SUSTAINABLE INVESTMENT

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6TH EDITION

blue&green tomorrow

PUBLISHER'S LETTER

Is this really issue six? Yes it is. You hold in your hand the sixth edition of our flagship guide. This is what Blue & Green is really all about, without being all mind-numbingly dull about it – investing, and sustainable investing at that. Little did we think back in 2012 that we'd still be here in 2016, but we are, better and stronger than ever.

In that time, as our SRI expert in residence, John Fleetwood of 3D Investing, reports: "Sustainable funds in our universe of funds have demonstrated outperformance of the relevant benchmarks… The average sustainable UK Equity investment fund outperformed the index in each of the past five years… Overall, [Global Equities] have outperformed the global index over three of the last five discrete years, with a total outperformance of 3%."

If you decided you were going to place a bet and missed the 5000:1 Leicester City giant-slayer then investing in sustainability is backing a real long-term winner.

We have excellent contributions and insight from high scoring 3D-rated funds Alliance Trust (Simon Clements), WHEB (George Latham) and Columbia Threadneedle (Carine Walker).

UKSIF's Simon Howard asks if the launch of a draft guide by The Pensions Regulator is a significant moment, while ShareAction's Catherine Howarth explores what looks good in the pensions industry.

We also have a different perspective from Aberdeen YMCA's CEO Ian Marr (see him in action here) on Social Impact Investment.

All told, we're feeling optimistic about 2016 and beyond. It's like we're at a tipping point. Performance data bears out the wisdom of this investment strategy, that you can maximise good and minimise harm.

Simon

Simon Leadbetter
Publisher, Blue & Green Tomorrow

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3D INVESTING'S FUND UPDATE

By JOHN FLEETWOOD

The fund universe now totals £47.4 billion in assets under management, of which £26.5 billion relates to infrastructure funds. A few funds have been wound up whilst we have added a number of funds to the universe, with the total now comprising 153 funds of which 21 are infrastructure funds. These are all registered for sale in the UK and have some form of ethical screening or environmental strategy.

New Funds

Around 20 funds have been added to the 3D sustainable investment fund universe. Some of these are new or recent launches like Menhaden Capital PLC, an investment trust that seeks to invest in companies delivering the efficient use of energy and resources. So far the performance of the fund has been very disappointing, so we are keeping a watching brief on this.

Threadneedle has taken on the former Sovereign Ethical Fund but the re-modelled UK Equity fund has not yet been re-launched. Impax has launched a new Environmental Leaders Fund that follows its established Leaders strategy, formerly implemented through the Old Mutual Ethical fund. Given the established track record of the strategy and the high social impact we've added the fund to our 3D Portfolio universe.

The Empiric Student Accommodation Fund is a recent real estate fund that unsurprisingly invests in purpose built student accommodation. We've added several SRI index funds, but all of these get a low rating due to the lack of social impact and widespread inclusion of ethically controversial stocks.

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:

The Foresight Solar and Impax environmental Markets Funds have been upgraded to the top five star rating on the basis of their social impact reporting and descriptions of each of the holdings in the funds. This is particularly noteworthy as both managers requested information on what was needed to obtain an improved star rating and subsequently delivered the required action with the result that we awarded an improved star rating. Well done Impax and Foresight!

The Triodos Sustainable Equity, Alliance Trust Sustainable Future Absolute growth, Alliance Trust Sustainable Future Global Growth, Alliance Trust Sustainable Future Managed, Impax Asian, Assura, Hannon Armstrong, Old Mutual Ethical, Pictet Water, Sarasin Sustainable water, ishares Water, Vontobel Cleantech and Target Healthcare funds all received an improved four star rating on the basis of their favourable social impact.

Brookfield Renewable Energy's rating was cut to four stars because it lacks an impact report and we felt that the sustainable investment policy was not quite strong enough to justify a premium five star rating.

The First State Stewart Investors Worldwide Sustainability Fund now has a three year track record which is much improved since the relatively weak start and justifies an upgrade to a three star ranking.

The ishares Clean Energy, ishares Timber and Lyxor world water funds all qualify for a three star rating by virtue of their high social impact, whilst the Kames Capital Ethical Corporate Bond, Royal London Sustainable Diversified, Royal London Sustainable Managed Growth, Royal London Sustainable Sustainable Managed Income make the grade on the basis of their performance coupled with a favourable comparison with other funds in their sectors in terms of social impact.

The Quilter Cheviot Climate Assets Fund invests in controversial mining company Rio Tinto, as well as a gold ETF which makes it less universally acceptable for socially motivated investors and in the light of this, we felt that a 3 star rating was more appropriate.

Many funds were upgraded to two stars, largely to distinguish them from funds in the bottom band. These include the Conbrio BEST Income, Pictet Clean Energy, Pictet Environmental Megatrend, Royal London Sustainable Laeders, Sarasin Equisar, Vontobel Sustainable Asian, Vontobel Sustainable Global, Halifax Ethical and Jupiter Responsible Income funds.

We downgraded the Pictet Timber Fund to two stars because the social impact is limited with little of the fund being invested in companies with a direct positive social impact.

Although the Royal London Ethical Bond Fund is little different to the other main ethical bond funds in terms of social impact, it does permit investment in more ethically controversial stocks including unscreened investment companies and miners.

The Sarasin Sustainable Equity Real Estate Fund invests in property companies with some sort of sustainability management, but very few, if any of these, appear to offer a social solution as a core product or service.

3D Portfolio Universe

There has been a significant net increase in the funds approved for the 3D Portfolio Universe. This is partly due to the expansion of the available investment universe, but mostly, it is down to more detailed analysis of funds and a change of benchmark to slightly widen the universe. It remains very much a minority of the whole sustainable investment universe, with around 28% of the whole non infrastructure universe qualifying for inclusion in the universe.

Newly added funds include the Impax Food & Agriculture Fund, which has undergone a significant change in strategy to make it more sustainable. This qualifies it for inclusion in the universe as the only approved sustainable agriculture fund. Impax has also launched a new Leaders Fund that reflects Impax's established Environmental Leaders strategy, and with a clear emphasis on environmental solutions and a proven track record from assets run according to this strategy, this joins the 3D Portfolio Universe alongside the Food & Agriculture Fund.

All of the Alliance Trust Sustainable Future funds now qualify for the Portfolio universe by virtue of the quality of the sustainable investment team, transparency, strategy and relative social impact within their sectors.

Five funds have been removed from the 3D Portfolio Universe, including the BMO F&C Stewardship International, Eden Tree Amity UK Equity, Royal London Ethical Corporate Bond and Sarasin Sustainable Equity Real Estate funds. Recent analysis showed these to be lacking in social impact relative to other funds in the sector, or in the Royal London fund's case, to include ethically controversial stocks.

3D INVESTING'S NOTES ON FUND PERFORMANCE

By JOHN FLEETWOOD

Once again, sustainable funds in our universe of funds have demonstrated outperformance of the relevant benchmarks. This is partly due to the avoidance of resources and oil stocks that have been weak in recent years, and this may reverse at some point, with this tailwind becoming a headwind. However, it is nevertheless encouraging to see so many sustainable funds proving the point that decent performance can go hand in hand with a sustainable investment approach.

UK Equity Funds

The average sustainable UK Equity investment fund outperformed the index in each of the past five years and in total delivered a return 12% higher than the index over this period. The performance of funds in the 3D Portfolio Universe was even stronger with just shy of a 20% outperformance. This is a truly compelling result notwithstanding the provisos above.

Global Equities

Our performance analysis of global funds looks at those funds that have a broader remit than a single sector. Overall, they have outperformed the global index over three of the last five discrete years, with a total outperformance of 3%. The results are little different for the 3D Portfolio funds and there is no very distinct picture, with the quality of fund management appearing to make more difference than any other factor.

Corporate Bonds

Returns on ethical corporate bond funds are less striking, although they are still showing a modest outperformance of the index over the past five years. There is no clear pattern and there appears to be no obvious overall performance impact of applying ethical screens. 3D Portfolio funds have performed slightly better, but the difference is still quite marginal.

PERFORMANCE DATA 31ST MARCH 2016

UK Equity Funds

Fund	2011-2012	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2011 - 2016	Rank
Aberdeen Fund Managers Responsible UK Equity	1.26%	17.75%	4.34%	3.39%	-6.40%	20.40%	14
Alliance Trust SF UK Growth	1.12%	16.44%	16.57%	8.94%	-1.06%	47.94%	8
Alliance Trust UK Ethical	0.17%	18.14%	18.74%	9.29%	-0.39%	52.97%	7
Edentree Amity UK	6.06%	20.57%	13.44%	7.20%	0.64%	56.51%	6
F&C Responsible UK Equity Growth	-0.37%	19.90%	12.63%	8.69%	-1.54%	43.98%	10
Henderson Global Care UK Income	4.75%	21.65%	15.74%	13.87%	-0.12%	67.73%	2
Jupiter Responsible Income	2.47%	20.83%	14.05%	6.14%	-6.40%	40.29%	11
Kames Capital Ethical Equity	-0.32%	22.05%	20.54%	6.97%	0.98%	58.41%	5
Legal & general Ethical Trust	-0.21%	19.94%	15.70%	9.97%	-2.32%	45.94%	9
Premier Ethical	4.65%	22.81%	28.03%	7.51%	1.29%	79.81%	1
Royal London Sustainable Leaders Trust	7.44%	20.28%	15.90%	12.81%	-1.91%	65.73%	3
Royal London UK Ethical Equity			20.44%	7.75%	-8.83%		
Scottish Widows Environmental Investor	-7.52%	20.67%	12.90%	6.01%	-4.62%	27.39%	13
Scottish Widows Ethical	-10.53%	14.80%	12.53%	4.36%	-5.03%	14.55%	15
Standard Life Investments UK Ethical	4.17%	23.25%	18.59%	2.29%	3.66%	61.44%	4
IA UK All Companies	0.40%	16.83%	13.87%	5.73%	-3.35%	36.49%	12
Average Ethical UK equity fund	0.94%	19.93%	16.01%	7.68%	-2.14%	48.79%	
Average outperformance of ethical fund	0.54%	3.10%	2.14%	1.95%	1.21%	12.30%	
Average 3d portfolio Fund	3.03%	19.20%	16.12%	9.83%	-0.23%	56.29%	
Average outperformance of 3d funds	2.63%	2.37%	2.25%	4.10%	3.12%	19.80%	

GREEN = OUTPERFORM SECTOR AVERAGE

3d Portfolio

Global Equities

Fund	2011-2012	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2011 - 2016	Rank
Aberdeen Fund Managers Ethical World Equity	-2.56%	13.86%	-0.38%	9.50%	-10.75%	8.02%	12
Alliance Trust SF Absolute Growth	-4.90%	16.12%	7.01%	13.31%	-2.71%	30.26%	8
Alliance Trust SF Global Growth	4.67%	15.46%	7.49%	15.79%	-3.23%	45.57%	3
EdenTree Amity International	-6.70%	19.97%	0.52%	9.95%	-6.50%	15.67%	11
F&C Responsible Global Equity	1.52%	14.69%	5.03%	22.06%	-1.88%	52.47%	2
First State Worldwide Sustainability			5.77%	15.26%	1.85%		
Halifax Ethical	-1.65%	19.36%	7.93%	16.71%	-9.93%	33.20%	6
Henderson Global Care Growth	-3.62%	13.78%	16.12%	17.94%	-4.08%	44.04%	4
Jupiter Ecology	-5.63%	13.45%	12.40%	9.53%	-1.42%	29.92%	9
Old Mutual Global Investors Ethical	-6.21%	19.97%	11.27%	9.25%	1.57%	38.94%	5
Royal London Sustainable World Trust	8.95%	18.62%	9.29%	18.70%	-0.39%	67.01%	1
Sarasin Equisar Socially Responsible		15.46%	12.39%	11.74%	-8.51%		
Vanguard SRI Global Stock		17.55%	7.72%	18.57%	-0.92%		
WHEB Sustainability	-14.90%	13.34%	8.50%	17.88%	-1.60%	21.39%	10
IA Global	-2.49%	14.40%	6.43%	14.35%	-2.71%	31.69%	7
Average Ethical Global equity fund	-2.82%	16.28%	7.93%	14.73%	-3.46%	35.14%	
Outperformance of average ethical global fund	-0.33%	1.88%	1.50%	0.38%	-0.75%	3.45%	
Average 3d portfolio Fund	-4.88%	14.43%	9.55%	14.95%	-1.87%	34.24%	
Average outperformance of 3d funds	-2.39%	0.03%	3.12%	0.60%	0.85%	2.55%	

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3d Portfolio

Corporate Bonds

Fund	2011-2012	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2011 - 2016	Rank
Alliance Trust SF Corporate Bond	6.56%	11.98%	2.11%	10.57%	-2.26%	31.68%	4
EdenTree Amity Sterling Bond	5.28%	12.48%	3.03%	7.12%	-1.96%	28.13%	8
F&C Responsible Sterling Bond	7.15%	11.12%	-0.08%	11.38%	-1.05%	31.11%	6
Kames Capital Ethical Corporate Bond	6.67%	11.47%	0.36%	10.52%	-0.08%	31.80%	3
Rathbone Ethical Bond	4.12%	12.56%	5.09%	10.15%	-1.32%	33.38%	2
Royal London Ethical Bond	7.91%	13.46%	2.06%	12.07%	-0.84%	38.87%	1
Royal London Sustainable Managed Income			1.37%	12.28%	-0.95%		
Standard Life Investments Ethical Corporate Bond	5.96%	11.30%	2.33%	10.63%	-2.04%	30.81%	7
Threadneedle UK Social Bond				11.99%	0.41%		
IA Sterling Corporate Bond	6.88%	10.76%	0.98%	10.81%	-0.95%	31.64%	5
Average Ethical Sterling Corporate Bond Fund	6.24%	12.05%	2.03%	10.75%	-1.12%	32.25%	
Outperformance of average Ethical Bond Fund	-0.64%	1.29%	1.05%	-0.06%	-0.17%	0.61%	
Average 3d portfolio Fund	5.78%	12.00%	2.52%	10.81%	-0.81%	32.29%	
Average outperformance of 3d funds	-1.10%	1.24%	1.54%	0.00%	0.14%	0.65%	

GREEN = OUTPERFORM SECTOR AVERAGE
3d Portfolio

PUBLIC EQUITY AND IMPACT INVESTING

By GEORGE LATHAM

The market for Impact investments is growing fast, or so you would believe by the number of articles, conferences and events which have grown up to service the idea of putting money to work with the intention of creating positive impact on society and the environment. The GIIN Investors Council of 60 impact investors around the world has a total of $11trn total assets under management, of which $60bn has so far been invested in impact investments.

However, there remain some tensions around the definition of an Impact investment. Is there a trade-off between social / environmental return and financial return? Does impact have to be additional as a direct result of an investment or can it be indirect and felt through the chain of cause and effect in financial markets? Should Impact investing remain the preserve of small, illiquid investments that are one step on from charitable giving and only accessible to the very wealthy through private structures, or can a total portfolio be managed for impact in a way that is accessible to a broad range of investors?

How should Impact be defined?

Impact investments are investments made into companies, organisations and funds with the intention to generate social and environmental impact alongside a financial return. This is the basic definition of Impact investing that you will find on the Global Impact Investing Network.

At its origins, the scope of this definition was applied to private investments which are only available to certain qualified investors (and only for the private, and illiquid, allocation within their asset allocation mix) and impact first investments where social and environmental return is often at the expense of financial return. As a result, many Impact investments (and funds) have been very small scale and have not been able to put significant quantities of money to work.

Two things have changed more recently which have sparked an interest in applying the term more broadly. First, there is a growing acceptance that strong social and environmental value creation is not only not at odds with creating financial return, but in many cases can actually underpin and drive investment returns in a virtuous circle. Companies which create genuine value for society are likely to create positive economic value in the long term. Secondly, investors and their advisors are looking for ways to apply Impact investing tools and techniques to evaluate and target total portfolio positive impact.

Public equity is a core component of a diversified investment portfolio and yet there remain only 3 listed equity funds listed on the GIIN ImpactBase which are qualified as Impact Funds. Resistance to the inclusion of Listed Equities in the range of asset classes that can be considered to have 'impact' is often based on the argument that it lacks 'additionality', as relatively little primary capital is raised on secondary markets.

The additionality point is a red-herring.

Financial markets are interlinked and do not in general act independently from one another. The capital used to fund the deployment of the range of environmental and social infrastructure, goods and services derives from a complex range of sources and asset classes, including debt and equity finance, public and private markets. It is true that most money invested in public markets is invested via ‘secondary trading’, meaning the shares are bought from other investors rather than contributing new capital to the company. However, without the promise of the eventual availability of liquidity via public markets, it would be far more difficult to raise primary capital in private markets. Support from investors in public markets can also encourage internally funded organic growth. More buyers of shares, leading to an improving share price, supports stability and growth, the ability to attract and retain high quality staff, and to plan for the long term. The opposite is also true. For example, falling share prices in renewable energy ‘yieldcos’ significantly undermined future renewable deployment plans. Money invested in companies by secondary market investments has a critically important impact on the future growth plans of a business, even if that impact may be indirect.

In addition to the indirect role investors on public markets play in supporting future corporate performance and growth, Impact investors also have an opportunity to have direct impact through “Engagement”. Impact investors (or their agents) acting in a stewardship role, can have a significant effect on corporate behaviour through lobbying of management to improve business performance and corporate sustainability. Whether acting alone or together with other investors, there is a large and growing casebook of investors exercising their role as owner shareholders to promote positive change.

Impact investments are made with the expectation of financial return along with social and environmental return. However within this definition there is a spectrum. At one end are investments which are considered ‘impact first’, where the financial pay back is considered secondary to the environmental or social benefit. At the other end of the range are market rate of return investments where the creation of positive impact is seen as being overtly beneficial to driving a higher financial return. Along this spectrum we also see a range in relation to the ‘intensity’ of positive impact achieved. It is generally the case however, that investments at the most intense end of the scale are usually relatively small. Other investments may not be so intensely beneficial but can be deployed at much larger scale. To maximise the ability of impact investing to mobilise capital for social good, we need to encourage investment across this spectrum.

What qualities does a listed equity strategy have to have in order to be considered an Impact portfolio?

The first key in the definition is the intentionality to generate positive social or environmental impact through investments. To achieve this an investor has to actively pick stocks because of their positive impact rather than screening out companies or picking the least bad from every sector. It is this intentionality that separates Impact investing from the wider Socially Responsible Investment (SRI) or Responsible Investment (RI) universe of investors. At WHEB this intentionality is part of our DNA. Our business mission statement is to ‘advance sustainability and create prosperity through positive impact investments’ and this is built into the structure of our fund’s investment universe, which is defined as companies providing solutions to sustainability challenges.

Challenges of reporting Impact for Listed equity strategies.

Another key requirement for Impact investments is to report on Environmental and Social performance. This remains a relatively immature discipline across all asset classes and the challenges are compounded when applied to a diversified listed equity portfolio.

A focused private investment fund making investments in a single sector for impact is able to develop a fairly straightforward set of objectives and associated score card through which performance can be measured and judged. For example, a fund with a target of improving educational outcomes in a developing country might focus on measures of capital investment in the system, infrastructure created, along with quantifying volume and quality of educational places created.

For a diversified fund focused on a range of themes and across value chains this can become increasingly complex, and in our view requires a combination of quantitative and qualitative measurement of a range of different factors in order to give as complete a picture as possible. Investing in public markets also means having less control over the kind of data that target investments report on or disclose, representing a challenge to standardising reporting. A controlling investor in a project to build a school, for example, can decide which metrics to measure and to report on, whereas an investor in a publicly listed company might be able to influence, but is less likely to be able to direct what kind of reporting is released by the company.

WHEB has a multi-stage view of our impact reporting to investors and our Impact reporting is available online at http://www.whebgroup.com/news/newsletter/:

First we map and report on our exposure. The whole fund is invested in companies providing solutions to sustainability challenges, but this is spread across 65 investments in a range of different themes, both social and environmental, and within each theme we invest in a variety of different industries and parts of the value chain. We have created a framework against which we show the intensity of positive impact achieved by different companies’ products; some are creating relatively incremental gains and others we describe as breakthrough. To quantify this we have chosen measures most appropriate to each theme in order to judge this intensity of impact which allows us to compare investments from this perspective, for example within Cleaner Energy we report on improvements in CO2 emissions compared to Combined Cycle Gas Turbine power generation, and in Water we use the water management hierarchy against which to determine environmental performance.

The second element of our reporting has a more narrative focus. This sits both within our impact report itself and also in all the other communications we make with investors on a regular basis through our website and reporting. Every investment we make is different and therefore so it the underlying nature of its positive impact. Whilst there is value in aggregating data and mapping up to the theme and fund level, the trade-off is usually an over-simplification, and therefore such narrative reporting on the nature of impact in individual company situations is an essential complement to give investors a fuller picture.

The third part of our reporting focuses on Engagement, and how we can contribute to change in the way companies are managed. We engage with investee companies to promote better performance, and to gain improved understanding, both on a bilateral basis, together with other investors and at a macro industry or policy level. Here again we combine both a quantitative focus, on both inputs (volume) and outputs (success) of our engagements, and a qualitative narrative, reporting on the different situations we have tried to influence for positive impact.

What is the potential opportunity from a broader framework for Impact investing?

In the short term the potential from identifying positive Impact investments across the range of asset classes is to enable a far greater volume of capital to be deployed into investing with purpose. At the top of this article I reference an amount of $60bn in impact investments from a committed group of investors with $11trn in assets under management. So the most committed investors have allocated just over 0.5% to this space? Part of the reason for this is that the vast majority of investments identified are in private structures focused on small scale illiquid projects. If the definition remains tightly drawn around small scale direct investments then the market will remain relatively niche. If investors are enabled to think about the Impact of their whole portfolio, the consequence will be a wider range of Impact intensity within the portfolio, but the total Impact achieved could be an order of magnitude greater.

Linked, but longer term, such holistic thinking from asset owners has the ability to enable investors to break away from the 'tyranny of the benchmark'. For too many investors the framework of their investment portfolio is pre-set by a peer group or index benchmark. This starting point has a number of negative impacts on investment markets, particularly in driving herding and short term thinking. But it also acts as a barrier to the development of investment with positive impact, as many such investments simply do not fit the framework the benchmarks provide. In simple terms portfolio advisors do not know which of their available boxes to put an impact investment in. Imagine the starting point for building a portfolio is not the benchmark but instead is targets around total financial, environmental and social impact set around long term goals. Suddenly the nature of the conversation is changed, and the opportunity is opened up to build portfolios in a much more thoughtful and intentional way.

THE DISRUPTIVE TECHNOLOGIES SET TO CHANGE THE WORLD

BY SIMON CLEMENTS

Simon Clements, investment manager of the Alliance Trust Investments Sustainable Future fund range, highlights the next big disruptive technologies set to change the way we all live and work.

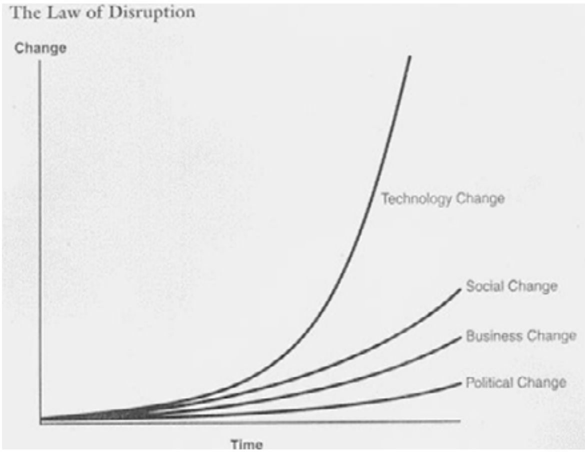
Technological change is a constant feature of the modern digital age. Disruptive technologies permeate every facet of our lives, often improving our quality of life and making what was previously considered impossible, possible.

In the mid 1970's the idea that every family would have a computer in their home seemed both fanciful and unnecessary – 40 years on and the advent of smart phones means that most of us have access to a computer all day, every day. From horse and cart to car; VHS to DVD's; CDs to iPods and iPhones – technology has progressively reshaped our every-day lives. For an investor, the ability to identify long-term technology winners from inception is crucial. The adoption of new technologies is almost always underestimated as is the impact on the challenged, incumbent technologies. Adoption curves for disruptive technologies can often accelerate exponentially, and true disruption is very difficult to predict.

An example, cited by leading figure on disruption Dr Tony Seba, tells the story of telecommunications giant AT&T hiring consulting firm McKinsey in the mid 1980's to forecast the adoption of mobile phones over the next 15 years. McKinsey's predicted 900,000 subscribers, but by 2000 some 109 million people were using mobile phones. McKinsey's estimate was off by a factor of 120 times.

History shows that experts consistently fail to understand the exponential nature of disruptive technology adoption. So, as investors, we need to continually identify key technological changes and understand that once adoption begins, it accelerates very quickly.

Chart 1: Disruptive technologies move faster than we think



Source: BIM + Integrated Design

At ATI our process is thematically driven and our focus is on change that is happening within the global economy. We invest in technologies that improve people's quality of life and that make the global economy more efficient, safer and more resilient. Many of these technologies are disruptive, and can pose a real challenge to existing leaders in their respective fields.

Disruptive technologies often create their own market, without any real incumbent loser (personal computers are an example), but they often replace and improve an existing technology that may – until that point – have been very successful. Identifying new trends is the cornerstone of our process, and we are seeing some exciting opportunities in the current emerging group of disruptive technologies.

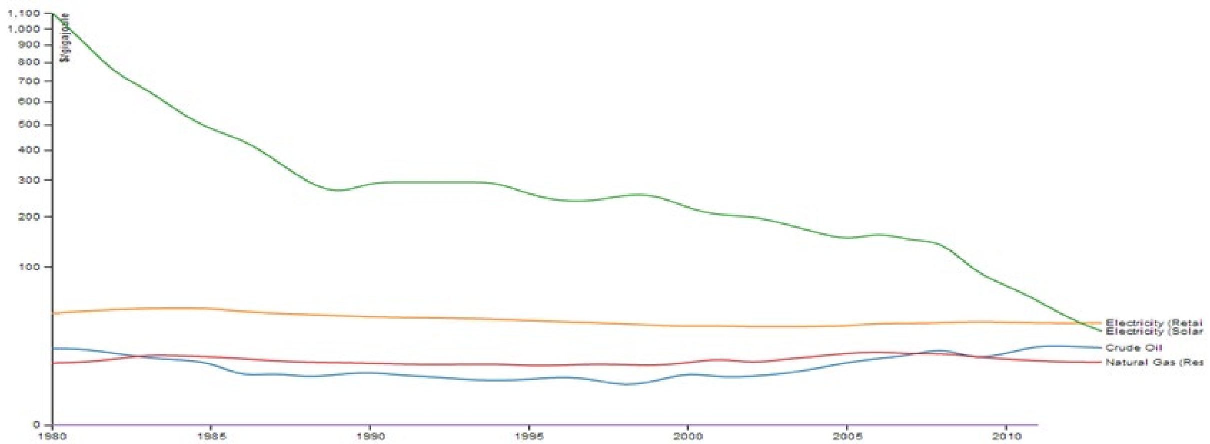
Energy storage

A key emerging disruptive technology combines cost competitive solar power and battery storage technology. Even if we ignore the carbon benefits of solar power in the energy grid, the ability for homes to generate enough power for their own needs, and for a cost which is competitive and does not increase over a 20 year time period, is an enticing prospect.

Encouragingly, obstacles standing in the way of this goal are increasingly disappearing. Firstly, solar is getting cheaper; the average cost of a PV solar panel has fallen 66 per cent since 2010 to just $0.61 today, making solar generated electricity now cheaper than electricity from fossil fuels for most people.

Importantly, this has been delivered by technology and technology gets cheaper over time – unlike fossil fuels, which only become more finite and more expensive. Cheaper production costs and greater economies of scale mean that the fossil fuel industry is at an important tipping point.

Chart 2: Solar Costs have been plummeting



Source: Je Solar/Clean Technica

Another current limitation of solar energy is intermittency; the sun shines during the middle of the day but we consume most of our power in the evenings and in the morning. Again, however, the solution to this problem may be around the corner in the form of battery technology. Home batteries could allow us to store energy during the day, and to use it as we need it in the evening.

Tesla's 'Power Wall' - a home battery that charges using electricity generated from solar panels during the day (when utility rates are low) and powers your home in the evening – is an example of a disruptive technology that could revolutionise home energy use. In our portfolios we invest in a number of firms that will benefit from this, such as Sunpower, Manz and IP group.

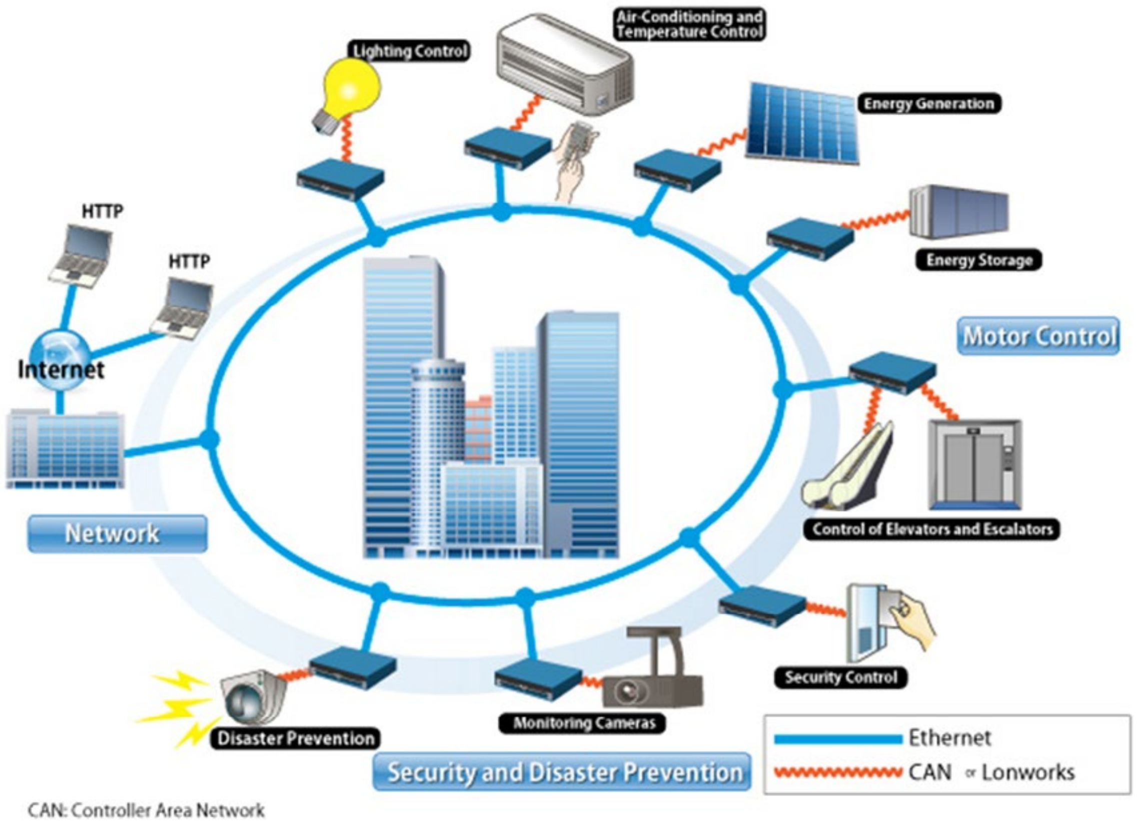
Figure 3: The Tesla Power Wall

Smart buildings

Another disruptive technology that may well be at a tipping point is the network technology behind smart homes and smart buildings, which is emerging as the next big potential change to everyday life. Just as smart phones took a semi conductor chip and transformed our mobile phones into an intelligent hand held computer, semi conductor chips that are integrated into everyday appliances like home refrigerators and office air conditioning and lighting units can transform the way we use energy and cut costs for consumers and businesses alike.

This technology will allow air conditioning systems to connect with lighting systems, for example, to ensure they harmoniously adjust to factors such as human occupancy and sunlight levels to ensure no energy is wasted. Meanwhile your fridge will soon be able to connect to your home energy system to optimise when it draws power to avoid peak energy costs. In our portfolios we hold companies that are driving this smart revolution, from Acuity Brands in lighting, Daikin in air conditioning technology, Google and Schneider – who design the controls – to Arm Holdings who pioneer widespread adoption of semi conductors in a host of everyday appliances.

Figure 4: Smart Buildings



Smart cars

The automobile industry has been in the news recently, after the Volkswagen scandal exposed the fault lines in an industry that is struggling to cope with the challenges of disruptive technologies. Of course the irony is that cars were a disruptive technology themselves and displaced the horse and cart. The industry has struggled to adapt to increasingly stringent environmental standards, and the demand for smaller, more efficient vehicles.

The car of the future is now more like a computer on wheels than a complex mechanical motor. Again, Tesla is leading the way and has proven that electric cars can make better performance vehicles than those with traditional combustion engines – at the same time as being five times more efficient. Technological advances here are moving very quickly.

Autonomous driving is coming and the possibilities are very interesting. These so called 'self-driven' cars will almost certainly use roads and infrastructure more efficiently, meaning less accidents and more time to work and relax – rather than drive. These technological advances are happening now, and the traditional car manufacturers are scrambling to adapt.

Cars being made today are already increasing their electronic and software content significantly. Around 70% of a Tesla car consists of software and electronics – with the engine forming a much smaller component than for traditional competitors, whose vehicles are typically only around 30% software and electronics. However, this figure is moving up and we hold a number of companies set to benefit from this growing electronic content in the auto industry such as NXP, Infineon, Hella and Linear Technologies.

Figure 5: Google Car of the future

What is most interesting is that many of these disruptive technologies are interrelated. As electric vehicles become more popular, demand for solar technology increases, driving down its cost. Meanwhile, advances in battery technology drive down costs for home batteries and electric vehicles alike, and also feed into smart homes and smart buildings. At ATI we believe we are on the cusp on something revolutionary, and our process has built portfolios that are set to benefit from this sea change.

Risk information

Investments 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.

THREADNEEDLE UK SOCIAL BOND FUND

By CARINE WALKER

Developed in partnership with Big Issue Invest, the Threadneedle UK Social Bond Fund is designed to extend and support their mission – to prevent and dismantle poverty and inequality.

Big Issue Invest invests directly in socially-driven businesses that aim to create positive social outcomes in local communities. The Threadneedle UK Social Bond Fund supports this mission by providing finance to organisations and projects that support more balanced economic development and job creation in the UK.

The Threadneedle UK Social Bond Fund occupies a unique position in the investment marketplace. Columbia Threadneedle Investments and Big Issue Invest have partnered together to work towards excellence and innovation in the field of investing for social outcomes. The solution is an investment product that intentionally targets specific social objectives along with a financial return and measures the achievement of both. The aim of the fund is to provide both income and the potential for capital growth by investing in bonds that provide financing for socially beneficial activities and development predominately in the UK.

What sets this fund apart from many other funds is it's social assessment methodology, designed in collaboration with Big Issue Invest, which provides 'filters' for portfolio investment decisions that maximise the social performance of the Fund – so investment is targeted to people and places with the greatest social need. The Fund positively screens for investment opportunities, rather than excluding companies that may have negative outcomes, and actively seeks companies looking to achieve good social outcomes.

How does it do this?

The Fund is created using a three-step process.

Step 1. The fund manager seeks to identify UK bonds that will potentially deliver social outcomes across eight areas:

- affordable housing
- education
- employment and training
- health and social care
- financial inclusion
- community services
- transport and communication infrastructure
- utilities and the environment

Step 2. Columbia Threadneedle Investment's dedicated Governance and Responsible Investment (GRI) team then apply their rigorous research to give the bonds identified an overall score based on five further criteria:

- Social outcome – what the effects are of supporting the issuer of the bond
- Social geography – whether the activities financed by the bond benefits communities that need it the most
- Social intensity – the extent at which the bond addresses core social needs
- Nature of financing – for example if the bond is directly funding a particular project or issued for general funding
- The Environmental, Social and Governance (ESG) performance of the bond issuer

Step 3. Big Issue Invest will act as social advisor to the fund via a social advisory committee, which aims to review and challenge individual bond assessments and support development.

The overall objective is to build a portfolio that dynamically optimises social and financial returns. Since launch in January 2014, the Fund has evidenced strong social outcomes in many areas. For example, it has helped tackle the urgent need to provide more affordable homes through investments in over ten different registered housing providers, which together provide over 800,000 homes and are using bond financing to build thousands of new homes. Similarly, the Fund's health-related investment comprises a mix of bonds which support physical and mental health services, including health insurance. The Fund's bonds have supported the financing of major NHS hospitals, such as Peterborough and Norwich. These social outcomes have been achieved while also meeting the Fund's economic objectives for clients.

For more information on the fund and our responsible investing capabilities, visit columbiathreadneedle.co.uk/responsibleinvesting

Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. The mention of any specific shares or bonds should not be taken as a recommendation to deal.

This article is for information only and does not constitute an offer or solicitation of an order to buy or sell any securities or other financial instruments, or to provide any sort of investment advice or services.

THE FORECAST IS VOLATILITY, NOT GRADUAL CHANGE

By PROF RICH PANCOST, Board Director, Preventable Surprises

The Climate Change challenge to society, industry and investors is not well represented by the concept of long-term global warming but rather as a systemic and unpredictable shift to a world characterised by increasingly volatile food, water, resources and weather.

Climate scientists continually emphasise the difference between the climate and weather – the former being a long-term description of the average state of our planet and the latter being the expression of that climate on highly localised and short-term timescales. Our understanding of climate is relatively robust, based on physical principles that in many cases were established hundreds of years ago. In contrast, our ability to predict how that will impact a specific region at a specific point in the future, i.e. weather, is weaker due to how climate change is manifested through a very complex system.

Long-term climate change is typically represented by the iconic IPCC global warming figure showing the ~1C warming of the past century and the likely warming up to the year 2100, the forecasts and uncertainty derived from an ensemble of climate models. They collectively depict a relatively monotonic warming if we continue a 'business-as-usual' fossil fuel/agriculture trajectory, as well as the associated uncertainty, resulting in cumulative global warming by 2100 of about 4 to 6C. But this trend does not say anything about the year-to-year variability in any particular place. It is not a weather forecast.

It is possible – unlikely but possible – that in the year 2100, in a world 4C warmer than that of today, the Northeast of the United States will be experiencing its coldest year on record. These deviations from the norm could be due to natural variability over-riding the larger global warming trend in that particular time and place. It could be due to global warming having unexpected impacts on ocean and atmosphere circulation. In any case, there are very good reasons for scientists to focus on long-term climate trends, but those trends do not reflect what it will be like to live in a warmer world. They do not reflect how people will be affected, what they will react to or how, or the pressures under which politicians will be making decisions.

The defining features of climate change will be volatility and uncertainty.

Crucially, therefore, these future forecasts fail to inform our understanding of the socio-political landscape relevant to investors.

If climate change is gradual, then the savvy investor should adopt a wait and see attitude. As warming continues, as damage gradually accrues and as political rhetoric (and regulations) grow sharper, investors can adopt different risk strategies, with some inevitably bailing out from high risk ventures too soon and others too late. But incremental change is not the forecast. Volatility is the forecast. Superstorm Sandy had a minor but real impact on the politics of the US Northeast. What would be the consequence of three such storms happening back to back? What would have been the consequences if it had knocked out one of NY City's central distribution centres, causing tens of millions to face food shortages? Heat waves in the Middle East resulted in thousands of deaths last summer; what are the political consequences of a somewhat more extended heat wave that results in tens or hundreds of thousands of deaths? What are the political consequences of two more years of California drought, especially if it begins to drive farms out of business and food prices upwards?

This volatility is being manifested today. Extremes are part of natural climate variability and we have warmed the world by 1C, the latter sufficient to amplify and complicate the former. In particular, there is strong evidence that warming is already amplifying heat waves, droughts and floods. By extension, we could be on the verge of experiencing particularly acute volatility in food prices. Investors in every sector should be concerned about this increased volatility.

However, investors in the energy and fossil fuel sectors should be additionally concerned by how this volatility impacts policy.

If nations enact policies that could limit global warming to 2C, then most of the fossil fuel sector's assets will become stranded. Even policies that limit warming below 5C will strand significant fossil fuel assets. Many argue that until actual policies are put in place, any disinvestment is premature. ExxonMobil has further argued to the SEC (unsuccessfully) that they do not believe nations will enact such policies and therefore they have no need to plan for them.

I do not pretend to know what tipping points could cause policy makers to switch gears from prevarication and incremental steps to the drastic policy changes that would limit global warming to 2C and be devastating for certain fossil fuel industries and their investors. But we have seen how a combination of factors has devastated the coal industry, with its value perhaps never to be recovered. We have seen how Fukishima had huge impacts not only on the nuclear industry in Japan but also in Germany – with knock-on effects across the EU.

Different investors – with different risk tolerances - will read the above through different lenses and reach different conclusions. Nonetheless, given the complexity and unpredictability inherent in the climate change challenge, it is astonishingly naïve for any company to argue that politicians will never act on the commitments made in Paris in 2015 and to which they formally signed last week. Investors should demand a clear message from those companies that they understand both systemic climate change risks as well as the associated policy and economic risks to their assets. And they should have confidence that those in whom they have invested have planned for both.

Download monthly free reports at www.blueandgreentomorrow.com

BIG CHANGE? SIGN OF THINGS TO COME? IRRELEVANCE?

By SIMON HOWARD

Is the launch of a draft guide by the Pensions Regulator (TPR) a significant moment? You tell me. I'll say at the outset that it may take a while for the impact to reach the adviser market, but we could be at a turning point. Stick with me.

Fiduciary duty in a nutshell, three meetings and four consultations

Fiduciary duty is the idea that defined benefit pension fund trustees in particular should act in the interests of the beneficiaries rather than in accord with any "ethical" views held by the trustees. The duties also apply to other parties but it is trustees of all kinds (including charities) that are most exposed. In the more recent past in some circles the fiduciary duty obligation morphed into the idea that trustees had to maximise returns. In turn this slowed the adoption of Environmental, Social and Governance (ESG) investment since it was argued that it could be any or all of a) ethical b) low returning c) riskier due to the exclusion of large swathes of equity and fixed income markets.

To examine these issues the Law Commission (LC) did a report in 2014. It recommended important changes to pensions regulation be made by the Department for Work and Pensions (DWP) which would have advanced ESG. The Government declined to make those changes but said that the pensions regulator and the Financial Conduct Authority (FCA) would do things. All very frustrating, and the UK Sustainable Investment Finance Association (UKSIF) (and others) continued with meetings (at least three) and consultation responses (at least four) linked to the topic with apparently no effect. In particular the LC work didn't play any material part in the draft defined contribution (DC) code issued in November 2015. Then in mid-April 2016 the TPR hit the jackpot when it issued six draft guides linked to the DC code. One had the snappy title "A guide to Investment governance. To be read alongside our DC code of practice no. 13" (Adgtigtbraodcopn13). It gives a great deal of what UKSIF has been asking for.

Adgtigtbraodcopn13

The LC report in 2014 said DB trustees should (a powerful word and it's in italics in the report) take into account financially material factors and said other welcome things on ethics. But if we focus on ESG, in our view the basic equation open to the sustainable finance sector became: show ESG factors matter financially and trustees should consider them. This is potentially vital. And as I say, nothing happened until Adgtigtbraodcopn13 but it does good work.

The new draft guide is addressed to trustees in DC trust-based schemes providing money purchase benefits - not mainstream defined benefit (DB) schemes - but we think it is the first official instruction since the LC to reflect that body's work. It is great! It repeats the LC findings in two bullets, and these are direct quotes:

- You should take into account factors which are financially material to the performance of an investment
- Where you think environmental, social and governance (ESG) issues are financially significant you should take these into account likewise if you think certain ethical issues are financially significant

Take it from me as a fiduciary duty nerd, this is very good. Note also the repeated use of "should". Trustees like doing what regulators say they "should" do, it means no one will shout at them. With any luck this will be done.
And it gets better. In another document in the same series (with a 21 word title which I won't type) TPR says "We are confident that our approach is consistent with that of the FCA as far as possible within the parameters of our respective legislative and regulatory frameworks which are very different".

So I think a very pleasing loop can be seen and this article at last becomes relevant for time pressed advisers. Here it is: we have an opinion on the law from the LC which pretty much mandates ESG where the impact is material (err, so that is pretty much everywhere….); that view is now picked up by TPR in the new guide for DC trustees; TPR stresses that the FCA is aligned in its approach which we hope means that very similar guidance will be offered to the governance committees of contract-based DC schemes; <u>is it too much to hope that once these concepts are "loose in the FCA building" and guiding how the investments of millions in auto-enrolled DC schemes are governed that they will arrive somehow in guidance or regulation for other FCA-regulated areas and hence for advisers?</u>

In short, does this guide hint at official blessing for the idea that those responsible for investments of any kind be it DB, DC, charity or retail should consider ESG if it can be shown to be financially material? If it does then I think something important may have happened and be about to spread. If that is the case then advisers who are ready for this, and fund managers who can provide product which fits the changing environment should all be ahead of the pack and should benefit. Surely it can't be irrelevant?

Fingers crossed. UKSIF has put a lot of effort into this and we are optimistic. Certainly it allows me to close using an unusual tag line:

UKSIF: reading TPR guides so that you don't have to

blue&green tomorrow

SUSTAINABLE INVESTMENT: WHAT DOES GOOD LOOK LIKE IN THE PENSIONS INDUSTRY?

By CATHERINE HOWARTH

At ShareAction we want to put savers and their needs at the centre of the pensions system. Since we began campaigning for responsible investment ten years ago, a lot has changed for the better. We've supported savers to meet with the people managing their savings. Some pension funds have begun hosting annual member meetings, where savers can express their concerns and vote on key issues relating to the fund. And some schemes are leading the way when it comes to accountability to members.

But the industry as a whole is still falling well short of the standard that savers deserve. Reclaiming Ownership, our recent ranking of the nine largest automatic enrolment (auto-enrolment) providers by transparency, governance and Responsible Investment performance found that none of the providers were able to reach an overall score of 50%. Whilst there are examples of good practice across the different themes that we looked at, there's still much to be done. Not a single one of the providers that we looked at had chosen to put a member with assets on the scheme in its board. Many of the schemes that we looked at delegate virtually all responsibility for how money is actually invested to their asset managers, and some have a worrying lack of oversight into those investment strategies.

Promoting saver voice within schemes has the potential to hugely progress sustainable and responsible investment by pension funds. In 2014, the Pensions and Lifetime Savings association (PLSA, then the NAPF) released data showing that 70% of UK adults "felt it important for pension providers to invest in companies that concentrate on avoiding unethical practices" and 49% would like their employer "to choose a provider which makes a specific point of investing ethically." On this basis, if pension providers' investment policies were fully aligned with the views and wishes of their customers, we would see nothing short of a revolution in sustainable investment.

Ironically, many investment professionals argue that their fiduciary duty to clients prevents them from considering environmental, social and governance factors, as they may prevent them from putting clients' best interests first. The mounting evidence of the financial benefits of ESG analysis fly in the face of this view. The Law Commission's 2014 review stated that trustees "may take account of any factor which is financially material to the performance of an investment, including environmental, social or governance factors". Anyone operating in the investment world that's been paying the slightest bit of attention to warnings from former Vice President Al Gore, Bank of England governor Mark Carney, and business magnate and former Mayor of New York Michael Bloomberg should know that the risks posed by unmitigated climate change are not an ethical afterthought, but a serious financial risk.

Whilst the evidence for integrating ESG factors is financial analysis is growing, it's also important to acknowledge that fiduciaries' views do hold some weight in their own right. In 2014, the Law Commission's review clarified that ethical considerations can be taken into account in the investment decision-making process, when trustees have evidence to believe that members have views on them. But the only way to obtain such evidence is by actually asking members what they want – a practice still sorely lacking at many UK pension funds.

So what does a really good pension scheme look like?

We think the best pension schemes are those that communicate effectively with members – not just by providing them with information, but also asking them for their views and input, for example through surveys and member meetings. Listening to members' views can strengthen schemes' mandate to invest in their best interests. We also think it's important that schemes tell their members exactly where their money is invested, and why. That means disclosing their largest holdings in an accessible statement (of the nine providers we surveyed, only NEST currently discloses its top 100 holdings). It also means disclosing a voting policy to members, with rationale as to why those votes were cast in a certain way. Doing so would go some way to demystifying the voting and engagement process for savers. Crucially, it would also allow savers to assess whether their scheme is considering risks and investing in a way that is sustainable over the long term. It would also better allow savers to compare their own scheme with other players in the market, embedding sustainable investment as a consideration factor in pension products and driving up standards across the industry.

A good pension scheme should act with great care and attention to its members' best interests. This means being well governed. The best schemes have a diverse board, with a wide range of expertise and perspectives, and member representation in governance structures, either in the form of Member-Nominated Trustees or customers on Independent Governance Committees. And of course, a good pension scheme should ensure that it is delivering the best possible value for members. For the millions of low-paid workers coming into the investment system for the first time via automatic enrolment, which requires all full-time workers earning above £10,000 to be enrolled in a pension scheme, this is critical. Savers need clear, comprehensive information on the costs and charges they incur, on how value for money is embedded into the investment process, and how asset managers are getting the best value from assets over the long term.

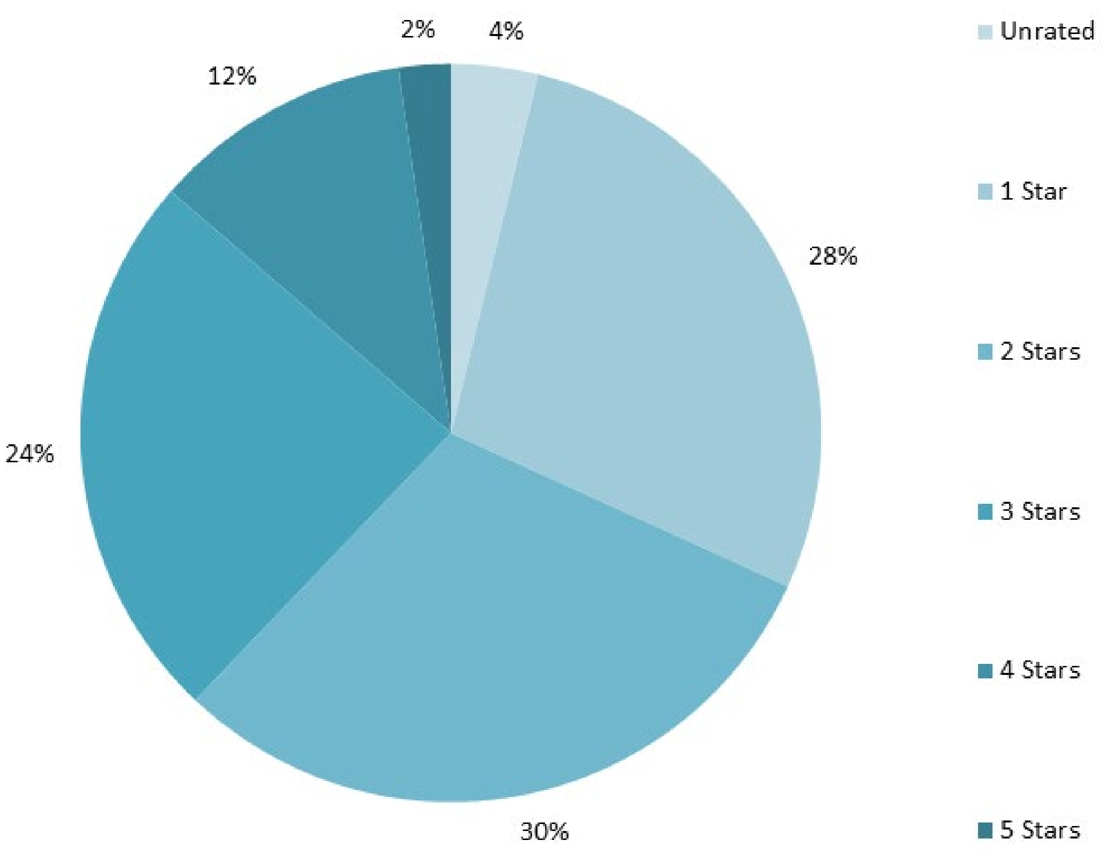
It's possible that pensions are being invested in a more sustainable, responsible way than ever before. But there's a long way to go before the UK pensions market can be considered a leading light in this regard. By working hard to communicate to members, incorporate their views, and ensuring that investments are genuinely sustainable and work hard over the long term, pension funds can not only start to promote more democratic and inclusive business models, but also shift the market towards more sustainable outcomes.

Pension savers deserve no less.

3D STAR RATING SUMMARY REVIEW APRIL 2016

By JOHN FLEETWOOD

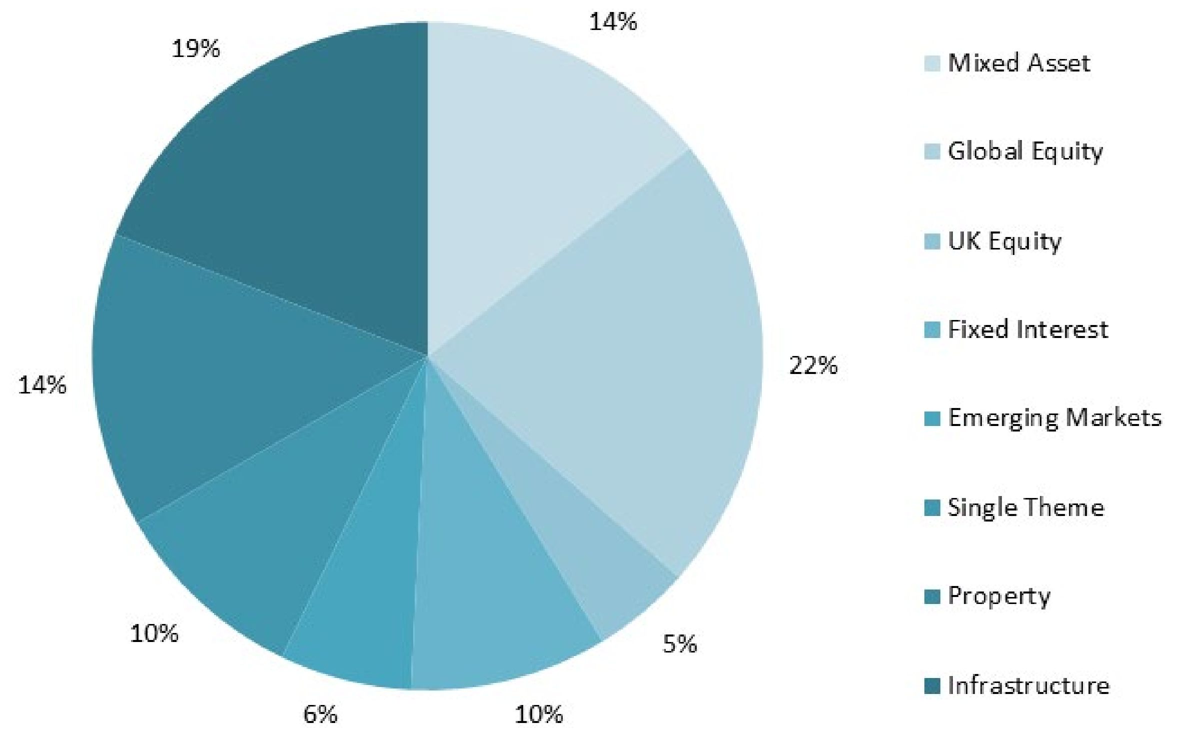
It is around a year since the 3D Star Ratings were launched and our coverage now extending to 153 such funds. The Star Rating was always intended to provide a quick and easy way of differentiating between SRI funds, so they can't all be good! Of the 132 funds not designated as infrastructure or property funds, only 2% attain the 5 star rating whilst almost two thirds achieve a rating of two stars or less.



This is as it should be, given that a Five Star Rating is reserved for those funds that are true pioneers in the field, and a Three Star Rating is not intended to be an average score, but rather a mark of a good standard having been achieved. In fact, we'd sum up the Star Ratings like this:

1 Star – Avoid, there are better alternatives
2 Star – Consider, investors may accept some of the ethical compromises identified or lack of social impact
3 Star – Good, will generally make the grade for the 3D Portfolios (but not always)
4 Star – Very Good, amongst the best SRI funds
5 Star – Pioneer, leads the way in delivering on social impact, ethical suitability, delivering on financial expectations and transparency

Similarly our universe of qualifying funds for use in 3D Portfolios only includes funds that are amongst the best in their sectors, with 28% (38 of the 132) non infrastructure funds making it into the 3D universe, along with 21 specialist property and social or environmental infrastructure funds. The chart below shows that there's a scarcity of UK Equity Funds that meet the standard for inclusion in the 3D Portfolio universe, mostly because of a lack of social impact and/or inclusion of ethically controversial stocks.



If you'd like to see individual funds ratings, or read more about the methodology behind the Star Ratings, go to www.3dinvesting.com and use the 3D Fund Analyst

Notes
The 3D Star Ratings are a quick and easy way of identifying the best socially responsible funds. The ratings are based on Ethical Money's analysis of all holdings in the portfolios in terms of ethical suitability, social impact, as well as the capability of the managers in assessing social responsibility, financial performance and the transparency of the reporting.

"DO MORE FOR LESS" OR... "DO MORE, BETTER"

By IAN MARR

These are very different starting points in addressing the economic realities of the early twenty first century. The first extinguishes motivation, morale and hope. The second fires imagination, commitment and possibilities.

The reality for most of the developed nations is that we have had a recession. But the changes we have experienced constitute more than a recession – they constitute a transition to a new reality, things are not going back to the way they were. In the new reality there is a lot less money in the system – particularly for social service delivery – we need to make that money work harder, we need to "increase the velocity of the money" in the system… we need to "do more, better"!

We need transformational systemic change in how we deliver services to some of the most vulnerable members of our communities. Social Impact Investment offers us the tools to achieve that transformational systemic change.

In March 2016 Rob Wilson, UK Cabinet Office Minister for Civil Society, indicated that by 2020 he anticipates there being £1 billion invested in this type of investment in the UK.* We need to develop appropriate tools to make that money work in the best interests of everyone involved.

In Scotland we have developed a simple, accessible tool for Social Impact Investment allowing partners to create high quality, sustainable, cost effective services. We have called this the Social Impact Investment Partnership (SIIP).

The SIIP has a strong community focus allowing for Retail and Institutional investment. We have four template legal documents which can allow any community based organisation to use the SIIP structure for increasing the velocity of the money in their system locally. These documents can be quickly and easily adapted for local use simply by adding project specific Outcomes and Budgets.

Essentially a SIIP involves three parties:

- The Delivery Partner who designs and delivers a service in the community to address a specific social issue e.g. youth unemployment. The Delivery Partner is normally a Social Sector organisation.
- The Investment Partner/s who provide the working capital to cover the cost of the service provision. These can be Private, Philanthropic or Institutional parties with the facility for private individuals to invest too.
- The Outcome Partner who agrees a set of Outcomes in advance with the Delivery Partner. If these Outcomes are achieved then the Outcome Partner repays the working capital with interest at a previously agreed rate. The Outcome Partner has historically been a department of Government.

The key advantages of the SIIP structure are that:

- It empowers the Investment Partners by allowing them to achieve a positive social return without sacrificing a financial return, the creation of social capital doesn't have to exclude creating financial capital. This is important in the context of wider investment strategies which are increasingly moving towards a focus on longer term goals as a corrective to the short termism of recent years which arguably saw a dysfunctionality where investment tended to extract value from companies rather than creating value in them in the longer term.
- It empowers the Delivery Partners to focus on Outcomes allowing them to develop the best possible Processes based on their front line skills and experience: too often payment for services has been tied to a pre-determined Process for delivery. The SIIP structure

also allows the Delivery Partner to adapt the Process during the course of the Service delivery, i.e. there is the opportunity for genuine iterative learning which constantly enhances the quality of service to the clients.

- It empowers the Outcome Partner to commit funds to early intervention and prevention because they only pay for Outcomes which have definitely been achieved after they have been achieved. Historically for Government departments to commit funds to Prevention has been challenging because they carry the risk that such spending fails to achieve its goal. The SIIP guarantees the efficacy of their preventative spend by transferring the risk of failure to the Investment Partners. It also allows them to pay for the service from savings accrued as a result of the preventative work which has been delivered. Further the Outcome Partner can continue to provide an existing service while they trial the new one as the new service is only paid for in arrears, and only if it has been effective.

Outcomes in a SIIP can cover a wide range of service impacts across Health, Social Care, Justice, Environmental impact and others areas: outcomes might be around reducing the impact of compromised mental health; or empowering people experiencing homelessness to re-enter the mainstream of the community; or enabling unemployed individuals to re-engage in the labour market; or supporting families with multiple and complex needs to access the support they require; or reducing the rates of re-offending; or empowering the unemployed to create work in a programme of home insulation which reduces fuel poverty and supports the reduction of carbon footprints. The possibilities are really only limited by our capacity to imagine them.

To date Outcome Partners in the Social Impact Investment field have always been Government Departments or agencies but there is no reason why this should always be the case. For example could a Supermarket Chain take on the role of Outcome Partner if the Outcome is to reduce shoplifting by a given percentage? This is clearly a social good but also in the commercial interests of the Outcome Partner – the Supermarket Chain in this case.

Or the Outcome Partner may be an Insurance Company if the Outcome is to reduce the number of Road Traffic incidents, and consequent claims, from drivers under the age of 21.

The possibility of an Outcome Partner from the private sector raises the intriguing opportunity to introduce entirely new capital sources in to the creation of Social Impact in communities, impact which creates real change for real people in real communities. It also raises the possibility of exploring and developing the potential synergy which exists between Social Impact Investment and Corporate Social Responsibility – a potential largely untapped to date. The SIIP offers the opportunity to ignite imagination, commitment and possibilities to achieve the transformational systemic change which we need in the way we deliver services to some of the most vulnerable members of our communities. The question is whether enough of us are really prepared to grasp this opportunity?

I would be delighted to hear your questions / thoughts / concerns / suggestions about the potential of Social Impact Investment and the SIIP in particular. You can contact me on: ian@aberdeenymca.org.uk ; tel: 01224 643291.

(*Speech by Rob Wilson: "The Future of the UK Social Investment Market" delivered on 22nd March 2016 at Lloyd's of London.)

Ian Marr, Chief Executive of Aberdeen YMCA

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.

And though that means there's a lot of noise and rubbish out there, there's a lot of great stuff too.

The role of media has changed. We still write stories every day about the amazing people and organisations that make a positive difference to the world in which we live, but we also promote and publish the most relevant blogs, tweets and articles from our readers.

We want to report on the diverse voices of our audience and beyond—regular people writing as travellers, investors and consumers.

So, if you blog, tweet or write about sustainability we want to hear from you. You don't need to be an experienced or aspiring writer or worry about article length, spelling or grammar—we'll tidy that up for you.

We can't publish everything, but if it's likely to resonate with our readers or challenge them in some way, you'll fly to the top of our list.

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

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3D INVESTING STAR RATINGS EXPLAINED

What's the question that everyone wants to know? In my experience, it's which funds are the best? Clearly, the answer depends on an investor's personal circumstances, risk profile and so on, but it is possible to give a generic view based on objective, reasoned criteria. The 3D Star rating is our way of answering this question.

Without going into the minutiae of the rating methodology (which you can read at www.3dinvesting.com) we combine our assessment of social impact, exposure to ethical controversies, SRI capability, financial returns and transparency to come up with an overall score. This is represented by a star rating of 1-5.

3D Investing One Star

One Star funds are ones to avoid – funds that are so tiny they are in danger of being wound up; or funds containing stocks that totally undermine our confidence in the ethical integrity of the fund; or serial underperformers

3D Investing Two Star

Two Star funds may be worth considering, although they may have a poor financial track record, contain stocks that are likely to be of ethical concern or else have a low social impact.

3D Investing Three Star

Three star funds are definitely worth looking at. They may well rate as best in their sector, have a high SRI capability, or a relatively high social impact, but will also have weaknesses.

3D Investing Four Star

Four star funds are amongst the best 3D funds. They are likely to have a high social impact with limited ethical concerns. Thematic funds are well represented.

3D Investing Five Star

Five star funds are the real pioneers in the industry. They are required to demonstrate at least a fair financial performance, excellent transparency, a high social impact and a lack of exposure to ethically controversial companies.

FUND TABLE FOR ETHICAL & ENVIRONMENTAL FUNDS

Fund Name	3D star rating	3D Portfolio?
7im Sustainable Balanced	★★	FALSE
Aberdeen Ethical World	★	FALSE
Aberdeen Multimanager Ethical	★★	FALSE
Aberdeen Responsible UK Equity	★	FALSE
Alliance Trust SF Absolute Growth	★★★★	TRUE
Alliance Trust SF Cautious Managed	★★★	TRUE
Alliance Trust SF Corporate Bond	★★★	TRUE
Alliance Trust SF Defensive Managed	★★★	TRUE
Alliance Trust SF European Growth	★★★	TRUE
Alliance Trust SF Global Growth	★★★★	TRUE
Alliance Trust SF Managed	★★★★	TRUE
Alliance Trust SF UK Growth	★★★	TRUE
Alliance Trust UK Ethical	★★★	TRUE
Alquity Africa	★	FALSE
Alquity Asia	★★	FALSE
Alquity Future World	★★	FALSE
Alquity Indian Subcontinent	★★	FALSE
Alquity Latin America	★★	FALSE
AXA IM Ethical Distribution	★★	FALSE
AXA Planet Bonds		FALSE
BGF New Energy	★★	FALSE
BMO F&C Responsible Global Equity	★★★	FALSE
BMO F&C Responsible Sterling Bond	★★	FALSE
BMO F&C Responsible UK Equity Growth	★★	FALSE
BMO F&C Responsible UK Income	★★	FALSE
BSF Impact World Equity		FALSE
Candriam Equities Sustainable Emerging Markets	★★	FALSE
Candriam Equities Sustainable North America	★	FALSE
Candriam Equities Sustainable World	★	FALSE
Conbrio Best Income	★★	FALSE
Dimensional Global Sustainability Core Equity	★	FALSE
Eden SRI	★	FALSE
Eden Tree Amity European	★★	FALSE

Fund Name	3D star rating	3D Portfolio?
Edentree Amity International	★	FALSE
Edentree Amity Sterling Bond	★★	FALSE
Edentree Amity UK	★★★	FALSE
Family Charities Ethical	★	FALSE
Goldman Sachs Global Responsible Equity Portfolio	★	FALSE
Guinness Asset Management Alternative Energy	★★★	FALSE
Halifax Ethical	★	FALSE
Henderson Global Care Growth	★★★	TRUE
Henderson Global Care Managed	★★★	FALSE
Henderson Global Care UK Income	★★★	TRUE
Impax Asian Environmental	★★★★	TRUE
Impax Environmental Leaders Fund	★★★★	TRUE
Impax Environmental Markets Fund	★★★★★	TRUE
Impax Environmental Markets PLC	★★★★★	TRUE
Impax Food & Agriculture	★★★	TRUE
iShares Dow Jones Europe Sustainability Screened ETF	★	FALSE
iShares Dow Jones Global Sustainability Screened ETF	★	FALSE
Ishares Global Clean Energy UCITS ETF	★★★	FALSE
ishares Global Timber & Forestry UCITS ETF	★★★	FALSE
ishares Global Water UCITS ETF	★★★★	TRUE
ishares US Medical Devices	★★★★	TRUE
JSS Sustainable Equity New Power	★	FALSE
JSS Sustainable Water	★★★★	TRUE
Jupiter Ecology	★★★★	TRUE
Jupiter Green	★★★	TRUE
Jupiter Responsible Income	★★	FALSE
Kames Capital Ethical Cautious Managed	★★	FALSE
Kames Capital Ethical Corporate Bond	★★★	TRUE
Kames Capital Ethical Equity	★★	FALSE
L&G Ethical	★	FALSE
L&G Global Environmental Enterprises	★★	FALSE
Leaf Clean Energy	★★	FALSE
Legg Mason Clearbridge US Equity Sustainability leaders		FALSE
Ludgate Environmental	★	FALSE

Fund Name	3D star rating	3D Portfolio?
Lyxor ETF World Water	★★★	FALSE
MAN GLG Global Sustainability Equity	★★	FALSE
Market Vectors Environmental Services ETF	★	FALSE
Market Vectors Global Alternative Energy	★★★	FALSE
Market Vectors Solar Energy ETF	★★★	FALSE
Menhaden	★★★	FALSE
Old Mutual Ethical	★★★★	TRUE
Pacific Assets Trust	★★★	TRUE
Pictet Clean Energy	★★	FALSE
Pictet Emerging Markets Sustainable Equities	★	FALSE
Pictet Environmental Megatrend	★★	FALSE
Pictet European Sustainable Equities	★★	FALSE
Pictet Timber	★★	FALSE
Pictet Water	★★★★	TRUE
Powershares Global Clean Energy UCITS ETF	★★	FALSE
Powershares Global Water UCITS ETF	★★★	FALSE
Premier Ethical	★	FALSE
Quilter Cheviot Climate Assets	★★★	TRUE
Rathbone Ethical Corporate Bond	★★★	TRUE
Robeco SAM Smart Energy	★★	FALSE
Robeco SAM Smart Materials	★	FALSE
Robeco SAM Sustainable Water	★★★★	TRUE
Royal London Ethical Bond	★★	FALSE
Royal London Sustainable Diversified	★★★	TRUE
Royal London Sustainable Leaders	★★	FALSE
Royal London Sustainable Managed Growth	★★★	TRUE
Royal London Sustainable Managed Income	★★★	FALSE
Royal London Sustainable World	★★	FALSE
Royal London UK Equity Ethical	★	FALSE
Sarasin Equisar Socially Responsible	★★	FALSE
Sarasin Sustainable Equity - Real Estate Global	★★	FALSE
Schroder Climate Change Equity	★	FALSE
Scottish Widows Environmental	★	FALSE
Scottish Widows Ethical	★	FALSE

FUND TABLE FOR INFRASTRUCTURE FUNDS

Fund Name	3D star rating	3D Portfolio?
Socially Responsible Investment Fund PCC	★	FALSE
Sparinvest Ethical Global Value	★	FALSE
St James Place Ethical	★	FALSE
Standard Life Ethical Corporate Bond	★★	FALSE
Standard Life European Ethical	★★	FALSE
Standard Life UK Ethical	★★	FALSE
Stewart Investors Asia Pacific Sustainability	★★★	TRUE
Stewart Investors Global Emerging Markets Sustainability	★★★	TRUE
Stewart Investors Worldwide Sustainability	★★★	TRUE
SVM All Europe SRI	★	FALSE
Threadneedle Ethical UK Equity		FALSE
Threadneedle UK Social Bond	★★★★★	TRUE
Triodos Sustainable Equity	★★★★	TRUE
Triodos Sustainable Pioneer	★★★★★	TRUE
UBS MSCI Pacific Socially Responsible UCITS ETF	★★	FALSE
UBS ETF (LU) MSCI Europe&Middle East S. R. UCITS ETF	★★	FALSE
UBS ETF (LU) MSCI North America S. R. UCITS ETF	★	FALSE
UBS ETF (LU) MSCI World Socially Responsible UCITS ETF	★★	FALSE
UBS MSCI Emerging Markets Socially Responsible UCITS ETF	★	FALSE
UBS MSCI Japan Socially Responsible UCITS ETF		FALSE
UBS MSCI UK IMI Socially Responsible UCITS ETF	★	FALSE
Unicorn Ethical Income	★	FALSE
Vanguard SRI European Stock	★	FALSE
Vanguard SRI Global Stock	★	FALSE
Virgin Climate change	★	FALSE
Vontobel Clean Technology	★★★★	TRUE
Vontobel New Power	★	FALSE
Vontobel Sustainable Asian Leaders	★★	FALSE
Vontobel Sustainable Global Leaders	★★	FALSE
Way Green Portfolio	★	FALSE
WHEB Sustainability	★★★★★	TRUE

Fund Name	3d rating	3D Portfolio?
Assura	★★★★	TRUE
Bluefield Solar	★★★★	TRUE
Brookfield Renewable Power	★★★★	TRUE
Empiric Student Accommodation	★★★	TRUE
Foresight Solar	★★★★★	TRUE
GCP Infrastructure	★★★★	TRUE
GCP Student Living	★★★	TRUE
Greencoat Wind	★★★★	TRUE
Hannon Armstrong Sustainable Infrastructure	★★★★	TRUE
HICL	★★★	TRUE
Innergex	★★★★	TRUE
International Public Partnerships	★★★	TRUE
John Laing Environmental Assets	★★★★	TRUE
LTC Properties	★★★★	TRUE
Medical Properties Trust	★★★	TRUE
MedicX	★★★	TRUE
NextEnergy Solar Fund	★★★★	TRUE
Primary Healthcare Properties	★★★★	TRUE
Target Healthcare	★★★	TRUE
The Renewable Investment Group	★★★★	TRUE
Ventas	★★★	TRUE

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Ardent UK
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Ashlea Financial Planning
Contact: Diane Weitz or Nik Marsh
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Address: 81 Hatherley Road, Cheltenham GL51 6EG

Barchester Green Investments
Contact: John Ditchfield
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Contact: Rob Blackshaw , Tim Bradford, Andrew Faulkner, Andy Hillier or Rupert Lovesy
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Address: 9 Mansfield Place, Edinburgh, EH3 6NB

Ethical Investment Co-operative, The
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Kingswood Consultants
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Life Financial Planning
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Prest Financial Services
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Profit With Principle
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Virtuo Wealth Management
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- PRESENT AID GIFTS THAT KEEP GIVING
- Oxfam

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