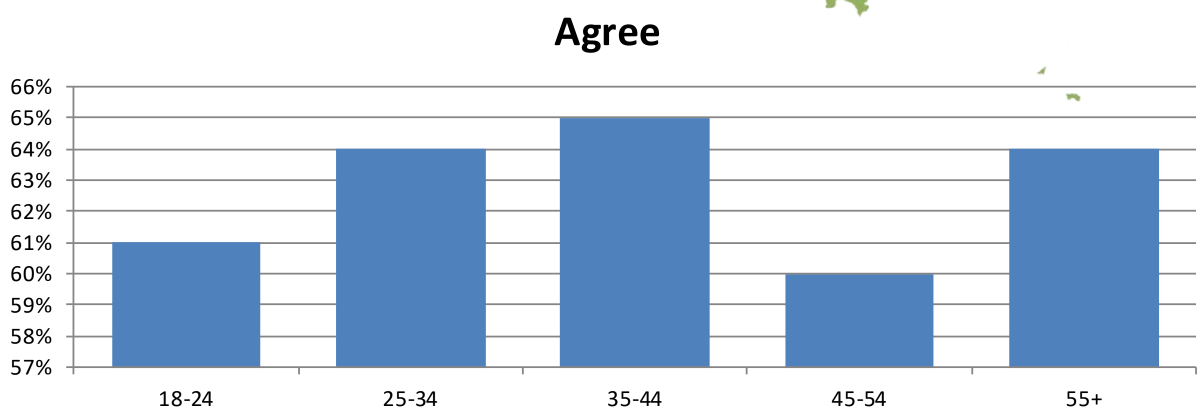
PUBLIC DEMAND FINANCIAL KITE MARK

2016's Good Money Week research showed demand for a kite mark-style label to help customers identify financial products that invest in a sustainable way and those that don't (YouGov interviewed 2,171 adults).

"To what extent do you agree or disagree that the UK should introduce a 'label' for financial products (e.g. bank accounts, pensions, etc.) to help customers identify financial products which invest their money in a sustainable and/ or ethical way?"







3D INVESTING'S FUND UPDATE

By JOHN FLEETWOOD

The fund universe has been very significantly expanded to £84.7 billion in assets under management, of which £50.3 billion relates to infrastructure funds. This is partly due to investment performance, but more to the addition of funds to the universe. The total universe now comprises 193, of which 24 are infrastructure funds. These are all registered for sale in the UK and have some form of ethical screening, or else have an environmental or social purpose.

Many of the additions are SICAVs run by European based managers and employ a 'best of sector' approach using Environmental and Social Governance data. There is a pattern of such funds investing in stocks that undermine our confidence in the way that sustainability criteria are applied. Yet, we have identified a number of additional funds that qualify for the 3D Portfolio and widen the range of options for socially motivated investors.

New Funds

Over 30 funds have been added to the 3D sustainable investment fund universe. There have been a few new launches, including two UK income funds. This is to be welcomed as there is a dearth of such funds, but the two funds, namely the Unicorn UK Ethical Income and Troy Trojan Ethical Income funds, are run on a negative screening basis and invest in companies with little clear positive social impact. Nevertheless, income is important for many investors and it is encouraging to see a widening in the choice available for investors.

Kames Capital has added a global fund to its ethical range and the evidence so far is encouraging (see below).

Perhaps controversially, we have added the Funding Circle Income Fund to our universe. This is an investment company that invests in loans to small and medium sized companies in the UK, US and Europe. There is no ethical screening but unlike the other listed P2P funds, this one makes no loans to consumers and helps to meet a crucial funding need in the wake of small businesses being unable to access bank finance. Most loans are made in the fields of property, manufacturing, retail and professional services.

We have also added a few infrastructure and property funds to the universe. These include two general property investments in the form of the Legal & General UK Property Fund and Real Estate Investment Trust, British Land. These are distinguished by their outstanding sustainability management and reporting.

As mentioned above, most of the fund additions relate to European managers including Allianz, BNP Paribas (Parvest), Mirova and Sarasin. Many of these funds are only directly available to professional or 'sophisticated' investors.The majority do not make it into the 3D Portfolio as there are better alternatives and the funds often include stocks that raise significant ethical concerns. This undermines our confidence in the ability of the manager to assess ethical issues and to meet the concerns of socially motivated investors. For example, Irish fund, the Davy Ethical Fund, invests in climate change denier and oil major, Exxon, and Amazon which uses very aggressive tax policies and stands accused of poor employment practice.

Risers & Fallers

Thirty funds have been upgraded on the basis of detailed analysis and a normalising of ratings. Six funds have seen their star ratings fall, largely due to a re-assessment of fund holdings and normalising funds to ensure consistency:

No further funds have been awarded a five star rating. This is a premium rating that we reserve for the best so we are keen to preserve its status as a 'best of the best' ranking.

The most notable fund to be awarded a four star rating for the first time is the AXA WF Planet Bond Fund. This is distinctive as it invests in Green bonds issued by large companies and international institutions, with the proceeds of the bonds being wholly used to fund positive environmental action. The fund has a very high environmental impact and a clear process for delivering change. It only fails to achieve a five star ranking because of a lack of impact reporting and a short financial track record.

Two BNP Paribas funds have also been awarded a four star rating. One is a water fund and the other an environmental fund, both run by Impax asset Management, with the environmental fund following a similar mandate to Impax's own environmental funds. BNP Paribas' exhibits a high level of transparency and understanding of sustainability issues.

The Pictet Environmental Megatrend Fund has been renamed and repurposed as the Pictet Global Environmental Opportunities Fund. This has led to a significant increase in the positive environmental impact of the fund and also wider suitability. We have therefore upgraded the fund to four stars.

Pattern Energy is the only infrastructure fund ever to be awarded a four star rating for the first time. This invests in 18 operational wind farms in the United States.

There are now 61 funds out of a total of 169 non infrastructure funds that have a star rating of three or more. A three star rating therefore means that a fund is in the top 36% of all non-infrastructure funds in our sustainable universe.

We have been able to assess the Threadneedle Ethical UK Equity Fund which has the highest level of social impact of any UK Equity Fund. It's still early days for the fund so we await further evidence of financial performance and of social impact reporting before being able to award a higher star rating, but this looks to be a promising fund.

The Kames Global Sustainability Fund largely lives up to its name with a decent ethical screen as well as making a positive environmental and social impact.

Other funds that have been awarded a three star ranking for the first time include a sustainable food fund from BNP Paribas (Parvest). This is run by Impax in a very similar manner to their own sustainable food fund. Other funds include environmental thematic funds offered by Mirova, VAM, Allianz and BNP Paribas. The clean energy funds have a high impact but are marked down in terms of overall star rating because of their poor and volatile absolute performance.

Despite a lack of direct environmental or social purpose, the Legal & General UK Property Fund and British Land gain a three star rating on the back of the excellence of their sustainability management and reporting. Similarly, the Sarasin Sustainable equity Real Estate Fund is awarded three stars because of the quality of the sustainability management evidenced by stock selection and its consistent financial track record.

There have been many additions to the universe that have been awarded two stars. The two star ranking reflects our concerns over the quality of the sustainability management, highlighted by stocks in the portfolios that undermine our confidence in the application of sustainability principles. They also include funds that have a very limited positive social impact including the Troy Trojan Ethical Income and Unicorn UK Ethical Income funds.

One star funds either have a very poor track record or else invest in stocks that fundamentally undermine the sustainability theme. There are four newly added funds that we've awarded the lowest rating, but we would like to highlight one fund in particular – the BSF Impact World Equity Fund. To our mind this is a prime example of the misuse of the word 'impact', which was originally used to describe investments that were made primarily for social impact. In this case, the fund invests in tobacco, mining, oil and agro chemicals, hardly investments that one would associate with sustainable investing.

3D Portfolio Universe

The 3D Portfolio has expanded to 43 funds, not including the infrastructure funds. This represents around 25% of the whole non infrastructure universe and is a selection of funds within different sectors that best meet our investment philosophy of doing good, minimising harm and delivering decent financial return.

The Sarasin Sustainable Equity Real Estate Fund has been added back following further research that shows above average sustainability for the vast majority of the holdings. We have also upgraded the Pictet Global Environmental opportunities Fund as described above and added it to the Portfolio on the basis of its much improved environmental impact and suitability.

The Funding Circle Income Fund has been added despite only being awarded two stars as it meets a real funding need as a core purpose. British Land and the Legal & General UK Property Fund have also made it on to the shortlist by virtue of their outstanding sustainability management. The Threadneedle Ethical UK Equity Fund is a welcome addition to a limited selection of UK equity funds, showing clear leadership in the sector in respect of financing companies with a positive social impact. One more fixed interest fund makes it on to the shortlist – the AXA WF Planet Bonds Fund – by virtue of its distinctive approach and high impact. This is a high quality bond fund with a correspondingly low yield.

The BNP Paribas Aqua Fund is very similar to other water funds run by Pictet and Sarasin and qualifies for the focus on water solutions, a decent financial performance and good sustainability management and reporting.

Finally, we have added the Mirova Europe Environmental Equity fund which exhibits a high social impact compared to other European equity funds.

3D INVESTING?

3D Investing is a distinctive investment approach that seeks to maximise social impact, to minimise ethical compromise and to deliver on financial expectations. It is an evidence based approach that analyses the constituent holdings of each and every investment, so that investors can be confident that their money is being used in a way that really does make a social difference whilst meeting their financial needs. The evidence-based approach means that, not only can investors be assured of successful financial outcomes, but they can be equally confident in maximising the social impact of their portfolio.

Too many ethical portfolios invest in companies that investors would find unacceptable if only they knew, and the social impact is often tokenistic. 3D investing involves a fully transparent process, making any compromises clear and seeking to maximise social impact and to inspire investors.

PERFORMANCE DATA SET, OCTOBER 2016

Funds and bonds in the 3D Portfolio

Outperformed sector average

	2011-2012	2012-2013	2013 - 2014	2014 - 2015	2015 - 2016	2011 - 2016	Rank
UK All Companies							
Aberdeen Fund Managers Responsible UK Equity	17.86%	15.01%	1.06%	-7.10%	21.88%	52.02%	14
Alliance Trust SF UK Growth	19.87%	27.08%	2.80%	12.77%	13.84%	94.83%	3
Alliance Trust UK Ethical	17.41%	29.81%	1.84%	12.81%	7.80%	83.41%	6
Edentree Amity UK	19.26%	22.03%	3.33%	9.13%	6.35%	73.24%	9
F&C Responsible UK Equity Growth	19.47%	21.41%	8.39%	3.34%	11.97%	77.27%	7
Henderson Global Care UK Income	20.19%	25.89%	8.73%	8.54%	9.10%	89.90%	4
Jupiter Responsible Income	20.15%	23.91%	6.08%	-0.62%	6.28%	63.61%	12
Kames Capital Ethical Equity	20.23%	26.99%	6.79%	9.84%	5.79%	84.52%	5
Legal & General Ethical Trust	18.38%	26.99%	5.21%	6.56%	4.65%	70.12%	10
Premier Ethical	21.22%	32.52%	14.71%	8.36%	6.18%	105.71%	1
Royal London Sustainable Leaders Trust	23.90%	24.99%	7.95%	5.43%	16.08%	99.85%	2
Royal London UK Ethical Equity			13.30%	14.00%	4.89%		
Scottish Widows Environmental Investor	9.05%	24.77%	2.31%	-1.81%	16.79%	57.23%	13
Scottish Widows Ethical	7.32%	20.32%	3.48%	-3.45%	16.24%	47.57%	15
Standard Life Investments UK Ethical	20.19%	29.73%	1.58%	12.26%	3.20%	74.21%	8
IA UK All Companies	17.58%	22.49%	6.01%	1.93%	11.74%	69.52%	11
Average Ethical UK equity fund	18.18%	25.10%	5.84%	6.00%	10.07%	76.68%	
Average outperformance of ethical fund	0.60%	2.61%	-0.17%	4.07%	-1.67%	7.16%	
Average 3d portfolio Fund	19.16%	27.59%	4.46%	11.37%	10.25%	89.38%	
Average outperformance of 3d funds	1.58%	5.10%	-1.55%	9.44%	-1.49%	19.86%	
Corporate Bond							
Alliance Trust SF Corporate Bond	16.39%	3.86%	7.15%	3.18%	13.18%	46.20%	1
EdenTree Amity Sterling Bond	11.00%	3.72%	8.96%	1.31%	6.74%	34.26%	8
F&C Responsible Sterling Bond	12.45%	1.66%	5.48%	2.95%	12.32%	35.19%	7
Kames Capital Ethical Corporate Bond	11.16%	2.95%	5.91%	4.58%	10.35%	36.44%	6
Rathbone Ethical Bond	12.55%	7.60%	9.15%	3.06%	8.57%	44.82%	2
Royal London Ethical Bond	14.30%	3.72%	7.99%	4.06%	11.33%	43.89%	3

(cont...)

Funds and bonds in the 3D Portfolio

Outperformed sector average

	2011-2012	2012-2013	2013 - 2014	2014 - 2015	2015 - 2016	2011 - 2016	Rank
Royal London Sustainable Managed Income			7.16%	4.36%	11.74%		
Standard Life Investments Ethical Corporate Bond	15.01%	3.05%	6.76%	2.87%	12.20%	40.41%	4
Threadneedle UK Social Bond				4.47%	12.70%		
IA Sterling Corporate Bond	13.16%	2.88%	6.42%	2.81%	12.22%	39.07%	5
Average Ethical Sterling Corporate Bond fund	13.27%	3.79%	7.32%	3.43%	11.01%	40.17%	
Outperformance of average ethical bond fund	0.11%	0.91%	0.90%	0.62%	-1.21%	1.10%	
Average 3d portfolio Fund	13.37%	4.80%	7.40%	3.82%	11.20%	42.49%	
Average outperformance of 3d funds	0.21%	1.92%	0.98%	1.01%	-1.02%	3.42%	
Global Growth							
Aberdeen Fund Managers Ethical World Equity	12.60%	12.78%	5.26%	-14.66%	30.80%	50.64%	
Alliance Trust SF Absolute Growth	20.09%	20.55%	4.85%	0.86%	22.99%	87.86%	
Alliance Trust SF Global Growth	20.25%	20.57%	7.25%	1.41%	26.94%	99.67%	
EdenTree Amity International	11.25%	15.99%	7.82%	-11.68%	28.00%	59.72%	
F&C Responsible Global equity	13.08%	20.82%	6.63%	4.65%	27.44%	97.73%	
Stewart Investors Worldwide Sustainability			2.74%	5.85%	35.54%		
Halifax Ethical	17.79%	18.40%	9.91%	-8.01%	31.55%	87.84%	
Henderson Global Care Growth	9.97%	26.04%	10.06%	2.21%	25.90%	98.49%	
Jupiter Ecology	8.08%	25.64%	2.42%	-1.36%	27.29%	77.85%	
Old Mutual Global investors Ethical	15.25%	31.06%	3.09%	-2.63%	37.64%	105.41%	
Royal London Sustainable World Trust	19.07%	16.97%	11.23%	5.01%	22.57%	99.34%	
Sarasin Equisar Socially Responsible	15.19%	22.55%	10.29%	-3.21%	6.08%	54.44%	
Vanguard SRI Global Stock		19.44%	11.42%	1.36%	28.91%		
WHEB Sustainability	6.59%	19.54%	9.52%	-0.05%	30.39%	85.88%	
IA Global	12.99%	18.78%	7.87%	-1.36%	26.15%	81.11%	
Average Ethical Global equity fund	14.10%	20.80%	7.32%	-1.45%	27.29%	83.74%	
Outperformance of average ethical global fund	1.11%	2.02%	-0.55%	-0.09%	1.14%	2.63%	
Average 3d portfolio Fund	13.00%	22.47%	6.14%	1.49%	28.18%	89.95%	
Average outperformance of 3d funds	0.01%	3.69%	-1.73%	2.85%	2.03%	8.84%	

EXCLUSIVE INTERVIEW: GEORGE CRITCHLEY, FOUNDER OF PENNINE WEALTH SOLUTIONS

George is the founder and Senior Partner of Pennine Wealth Solutions LLP (PWS) having retired from advising in February 2012. Launched in 2011 PWS provides packaged investment solutions that Financial Advisers may recommend to their clients.

PWS is built on five core principles – value, clear communication, choice, control and preservation of capital – all of which offer investors a range of investment solutions that aim to provide both value for money and better communication about what is happening.

What is Pennine Wealth Solutions?

PWS manages 36 investment portfolios, 4 fund managers, a strong track record, including active/passive, + ground-breaking impact options.

What was the driver for creating the Positive Pennine portfolios specifically – what gap does it fill?

Financial Advisers struggle to recommend sustainable investments because regulation has pushed them to focus on due diligence and risk control. Therefore, they utilise various pre researched portfolios or funds. Typically, multi asset and mainstream. Until now there hasn't been a large enough universe of sustainable options to create a well researched and risk controlled offering.

PWS with their supporting research from 3D Investing have created portfolios that financial advisers will find very easy to recommend. This is a truly ground-breaking development. Great for advisers and great for their investors.

Who is it primarily for?

Positive Pennine is for all those investors, large and small that still require good investment performance, but care enough to want to do their bit to make the world a better place. Financial Advisers and their clients no longer have any excuses!

What difference do the Positive Pennine portfolios want to make?

The investment management industry has the power to change the views of the firms they invest in. If these firms act with improved processes, morals and ethics then bit by bit our planets future will look rosier. PWS believes where they lead, others will start to follow. PWS believes positive investing should be the backbone of all investors portfolios.

What are the barriers to making that difference?

By creating what we have the regulatory, market barriers for Financial Advisers have now been removed. PWS's challenge is one of adviser awareness. We are a small, North West based DFM. We need to work hard to spread our message.

Who's helping you overcome those barriers?

Organisations such as Blue & Green Tomorrow are vital to us to make the potential investor aware that a modern solution exists. In addition we are working on the Advisory community, to encourage and educate them. Up to now most Financial Advisers have ignored this option because it is too awkward to recommend.


George Critchley, Founder & Senior Partner, Pennine Wealth Solutons LLP

Are financial advisers doing enough to enable people to invest in a positive way?

No. Sustainable and impact Investing is very niche in the Advisory world. Very few have got involved.

The rules and regulations that Advisers have worked with make sustainable and impact investing options difficult to pursue. In addition, older Advisers have been cynical to the investment performance of the few funds that have existed for a while. The world has now changed. Sustainable Investors no longer have to sacrifice performance. In fact, in the future there are arguments that sustainable options may possibly outperform.

How can people – such as financial advisers and retail investors – find out more about the Positive Pennine portfolios?

Go to the PWS website www.penninewealthsolutions.co.uk.
Our brochure and Impact report can be viewed or downloaded, alternatively talk to one of our accredited Adviser members.

A Q&A ABOUT SUSTAINABLE INVESTMENT

By PAUL PIZZALA

As many people are increasingly aware long-term demographic, environmental and resource challenges are reshaping the global economy. While these challenges pose threats in many areas, they also create significant opportunities. These opportunities form the focus of the questions we ask and the way we seek to understand the investment world.

What has been the most interesting development in sustainable investment in 2016?

Sometimes it is the most obvious and well covered that is newsworthy and currently the most interesting development we see is the ubiquity of digitisation. In the headlines this looks like "Big Data" and "Google Cars" and what this describes is a connection between sensors and information analytics, in any product or process, also known as the "Internet of Things".

In terms of products it means that our relationship with cars, fridges, homes and mobiles is going to change, possibly as dramatically as the internet has changed our relationship with media to a more social one. In the case of the Google Car, if it were to be fully autonomous, it means that drivers have a lot of free time on their hands to do other more social things.

On an everyday level it means trucks can pool more easily where a fleet of them are able to travel together, reducing drag with less breaking and thereby boosting fuel efficiency.

Potentially this type of sensing and responding makes it easier to mimic the efficiencies seen in natural systems.

Overall, we feel this plays into themes such as resource efficiency, environmental services and healthcare that are enabling a more intelligent use of resources, designing better systems and aiming for a healthier and higher quality of life.

And the most frustrating development?

It is usually the case that there is a tension between discipline and pushing the boundaries in any industry and especially ones that are operating near a new frontier. In the case of solar the rapid falls in cost have boosted the demand side of the equation creating more positive impact and allowing consumers to access more clean and affordable energy.

On the other hand the low prices and margins in the solar industry mean it is more vulnerable to fluctuations in the energy prices creating more risk. From an investors point of view this has been a disappointing experience and it is likely to continue to be frustrating whilst the industry matures and goes through cycles.

The reverse is true of the wind turbine industry which is now quite mature and has a more organised and predictable market. This is good both from an investor perspective and the ongoing development of the renewables industry. It just shows how sometimes the most impactful companies are not always the best investments.

What is the biggest theme for sustainable investment in 2017?

We believe that the digitisation theme will continue to gather pace and have profound implications for how products are made and how they are used. In a similar way to the Internet it will throw up challenges to established business models and companies that can't adapt as well as creating tremendous opportunities.

Our preference is to invest in companies and themes that are already relatively well established and in this way we don't spend too much time staring into the crystal ball. Overall, our feeling is the big change is in the way in which more people are joining the dots and seeing the bigger picture.

For instance what is the link between health, diet, education and government debt and why is this important?

It is well known that obesity and diet are a national and global issue and is a result of many factors. The most serious is that governments do not have a joined up way of doing anything about it. It puts tremendous strain on budget deficits and healthcare services and at the moment can only be managed and not effectively treated.

At some point however, the causes of obesity will have to be addressed, as it is an epidemic has reached breaking point in terms of actual healthcare and social costs. In the medium term, that means investing in companies that are bringing down the costs of healthcare and coming up with better solutions. In the longer term it means finding solutions to the root cause like better diet, education and quality of life factors.

Do you think we have reached, or are approaching, the tipping point in the take up of sustainable investment?

It doesn't feel that we are at a tipping point when the world suddenly wakes up and gets sustainability. Any innovation, technological or social, gathers pace and then takes the world by surprise by the speed of its acceptance. Our sense is that we are still gathering momentum, but it does seem like almost every business, government and consumer seems to have a 'global' awareness of sustainability even if they can't quite define what it is and whether or not they agree with it.

In the investment world there is an array of terms to map sustainability such as ESG, Engagement, Stewardship, SRI, Best of Class, Ethical and Impact which, in our view, all capture an essential element of what sustainability is. Our sense is that when all these elements fuse into something more holistic that measures economic, environmental and social risk and returns then sustainability will have arrived.

We believe we have something unique because we start by investing in companies that are solving environmental and social problems. Our process fuses the best parts of all these elements into one fund and means that we aim to maximise return and positive impact whilst minimising risks. In this way we are at the frontier of equity impact investing but in a thoughtful and well organised way.

What impact do you think Brexit will have on sustainable investment?

It is a good question and the immediate impact for us was to see a rise in the sterling value of the fund because we invest globally, but the thrust of the question is really to do with the long term. Obviously, there are lots of different ways of looking at it depending on who you are. Unfortunately, a simple 'yes or no' referendum was always in danger of failing to capture the diversity of views and fed a polarised and highly charged 'us or them' debate.

In a strange way Brexit, the related phenomena of Donald Trump and amplification of other 'fringe' voices is asking lots of difficult questions and leading people to look into its causes. We could pinpoint the global financial crisis as the catalyst, which in itself was a crisis of naked greed and poor governance. Looking into the way a system is built, its beliefs and values, how a company is organised and understanding their strengths and weaknesses is a core part of what sustainability is about.

This means that we should and can be optimistic about sustainability and ensure that our saving and spending habits are in line with our values. This promises to create more solutions as consumers are able to send a very strong signal to the market through their preferences, which in turn pushes companies, regulators and politicians to respond.

If you could make one change to benefit sustainable investment, what would it be?

This is more of a technical point but not to worry, as it is part of our job to communicate complex issues.

Our biggest bugbear, at the moment, is the way in which investment solutions and index funds use Environmental, Social and Governance (ESG) factors to select companies and define sustainability.

For example more investors, citizens and consumers are asking the question about a living wage rather than a minimum one. In asking companies to raise the bar, ESG legitimises higher standards of care within the investment community.

It is undoubtedly a good thing and positive for society as a whole and requires active stewardship and engagement from investors in the conversations they have with companies as well as the investment decisions they make. Passive 'tick box' and index investors that don't do the active work are taking a free ride and are not really pushing the agenda.

In the worst case 'tick box' and passive ESG investing completely misses the point about sustainability. It leads to anomalies where oil and gas companies, for instance, can be rated more highly than renewable energy ones. This is because 'oil and gas' can be better at providing information and form filling, and when seen in isolation from what the company actually does, leads to better ESG ratings.

Therefore, we would like to see ESG ratings as an active strategy that more fully accounts for what a company does rather than how it reports what it does.

Paul Pizzala, Business Development Manager, Wheb Group

Company Biog

WHEB Asset Management is a specialist fund management business. We are owned and run by some of the most experienced practitioners of sustainable investment. We manage a single long-only global equities strategy, accessed through the FP WHEB Sustainability Fund.

WHEB Asset Management's mission is to advance sustainability and create prosperity through positive impact investments.

SPECIALIST
SUSTAINABILITY
INVESTORS

www.whebgroup.com

WHEB

INVESTMENT OPPORTUNITIES IN DNA SEQUENCING

by SIMON CLEMENTS

An interesting prospect for long-term, forward thinking investors like ATI is companies in the medical science and technology sectors that are developing groundbreaking technologies and treatments. A particularly exciting area is DNA sequencing, which is advancing rapidly and suggesting greater and greater possibilities for patients and investors.

The cost of DNA sequencing has reduced dramatically over the past 15 years. The first human genome was sequenced in 2000 at a cost of US $2.7 billion (£1.9 billion)[1], however today it is possible to do it for just a few thousand dollars. This increased accessibility is paving the way for a myriad of new applications that could help to prevent disease and improve the quality of life for millions of people across the globe.

It is possible that over the next decade the cost of DNA sequencing could decline to a point at which it becomes ubiquitous. With less than 0.01% of the global population sequenced to date (just 228,000 of a potential 7.4 billion)[2], we think that there remains considerable future growth potential for manufacturers of DNA sequencers and related products. Industry leader Illumina and its main rival Thermo Fisher – which we hold within our Sustainable Future fund range – are both well positioned to take advantage of this.

Immediate applications

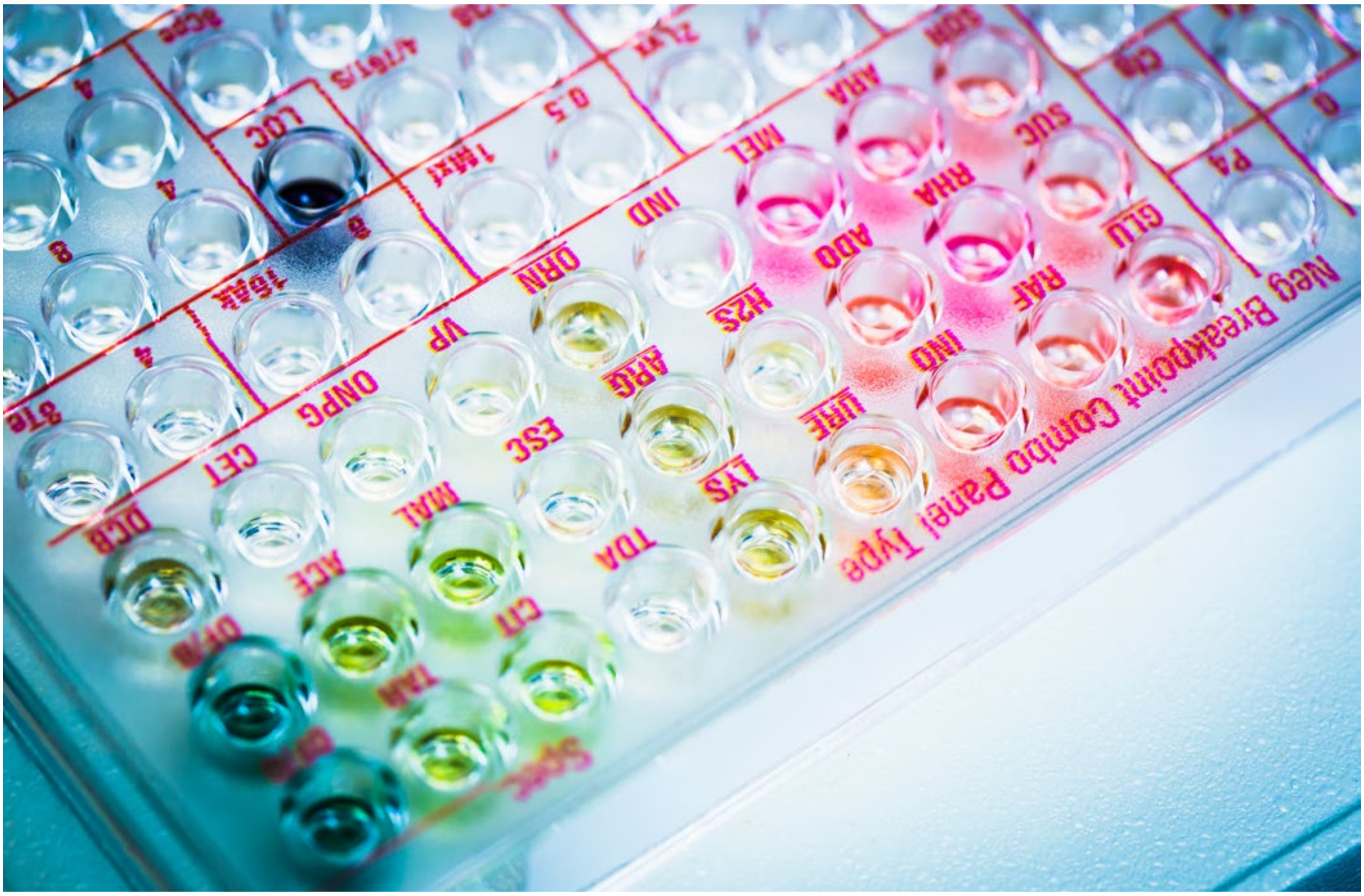
Only about 0.1% of our genomes are different to each other. Understanding these variations and how they relate to potential diseases is an area of significant interest and may be the key to identifying treatments for complicated diseases including asthma, diabetes and Alzheimer's.

One of the first and most rapid adoption settings for DNA sequencing is in pre-natal testing relating to down's-syndrome. Existing tests involve extracting foetal cells from the placenta or amniotic fluid via a large needle; a highly invasive procedure that carries a risk of miscarriage. The non invasive screen involves taking a blood sample from the mother, as the foetus sheds DNA into the mother's bloodstream. This procedure is currently chosen by around 50% of mothers in the US that are categorised as high risk and its adoption is expected to follow throughout Europe and the rest of the world.

Within oncology, the genetic mutation responsible for the growth of cancerous tumours is now frequently being identified, as is how a tumour evades the immune system. This is a significant development from simply being able to locate the cancer in the body. Importantly, this is leading to a more personalized approach to treatment through which drugs are being designed to target the specific mutations that have caused the cancer in an individual.

Leaders in oncology with broad portfolios that could potentially combine therapies include Roche, Novartis, Bristol Myers Squibb, Astra Zeneca and Merck. These should all do well, however there are also some interesting smaller companies developing innovative new therapies such as Incyte and Celldex Therapeutics.

DNA sequencing is also driving innovation in cardiovascular medicine. A study published in the New England Journal of Medicine showed that over a 15 year period individuals with loss of function mutations in the gene that codes for a particular protein known as PCSK-9 had 29% lower levels of LDL cholesterol and an 88% reduction in the risk of coronary heart disease[3].



Several companies are developing drugs that target PCSK-9 that could potentially be approved by regulators this year.

Companies at the vanguard of population genetics such as Amgen and Regeneron should have a first mover advantage. We hold American multinational biopharmaceutical company Amgen within the Sustainable Future funds. A leader in the development of a number of cutting edge treatments, Amgen's shares have risen 163% over the five years to 16 June[4]. While this lags the Nasdaq Biotechnology index over the same period, it is well ahead of the 63% returned by the MSCI World index[5: FE Analytics].

Future potential

There is significant future opportunity for companies developing drugs targeting rare diseases including Alexion, Shire Pharmaceuticals and Vertex. Alexion, which we hold in the Sustainable Future funds, is a leader in the area of ultra rare diseases. These diseases are so rare that the biggest challenge for doctors is identifying them. DNA sequencing has the potential to help us identify patients at risk of ultra rare diseases through their DNA print, rather than through symptoms. This expands the market for companies like Alexion, whose share price has grown by 180% over the five years to 16 June[6] and in which analysts still see more than 70% potential upside.[7]

The use of DNA sequencing is not limited to human medicine. DNA sequencing is also used in areas such as enzyme DNA. Enzymes are biological catalysts that are used in applications ranging from laundry detergents to the manufacture of biofuels and food production. Enzyme producers such as Novozymes, which we hold, are leveraging this technology to accelerate the development of enzymes unique to their customer's specific requirements.

Reading and understanding DNA is also only the first step in this fascinating journey. The next step is writing DNA. Gene editing technologies may enable us to replace faulty DNA, enabling cures for genetic diseases such as sickle cell anaemia.

This could also potentially lead to creating synthetic organisms that produce bio fuels. Indeed, American biotechnologist and geneticist Craig Venter has already created the first living organism with a synthetic genome.[8]

When the human genome project began there were only a few diseases for which we understood the genetic cause. Today we know the genetic basis for thousands of genetic diseases. Sequencing has driven rapid progress in our understanding and we believe this will lead to the development of more effective treatments for serious diseases and increased opportunities for application in other areas, which will drive returns for early investors.

Risk information

Past performance should not be seen as a guide to future performance. The value of investments and any income from them can go down as well as up. Investors may get back less than they originally invested.

Examples of stocks are provided for general information only to demonstrate our investment philosophy. It is not a recommendation to buy or sell and the view of the Investment Manager may have changed.

Funds which undertake ethical screening to meet their investment aims are unable to invest in certain sectors and companies.

Simon Clements, Investment Manager, ATI.

About ATI

ATI is a specialist investment management company who are committed to delivering superior investment performance for their clients. They were established in 2009, and have a range of open-ended funds covering global and regional equities, fixed income and multi-asset portfolios.

Their robust investment approach is designed to reduce risk and deliver strong returns. It focuses on identifying those companies that are improving people's quality of life, driving efficiency in the use of scarce resources and building resilient, prosperous and stable societies because these are the companies that will survive and thrive.

Their experienced and dedicated team of investment professionals actively seek out and invest in high quality businesses with an attractive valuation, robust business fundamentals and strong management teams.

They look for adaptors and innovators that, through their core product offering and the way they manage their operations, are capitalising on change, accessing new opportunities and outperforming their competitors.

They invest in progressive companies that create real and lasting value for their shareholders and for society, now and in the future.

ATI Investing for tomorrow, today.

THE STATE OF SOCIALLY RESPONSIBLE INVESTMENT IN THE UK

By ERIC HOLTERHUES

With Europe's economic landscape facing an uncertain future in light of Brexit, the US elections and worries over China's economy, the challenges to equity markets are historically unpredictable.

Add to this the challenges of Negative Interest Rate Policies and it's easy to uncover a picture of the market which encourages a preference for stable, low-volatility and high-dividend stocks.

Despite volatility in equity markets in the first three quarters of 2016, there was modest global economic growth, leading us to believe that the market has not yet peaked. It's not difficult to assume that some volatility will continue: the UK has passed a threshold in which it has made a definite choice for an uncertain future, and other global shifts will bring fresh demands.

At the same time, Europe is one of the fastest growing markets for socially responsible investments and, according to Eurosif European SRI Study, has been building on the €13 trillion of assets under management in European Socially Responsible Investment (SRI) funds in 2014.

Nonetheless, the SRI market in the UK is still fairly small. Although it is now worth over £15 billion, it only represents 1.5% of the total investment market. Recent research by Triodos Bank shows that while over 60% of UK investors would like their money to support companies that are both profitable and ethical, the majority (51%) have never been offered the option of investing in an SRI. Furthermore, 46% would not know where to go to find out more information. Clearly there is a demand in the market that the financial industry is not currently responsive to.

We believe that money can play an important role in the transition to an economy that is fairer and more humane and that also safeguards our planet. To a large extent, we do this by directly (either by loans or by equity) financing enterprises with similar views about the environment and social practices: wind and solar parks, organic farms, microfinance institutions. However, we can't ignore that a large portion of our economy consists of large-cap companies that are not fully adhering to our essential values.

This is where our four SRI funds offer a unique opportunity. Through stringent criteria we make a very deliberate choice to find companies that are more responsible than others – companies that are driving the whole sustainability agenda forward – to invest in. But maintain an investment position that is much more active than simply buying shares on the stock market. With many of our investee companies, we develop proactive relationships, creating the framework for engagement through dialogue to motivate them to be more sustainable.

Engagement is about influence and applying pressure on companies in a way that wouldn't be possible if Triodos didn't invest in them. Triodos Research is committed to exerting the strongest possible positive influence on the companies we invest in, through active engagement. In 2015, 661 engagement actions took place involving 280 companies. Even a small change in the policy or practices of a major company can make a significant global impact.

The coming year is set to present new opportunities for SRI funds to demand more from the ethical and sustainable ambitions of multinationals. Our priorities at Triodos Investment Management are indicative of the diverse portfolio in our Triodos Sustainable Equity Fund, and also reflect what are widely perceived to currently be the most salient environmental and ethical challenges.

Throughout our engagement activities we're able to identify specific topics to focus on. For instance, we'll continue assessing companies in terms of how far they are limiting their CO2 emissions, as laid out by the Paris Agreement. We'll also be talking to companies about their efforts to achieve a more balanced gender distribution in higher management positions. In addition, we'll be looking closely at how companies deal with animal welfare. Finally, we want companies, especially in the textile industry, to make rapid progress when it comes to paying fair wages in developing countries.

As the funds progress, the positive impacts become clear. When we invested in Dutch chemical group DSM through our Triodos Sustainable Mixed, Equity, and Bond Funds, it met our minimum criteria. However, after continuing dialogue with DSM over the last few years on its carbon footprint, the company has announced it will switch over to entirely green electricity in the next 10 to 20 years.

Similarly, German carmaker BMW has made huge progress in reducing the CO2 emissions of its cars in recent years – a topic we have discussed with the company for many years. When these small changes are applied to the scale of organisations like DSM and BMW there's potential for significant global impact.

This active position is not only beneficial to our investors, but also to the invested companies. Our Triodos Bank Sustainable Pioneer Fund invests in leading innovative and pioneering companies worldwide, many that are committed to the ideals of sustainability. Wessanen, a leading company in the European organic and natural food market, offers well-known food brands such as Clipper tea and Whole Earth peanut butter, and is part of this fund portfolio. CEO Christophe Barnouin says that their business strategy relies on like-minded investors: "Because we are in the business of changing the world of food, it is important for us to have investors on board that support our vision and strategy. Being part of the Triodos Sustainable Pioneer Fund means that we are supported by investors that want to be with us on the journey for the long term, which is key to our success now and in the future."

There is still work to do: socially-responsible investment vehicles are still a minority in the UK market, even though they offer a unique way to blend financial, environmental and social goals. Buying shares in publicly listed companies through the conduit of SRIs may seem counter-intuitive to some investors who don't perhaps perceive the activities of multi-nationals to be driven by ethical or sustainable ambitions. And yet, we are seeing successes in environmental and social change as well as financial return—the market is poised for growth. We are pleased to be at the forefront of that growth with our SRI funds.

Eric Holterhues, Head of SRI, Triodos Investment Management

About

Founded in 1980, Triodos Bank has become a reference point for sustainable banking globally. Triodos Bank is an independent bank that promotes sustainable and transparent banking.

Triodos Investment Management is wholly-owned subsidiaries of Triodos Bank NV. It connects a broad range of investors who want to make their money work for lasting, positive change with innovative entrepreneurs and sustainable businesses doing just that. In doing so, we serve as a catalyst in sectors that are key in the transition to a world that is fairer, more sustainable and humane.

Throughout our 25 years of impact investing we have built up in-depth knowledge in sectors such as Energy & Climate, Inclusive Finance, Sustainable Food & Agriculture, Arts & Culture, Sustainable Real Estate and Socially Responsible Investing (SRI).

Our SRI offering in the UK, where we invest in listed companies with an above-average environmental, social and governance (ESG) performance, consists of two funds: Triodos Sustainable Equity Fund and the Triodos Sustainable Pioneer Fund.


Smart investors invest in better
Discover ethical investments designed to shape a better future
As a pioneer of sustainable banking, we're passionate about making money work for positive change. The Socially Responsible Investment Funds we offer target potential growth and positive impact by only investing in companies delivering superior social, environmental and financial performance.
To start your ethical investment journey, visit **triodos.co.uk/sri** to find out more.
Triodos Bank
Your capital is at risk and the value of your investment may go down as well as up, and you may not get back the amount originally invested. Income is variable and not guaranteed.
The Triodos Socially Responsible Investment Funds are traded in euros and dividends are converted from euros to sterling. Your total return is therefore subject to the euro-sterling exchange rate at the point of transaction. You are also exposed to exchange rate fluctuations in the regions in which the fund invests.
Triodos Bank NV (incorporated under the laws of the Netherlands with limited liability, registered in England and Wales BR3012). Authorised by the Dutch Central Bank and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. Registered office: Triodos Bank, Deanery Road, Bristol BS1 5AS. VAT reg no 793493383.

IMPACT INVESTING: A RETURN ON SOCIAL INVESTMENT

By MARK KING

Social impact investment, impact investment and social finance are terms often used interchangeably with Socially Responsible Investing (SRI), but they often represent a new and different product segment from traditional funds.

Impact investing is a way of helping charities and social enterprises raise finance, but unlike a regular grant, it offers a return tied to addressing a social issue. The first investment of this type in the UK was the Peterborough Social Impact Bond, launched by Social Finance in 2010 with £5m initial funding committed from a group of foundations. This money was used to create support services for local prisoners to lower reoffending rates, such as accommodation and low-level mental health support. Investors would receive a pay out from the Big Lottery Fund and the Ministry of Justice provided that the reduction in the reoffending rate was greater than 7.5%, but investors risked losing their investment entirely if the impact was not achieved. By the end of the first phase in August 2014, the reduction rate was found to be 8.4%. The pilot is still awaiting final results on whether investors will receive their capital back along with the return.

Another project, launched recently by Big Society Capital and Bridges Ventures, pays a return based on the successful placement of children with adoptive families who have suffered from neglect and trauma. Both local authorities and the Cabinet Office's Social Outcome Fund will make payments for each successfully placed child, generating the potential return for investors.

Social finance is a potentially revolutionary source of alternative funding for non-profit organisations. However, some charities are concerned that social impact investing will eclipse traditional philanthropy, as investors opt to replace the purely "giving" segment of their finances with investments that may pay a return. Equally, some are concerned about the concept of placing monetary value on social issues.

Nonetheless, since the Peterborough Bond was launched in 2010, it has given rise to a steady stream of new products intended to tackle a range of entrenched social issues. The last government unveiled a Social Investment Tax Relief (SITR) policy to encourage the growth of impact investing as a source of charity finance. From 6 April 2014, social investments attracted 30% income tax relief for investors. Since then, £3.4m has been invested across 30 organisations in SITR deals, according to research by New Philanthropy Capital.

Last year, the Financial Conduct Authority (FCA) opened a consultation into the barriers for retail investors to social investment, given the pace of market development and the need to protect investors new to the vehicle. Understanding the risks associated with these products can be challenging as their profile can be so different to traditional funds, in many ways sharing more similarities with crowdfunding.

For now, the bar is relatively high for retail investors in this fledgling market, though there are signs that the product range may open to a wider number of potential investors. Columbia Threadneedle launched the 'UK Social Bond Fund' in December 2013, in partnership with Big Issue Invest, which has one of the lowest minimum investments in the sector of £2,000. The fund aims to deliver both a financial and social return by investing in fixed income securities with a clear focus on achieving and supporting positive outcomes for individuals, communities or society as a whole, in areas such as housing, employment, education, transport and health. The fund was the first to offer daily liquidity, addressing one of the major concerns around long-term social finance products for retail investors. The attractiveness of the fund is reflected in the fact that it now has over £100m AUM.

Measuring the overall profile of returns can be more challenging than in the traditional SRI fund segment. This is partly because the sector is so new, but also because financial expectations are so diverse. Each investor will have a different perspective on how the balance should be tipped between social and financial returns.

Mark King, Investment Content Specialist, Columbia Threadneedle

POSITIVE IMPACT MEASUREMENT: BEYOND CARBON FOOTPRINTING

By MEG BROWN

Investors choose funds for different reasons. Some seek growth, others income. Some investors opt for low cost index tracking funds while many look for products for diversification that show low correlation with other assets in their portfolios.

In recent years we have seen another significant driver emerge as many individuals, endowments and pension funds increasingly seek to align their investments with their values and beliefs. As concerns about climate change and the investment risks become more widespread amongst investors, we are frequently asked about the environmental impact of our funds.

Many asset classes (such as infrastructure, venture capital and debt) now commonly use positive impact metrics. However, listed equity products have been slow to adopt a more sophisticated positive approach and typically look at only negative risks; often with overly simplistic or qualitative techniques including carbon foot-printing. So we set out to change this and to be the first investment manager to measure not just the negatives, but to bring the language and quantitative evidence of positive impact to a listed equity strategy.

Impax's "Specialists" strategy seeks to maximise financial returns within a universe of pure play - or "specialist" - environmental companies. However, it is not just the returns which appeal to investors. With over 80% of the underlying revenue of the portfolio companies generated by sales of environmental products or services, it has always seemed reasonable to believe that the strategy has a positive environmental impact. However, reasonable assumptions need to be tested and these impact metrics, now available for the last two years, demonstrate that the strategy does indeed have a quantifiable net positive environmental impact.

We have focused on CO2 emissions, CO2 emissions avoidance, renewable energy generation, water treatment and materials recovery and recycling. We believe this is the first listed equities strategy to disclose a net carbon position and our methodology is breaking new ground in the field of positive impact investing.

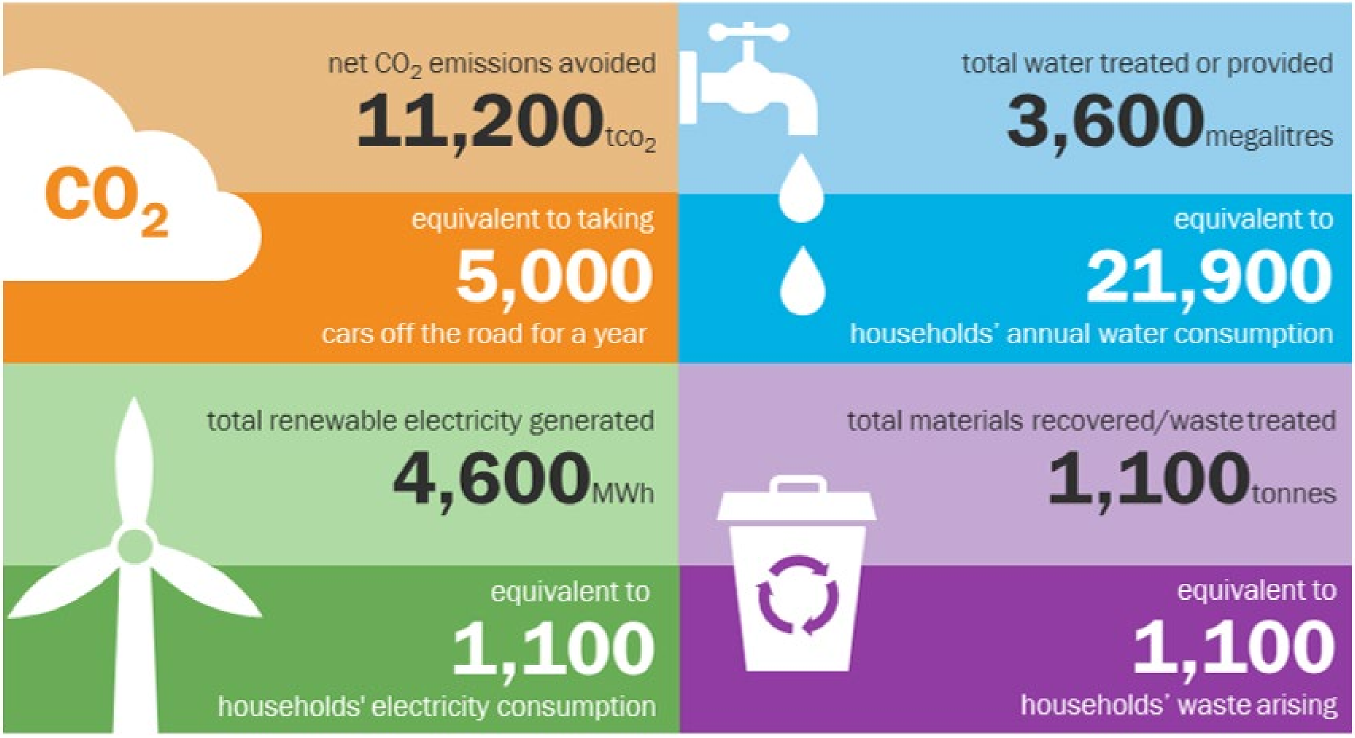
We have assessed the positive impact at company level and attributed a portion to the portfolio based on our percentage equity ownership. The rigorous methodology has been assured by EY, a leading provider of climate change and sustainability services.

A £10 million investment in 2015 produced a net carbon reduction of 11,200 tonnes of C02, which we estimate is equivalent to taking 5,000 cars off the road. (see graphic overleaf)

The three largest contributors to CO2 emissions avoidance were a manufacturers of equipment used in beverage container recycling, a company generating renewable energy displacing coal use in China, and a company providing LED lighting for demanding operating environments.

Investors can use these additional reporting metrics to decarbonise their portfolios, offset high emissions in other strategies, or simply improve their understanding of the extent of the positive outcomes of their investment decision. This more holistic reporting approach is resonating with

Impax Specialists Strategy: Environmental impact of £10m investment[1]



[1]Impact of £10M invested in the strategy for one year. The UK Green Investment Bank's calculator was used to translate the impact into everyday equivalents (e.g. cars on the road, household energy use). Based on most recently reported annual impact data for holdings in the portfolio as at 31 December 2015. Methodology has been assured by Ernst & Young LLP.

investors who are seeking strong financial returns over the longer term but also want to see some kind of positive impact from their investment. The analysis also appeals to investors who understand that carbon foot printing only provides limited insight into carbon risk – particularly when investing in environmental solution providers.

Meg Brown, UK Business Development, Impax

TIME TO INJECT A LITTLE SUNSHINE INTO YOUR PORTFOLIO

By Ricardo Piñeiro

With political uncertainty around hard or soft Brexit and economic uncertainty driven by currency fluctuations coupled with stock market volatility and prevailing low interest rates, income investors are understandably on the lookout for attractive and reliable yield. As some of the savvier fund managers have already come to realise, that they can find it among the dividend-paying renewable energy infrastructure stocks.

The global green agenda, together with advancements in renewables technologies which have reduced cost of generation dramatically, suggest that growth in the sector is set to continue.

The EU has decreed that 15 per cent of UK energy consumption should come from renewable resource by 2020, against a base level of just 3.8 per cent in 2011. This is a legally binding target, notwithstanding the UK's decision to leave the European Union and highlights the importance of the UK's shift towards low carbon technologies. More recently the UK government approved the Fifth Carbon Budget targeting a 57% emissions reduction by 2032, reiterating the UK government's commitment to a green energy policy".

Compared with other renewable technologies, solar generates a stable and predictable revenue stream with a high EBITDA margin. It is the most predictable of all renewables and with guaranteed feedstock (enough solar energy reaches Earth every hour to meet global energy demand for an entire year if we could harness it!) and no moving parts, not as operationally complex as either wind or waste, therefore easier – and less costly - to maintain. The sector has experienced rapid growth with 11GW of new capacity installed over the past five years.

Although the pace of growth in the sector is expected to slow following regulatory changes resulting in the early closure of the Renewables Obligation scheme for new solar assets and the reduced Feed in Tariff for rooftop - there are still many reasons why confidence in the sector should endure.

For Foresight Solar Fund Limited ("FSFL" or "the Company") the listed solar focused renewable energy company, the changes to the ROC regime do not apply to its existing 338MW portfolio of operational assets or the Company's immediate pipeline.

There is, understandably, also much talk around the potential adverse impact of power prices, although we believe, in some instances, this has been overstated. Lower power prices inevitably have an impact on revenues, but the extent is mitigated by the fact that 60 percent of the portfolio's revenues derive from the locked in index-linked ROC subsidy scheme, with the minority 40 percent of revenues exposed to changes in the power curve. Since the referendum result in June, the UK has experienced a period of increased power prices driven both by supply concerns and the devaluation of the pound. FSFL's active strategy regarding power price sale agreements allows the Company to benefit from upward power price movements while mitigating the risk of downwards movements by having the option to enter fixed price arrangement in the short and medium term.

FSFL has a low-risk approach to the sector, taking no blind pool or development risk in the acquisition of assets. The Company's 16 asset, 338MW portfolio is fully operational with fixed index-linked subsidies locked in for 20 years. The Company has identified an attractive 200MW pipeline which includes secondary portfolios of operational assets including 1.3 ROC projects and those eligible for the ROC 'grace period'.

The Company's objective remains to provide shareholders with a sustainable and increasing dividend with the potential for capital growth over the long-term, targeting an index-linked 6 percent yield to investors, and to date the Company has paid out all target dividends since IPO.

In today's market, that kind of low risk yield can be a valuable ray of sunshine for any investor looking for income – especially when it can be delivered tax-free in a SIPP or ISA.

Ricardo Piñeiro is a Director at Foresight Group LLP and investment manager of Foresight Solar Fund Limited.

investors CHRONICLE

Top 100 Funds 2016

Foresight Solar Fund (FSFL)

Foresight
SOLAR FUND LIMITED

3D investing www.3dinvesting.com

nvested in a stand-ardised portfolio with minimal financial planning advice.

Foresight Solar
(immediate income)

Tim Cockerill says Foresight is a specialist infrastructure fund with a high and secure yield: "This fund is all about income, so capital growth potential is very modest, but it also works as a portfolio diversifier".

Source: Money Observer December 2015

PUT A LITTLE SUNSHINE INTO YOUR SIPP

With interest rates at all-time lows, and with continuing volatility in stock markets around the world, Foresight Solar Fund Limited (Ticker "FSFL") offers a steady target annual income of 6.17p per share, which is index-linked and paid quarterly. If the shares are held in a SIPP or ISA, that dividend income can be delivered tax free. There is no guarantee that FSFL will achieve this income level.

UNCORRELATED INDEX-LINKED INCOME

Many institutional investors are already finding this uncorrelated asset class of renewable infrastructure with its predictable revenues extremely attractive.

Investing in stocks and shares places investors' capital at risk.

Why not talk to your broker or financial adviser about FSFL. It could just be the ray of sunshine your SIPP or ISA needs.

Foresight group

WRITE FOR US

Whether anonymously, under a pseudonym, or with your name published loud and clear.

Journalism is changing rapidly through a digital and social media revolution. It is no longer the preserve of press barons and elite groups; journalism is now democratic and everyone has a voice.

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Join us today by emailing editor@blueandgreentomorrow.com with your thoughts and contributions.

blue&green tomorrow

3D INVESTING RATINGS OF ETHICAL AND ENVIRONMENTAL FUNDS

Ethical & Environmental Funds	3D star rating	3D Portfolio?
Columbia Threadneedle UK Social Bond	★★★★★	YES
Impax Environmental Markets Fund	★★★★★	YES
Impax Environmental Markets PLC	★★★★★	YES
Triodos Sustainable Pioneer	★★★★★	YES
WHEB Sustainability	★★★★★	YES
Alliance Trust Investors SF Absolute Growth	★★★★	YES
Alliance Trust Investors SF Global Growth	★★★★	YES
Alliance Trust Investors SF Managed	★★★★	YES
AXA WF Planet Bonds	★★★★	YES
Impax Asian Environmental	★★★★	YES
Impax Environmental Leaders Fund	★★★★	YES
ishares Global Water UCITS ETF	★★★★	YES
ishares US Medical Devices	★★★★	YES
JSS Sustainable Water	★★★★	YES
Jupiter Ecology	★★★★	YES
Old Mutual Ethical	★★★★	YES
Parvest Aqua	★★★★	YES
Parvest Global Environment	★★★★	YES
Pictet Global Environmental Opportunities	★★★★	YES
Pictet Water	★★★★	YES
Robeco SAM Sustainable Water	★★★★	YES
Triodos Sustainable Equity	★★★★	YES
Vontobel Clean Technology	★★★★	YES
Alliance Trust Investors SF Cautious Managed	★★★	YES
Alliance Trust Investors SF Corporate Bond	★★★	YES
Alliance Trust Investors SF Defensive Managed	★★★	YES
Alliance Trust Investors SF European Growth	★★★	YES
Alliance Trust Investors SF UK Growth	★★★	YES

Ethical & Environmental Funds	3D star rating	3D Portfolio?
Alliance Trust Investors UK Ethical	★★★	YES
Allianz Global Ecotrends	★★★	NO
BMO F&C Responsible Global Equity	★★★	NO
Columbia Threadneedle Ethical UK Equity	★★★	YES
Edentree Amity UK	★★★	NO
Guinness Asset Management Alternative Energy	★★★	NO
Henderson Global Care Growth	★★★	YES
Henderson Global Care Managed	★★★	NO
Henderson Global Care UK Income	★★★	YES
Impax Food & Agriculture	★★★	YES
Ishares Global Clean Energy UCITS ETF	★★★	NO
ishares Global Timber & Forestry UCITS ETF	★★★	NO
Jupiter Green	★★★	YES
Kames Capital Ethical Corporate Bond	★★★	YES
Kames Global Sustainability Equity	★★★	NO
Lyxor ETF World Water	★★★	NO
Market Vectors Global Alternative Energy	★★★	NO
Market Vectors Solar Energy ETF	★★★	NO
Mirova Europe Environmental Equity	★★★	YES
Mirova Global Energy Transition Equity	★★★	NO
Mirova Global Sustainable Equity	★★★	NO
Pacific Assets Trust	★★★	YES
Parvest Environmental Opportunities	★★★	NO
Parvest Smart Food	★★★	NO
Powershares Global Water UCITS ETF	★★★	NO
Quilter Cheviot Climate Assets	★★★	YES
Rathbone Ethical Corporate Bond	★★★	YES
RobecoSAM Sustainable Healthy Living	★★★	NO

Ethical & Environmental Funds	3D star rating	3D Portfolio?
Royal London Sustainable Diversified	★★★	NO
Royal London Sustainable Managed Growth	★★★	NO
Royal London Sustainable Managed Income	★★★	NO
Sarasin Sustainable Equity - Real Estate Global	★★★	YES
Stewart Investors Asia Pacific Sustainability	★★★	YES
Stewart Investors Global Emerging Markets Sustainability	★★★	YES
Stewart Investors Worldwide Sustainability	★★★	YES
VAM Accessible Clean Energy	★★★	NO
7im Sustainable Balanced	★★	NO
Aberdeen Multimanager Ethical	★★	NO
Allianz Global Sustainability	★★	NO
Alquity Asia	★★	NO
Alquity Future World	★★	NO
Alquity Indian Subcontinent	★★	NO
Alquity Latin America	★★	NO
AXA IM Ethical Distribution	★★	NO
BGF New Energy	★★	NO
BMO F&C Responsible Sterling Bond	★★	NO
BMO F&C Responsible UK Equity Growth	★★	NO
BMO F&C Responsible UK Income	★★	NO
BNP Paribas Sustainable Active Allocation	★★	NO
Candriam Equities Sustainable Emerging Markets	★★	NO
Carnegie Worldwide Ethical	★★	NO
Castlefield BEST Income	★★	NO
Deutsche Invest New Resources	★★	NO
Eden Tree Amity European	★★	NO
Edentree Amity Sterling Bond	★★	NO
Funding Circle SME Income Fund	★★	YES

Ethical & Environmental Funds	3D star rating	3D Portfolio?
JSS Sustainable Bond - EUR Corporates	★★	NO
JSS Sustainable Equity - Global	★★	NO
JSS Sustainable Portfolio - Balanced	★★	NO
Jupiter Responsible Income	★★	NO
Kames Capital Ethical Cautious Managed	★★	NO
Kames Capital Ethical Equity	★★	NO
Leaf Clean Energy	★★	NO
Legg Mason Clearbridge US Equity Sustainability leaders	★★	NO
MAN GLG Global Sustainability Equity	★★	NO
Menhaden	★★	NO
Mirova Euro Sustainable Corporate Bond	★★	NO
Mirova Europe Sustainable Equity	★★	NO
Nordea Emerging Stars Equity	★★	NO
Nordea Nordic Stars Equity	★★	NO
Parvest Green Tigers	★★	NO
Parvest Human Development	★★	NO
Parvest Sustainable Bond Euro Corporate	★★	NO
Pictet Clean Energy	★★	NO
Pictet European Sustainable Equities	★★	NO
Pictet Timber	★★	NO
Powershares Global Clean Energy UCITS ETF	★★	NO
Robeco SAM Smart Energy	★★	NO
RobecoSAM Global Gender Equality Impact	★★	NO
RobecoSAM Sustainable Global Equities	★★	NO
Royal London Ethical Bond	★★	NO
Royal London Sustainable Leaders	★★	NO
Royal London Sustainable World	★★	NO
Sarasin Equisar Socially Responsible	★★	NO

Ethical & Environmental Funds	3D star rating	3D Portfolio?
Standard Life Ethical Corporate Bond	★★	NO
Standard Life European Ethical	★★	NO
Standard Life UK Ethical	★★	NO
Troy Trojan Ethical Income	★★	NO
UBS MSCI Pacific Socially Responsible UCITS ETF	★★	NO
UBS ETF (LU) MSCI Europe & Middle East S. R. UCITS ETF	★★	NO
UBS ETF (LU) MSCI World Socially Responsible UCITS ETF	★★	NO
UBS MSCI Japan Socially Responsible UCITS ETF	★★	NO
Unicorn UK Ethical Income	★★	NO
Vontobel Sustainable Asian Leaders	★★	NO
Vontobel Sustainable Global Leaders	★★	NO
Aberdeen Ethical World	★	NO
Aberdeen Responsible UK Equity	★	NO
Allianz Euroland Equity Socially Responsible	★	NO
Alquity Africa	★	NO
BSF Impact World Equity	★	NO
Candriam Equities Sustainable North America	★	NO
Candriam Equities Sustainable World	★	NO
Davy Ethical Equity	★	NO
Dimensional Global Sustainability Core Equity	★	NO
Eden SRI	★	NO
Edentree Amity International	★	NO
Family Charities Ethical	★	NO
Goldman Sachs Global Responsible Equity Portfolio	★	NO
Halifax Ethical	★	NO
iShares Dow Jones Europe Sustainability Screened ETF	★	NO
iShares Dow Jones Global Sustainability Screened ETF	★	NO
JP Morgan Global SRI	★	NO

Ethical & Environmental Funds	3D star rating	3D Portfolio?
JSS Sustainable Equity - Europe	★	NO
JSS Sustainable Equity - Global Emerging Markets	★	NO
JSS Sustainable Equity - USA	★	NO
JSS Sustainable Equity New Power	★	NO
L&G Ethical	★	NO
Ludgate Environmental	★	NO
Market Vectors Environmental Services ETF	★	NO
Parvest Sustainable Bond Euro	★	NO
Parvest Sustainable Equity Europe	★	NO
Parvest Sustainable Equity High Dividend Europe	★	NO
Pictet Emerging Markets Sustainable Equities	★	NO
Premier Ethical	★	NO
Robeco SAM Smart Materials	★	NO
Royal London UK Equity Ethical	★	NO
Schroder Climate Change Equity	★	NO
Scottish Widows Environmental	★	NO
Scottish Widows Ethical	★	NO
Socially Responsible Investment Fund PCC	★	NO
Sparinvest Ethical Global Value	★	NO
St James Place Ethical	★	NO
SVM All Europe SRI	★	NO
UBS ETF (LU) MSCI USA S. R. UCITS ETF	★	NO
UBS MSCI Emerging Markets Socially Responsible UCITS	★	NO
UBS MSCI UK IMI Socially Responsible UCITS ETF	★	NO
Vanguard SRI European Stock	★	NO
Vanguard SRI Global Stock	★	NO
Virgin Climate change	★	NO
Vontobel New Power	★	NO
Way Green Portfolio	★	NO

3D INVESTING RATINGS OF SOCIAL AND ENVIRONMENTAL INFRASTRUCTURE

Social & Environmental Infrastructure	3d rating	3D Portfolio?
Foresight Solar	★★★★★	YES
Assura	★★★★	YES
Bluefield Solar	★★★★	YES
Brookfield Renewable Power	★★★★	YES
GCP Infrastructure	★★★★	YES
Greencoat Wind	★★★★	YES
Hannon Armstrong Sustainable Infrastructure	★★★★	YES
Innergex	★★★★	YES
John Laing Environmental Assets	★★★★	YES
LTC Properties	★★★★	YES
NextEnergy Solar Fund	★★★★	YES
Pattern Energy	★★★★	YES
Primary Healthcare Properties	★★★★	YES
The Renewable Investment Group	★★★★	YES
British Land	★★★	YES
Empiric Student Accommodation	★★★	YES
GCP Student Living	★★★	YES
HICL	★★★	YES
International Public Partnerships	★★★	YES
Legal & General UK Property	★★★	YES
Medical Properties Trust	★★★	YES
MedicX	★★★	YES
Target Healthcare	★★★	YES
Ventas	★★★	YES


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