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# Impact Investing



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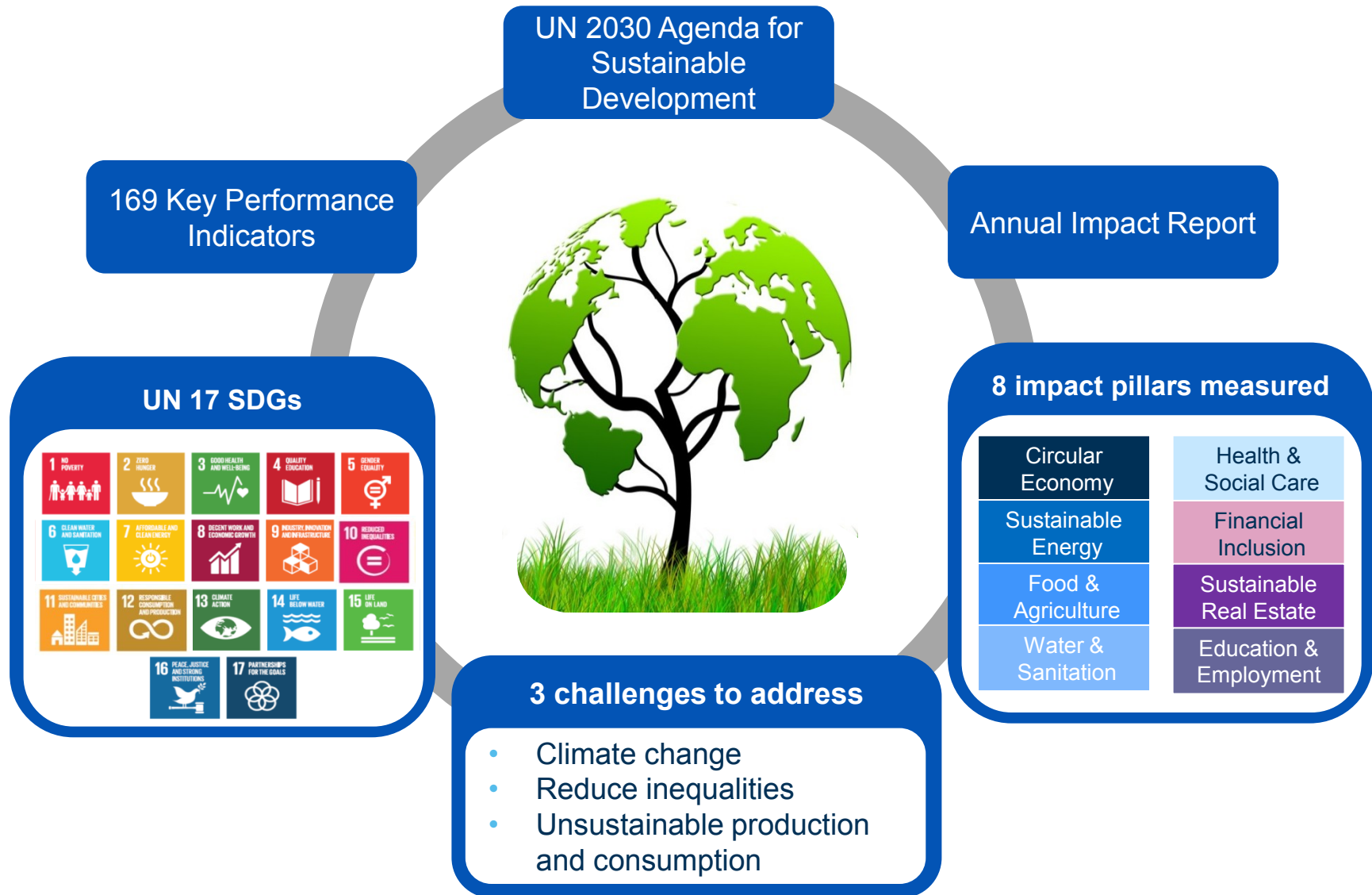
# Impact investing



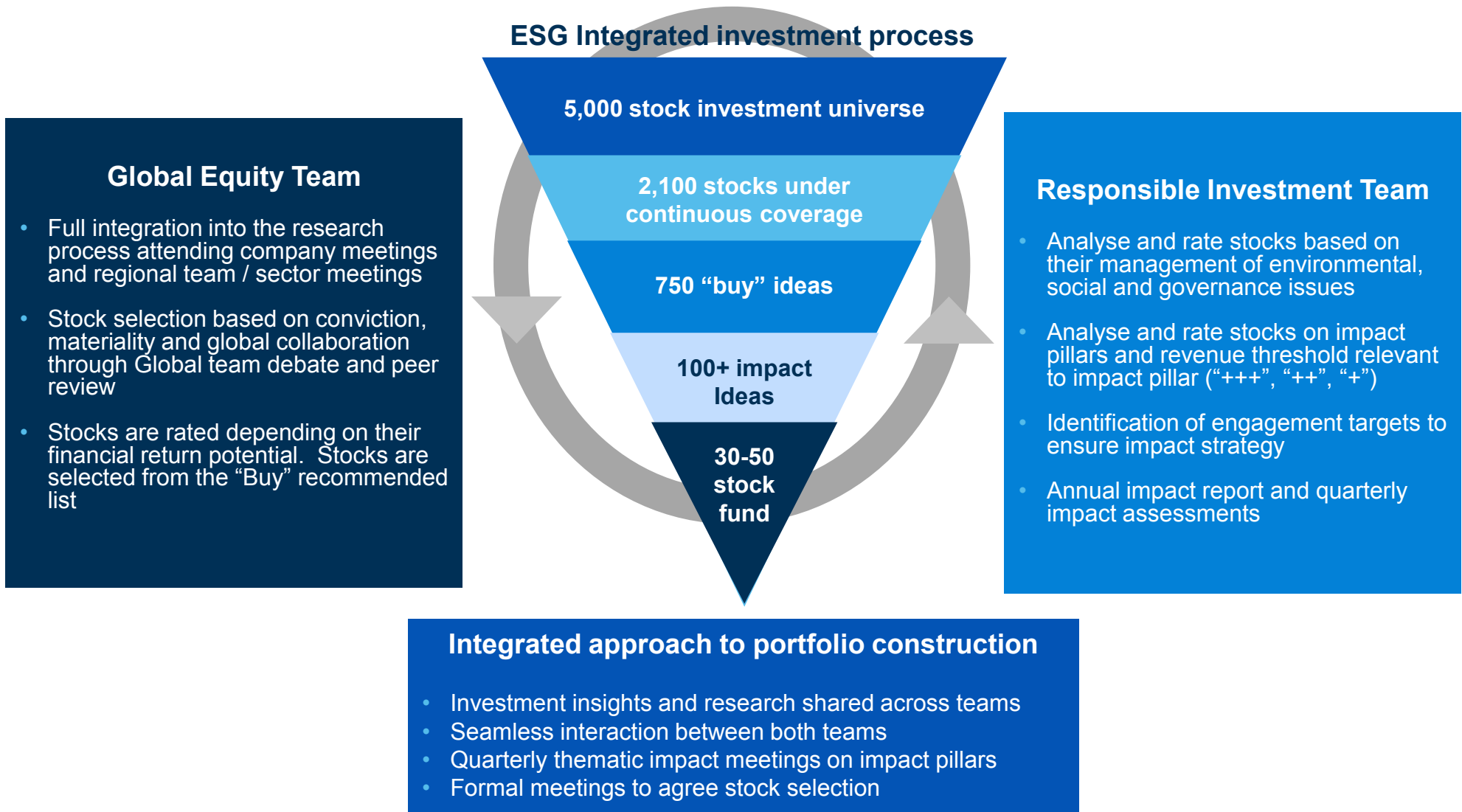
- 17 UN Sustainable Development Goals
  - Set to guide development for next 15 years
- Address long-term challenges
  - Climate change
  - Rising inequalities
  - Unsustainable production and consumption
- All economies and societies
- Public and private sectors
- Businesses' role as solution providers

Addressing societal challenges that generate a competitive financial return

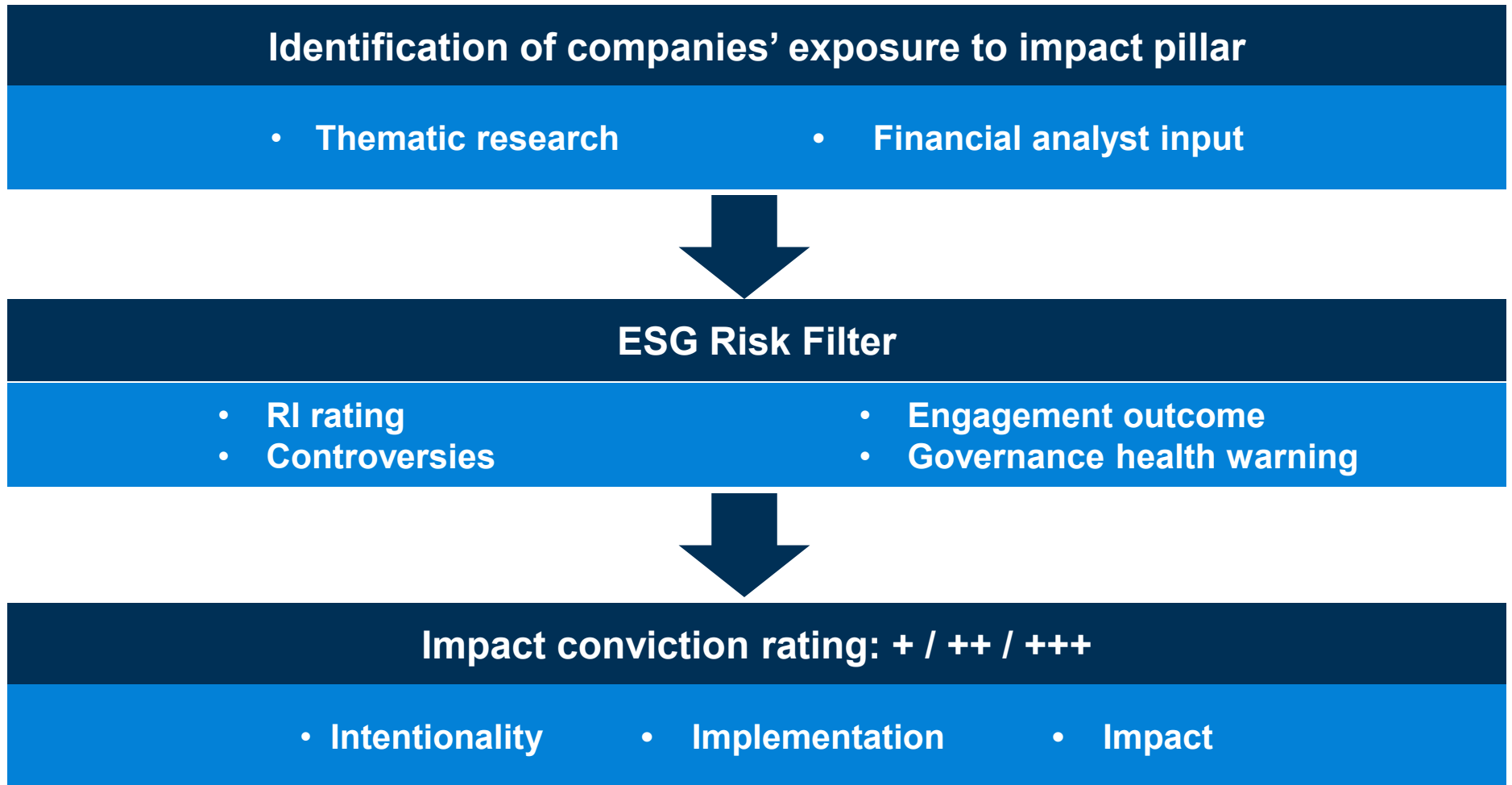
# Impact Investing



# Team integration



# Impact rating framework



Impact ratings incorporated in stock selection

# Measuring impact

## Circular Economy

Main industries: Packaging, Water, Recycling

### Impact qualification

### Measures

#### Intentionality

- >1/3<sup>rd</sup> R&D directed toward Circular Economy
- Strategy: to promote circular economy as a core tenant of business practice

#### Implementation

- Revenue from circular economy: 30% and double digit growth, or
- At least 50% of revenue

#### Impact

- Tonnes of material saved
- Tonnes of waste recovered
- Tonnes of waste diverted
- Number of products reused

# Measuring impact: Example

**Circular Economy**

**Umicore**



**Impact qualification**

**Measures**

Intentionality

- The main areas of product R&D spending are in automotive catalysis, fuel cell catalysis and rechargeable battery materials

Implementation

- Recycling segment accounts for €657 million including the battery recycling division, or 25% Group revenues (excl metal)

Impact

- Umicore beat targets set in Vision 2015, reducing CO<sub>2</sub> emissions by 26%, reducing metal emissions to air 37% and reducing the impact of metal emissions to water by 26%

# Umicore Performance



Source: Standard Life Investments, Thomson Reuters, 30 September 2016



# Global Equity Impact portfolio construction

## Impact Pillars

Circular  
Economy

Sustainable  
Energy

Food &  
Agriculture

Water &  
Sanitation

Health &  
Social Care

Financial  
Inclusion

Sustainable  
Real Estate

Education &  
Employment

Maximise exposure to  
highest conviction ideas

Eliminate worst  
ESG performers

Broad exposure to highest  
impact ideas

## Portfolio Construction

Consistent Focus on  
Change approach

High conviction  
stock ideas

Effective investment  
risk control

2,100+ stocks  
covered

750+  
buy ideas

60+ Equity Investors

45+ credit analysts

3,000+ company meetings

Deep coverage

Strong analytical resource

Effective corporate contact

**Investable universe of 5,000+ companies**

Active engagement to ensure value of impact

Financing  
positive societal  
impact

Delivering  
Outperformance

Active engagement is essential to managing impact investing portfolios

# Portfolio construction parameters

## Portfolio construction framework

- Focus portfolio risk budget on bottom-up, company specific ideas with a non-consensus Focus on Change insight and high impact change
- Analyst team will agree the “BUY” list of ~750 investment ideas, which are then assessed for impact
- Stocks rated “+++”, “++” or “+” depending on financial conviction or impact conviction

Strategy Limits:	Global Equity Impact Fund
Number of stocks:	30 - 50
Benchmark	MSCI ACWI
Stock absolute weight max	5%
Sector absolute weight max	30%
Minimum pillars invested	5
Impact vs ABCD (Behavioural)	70 / 30

### Objective:

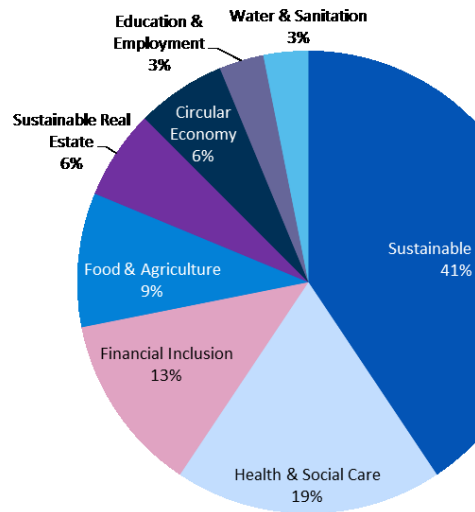
Balancing positive financial return with meaningful social impact

Risk analysis to minimise sector and factor skews and maximise stock specific risk

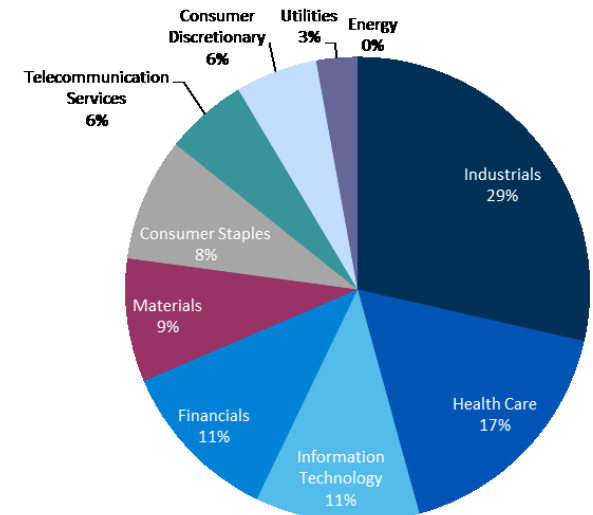
# Portfolio positioning

## Top 10 positions

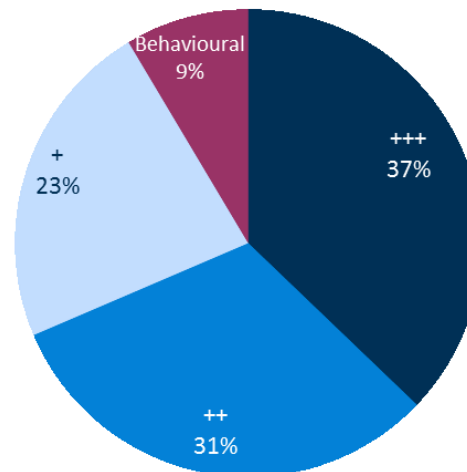
Holding	Pillar(s)
Veolia Environnement	Water / Circular Ecor
Safaricom	Financial inclusion
Equinix	Sustainable Energy
Umicore	Energy / Circular Ecc
Accenture	Behavioural
Mastercard	Financial Inclusion
Acuity Brands	Sustainable Energy
Abbvie	Healthcare
Glanbia	Sustainable Food
KAREX	Healthcare



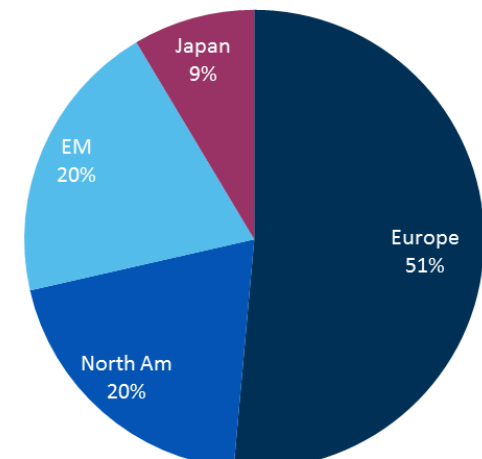
**Pillar split**



**Sector split**



**Rating split**



**Region split**

# Measurement of impact



Data and qualitative narratives to show how the companies in the fund have:

- Had a positive and measurable impact on society and the environment
- Addresses the long term challenges of:
  - Climate change
  - Rising inequalities
  - Unsustainable production and consumption
- As well as financial returns, an annual report to be produced detailing impact at a stock, pillar and fund level
- Active engagement to encouraging better behaviours and disclosures

A critical component of impact investing is measuring the impact of the holdings

# Circular Economy - Report

Holdings: Huhtamaki, Brambles, Cleanaway and Umicore



## Paper / Trees Saved

**28,000,000** trees saved  
the equivalent of **16k**  
**hectares** (or 16,000  
rugby pitches)



## Water saved

**9 billion** gallons water  
saved: Roughly **14,000**  
Olympic swimming pools



## Hard waste recycling



**400,000 m<sup>3</sup>** of waste  
recycled and avoiding  
land fill. The equivalent of  
**3½** super tankers



## Liquid recycling

**850,000** barrels of oil saved.  
Enough organic liquid waste  
repurposed to fertilise  
**4,500,000** rugby pitches

# Dispelling the myth



Impact investing doesn't need to cost the earth

# Summary





















- Broad research coverage, disciplined investment process, strong idea generation
- Team integration, deep understanding / assessment of the portfolio stocks impact
- Concentrated portfolio of stocks delivering both positive financial returns as well as positive social impact
- Portfolio construction to maximise impact and balance investment risks
- Regular review of the impact of the portfolio stocks
- Regular review, measurement and reporting of the impact of the portfolio



# **Appendices**



# Impact pillars

UN Global Goals	PILLARS	SUB-THEMES
  	<b>Circular Economy</b>	Resource efficiency Material recovery and reuse
 	<b>Sustainable Energy</b>	Access to energy Clean energy Energy efficiency
 	<b>Food &amp; Agriculture</b>	Access to nutrition Food quality Sustainable agriculture
 	<b>Water &amp; Sanitation</b>	Access to water & hygiene Clean water Water efficiency
  	<b>Health &amp; Social Care</b>	Access to healthcare & social care Enhanced healthcare Drug development
  	<b>Financial Inclusion</b>	Access to financial services
 	<b>Sustainable Real Estate</b>	Affordable housing Eco-building
  	<b>Education &amp; Employment</b>	Access to education and skills development Quality employment and job creation

# Impact conviction ratings

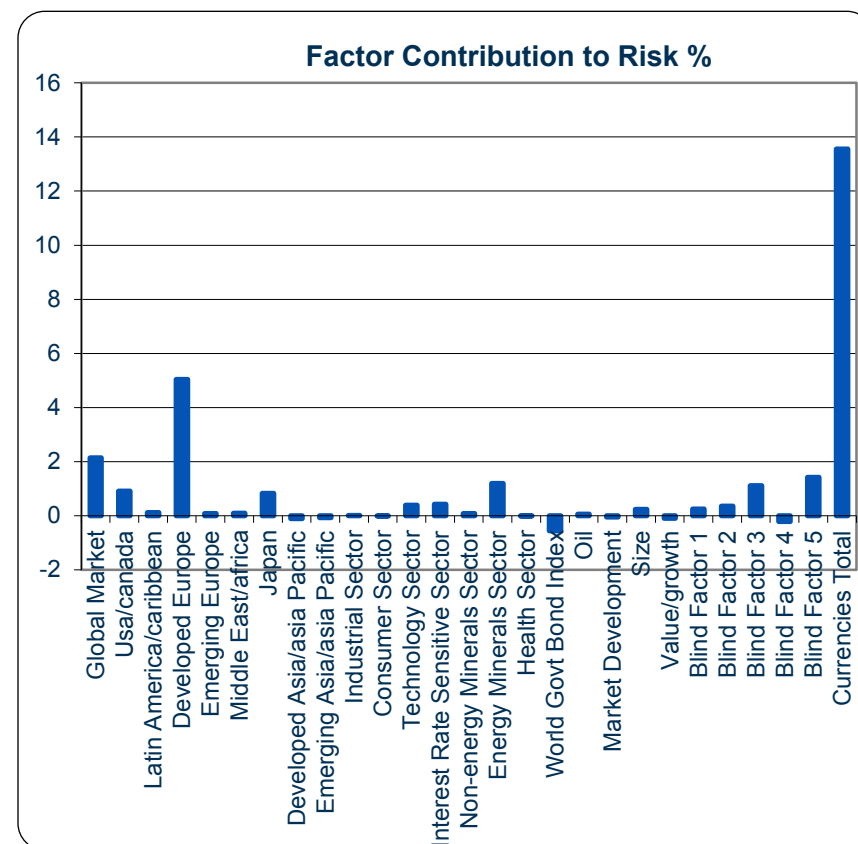
Three measures of impact are considered:

- ***Intentionality:*** A forward looking assessment of a company's own awareness of its role in society and its commitment to improve social and environmental conditions through their products and in their markets. Companies must clearly define a strategy (qualitative) that places products/services/access at the heart of the business, further supported by a significant R&D budget (quantitative)
- ***Implementation:*** measures the effectiveness of a company's strategy and R&D efforts. Companies that will have an implementation impact will meet a specific revenue threshold and growth targets within each pillar
- ***Impact:*** The extent and reach of the successful implementation of an impact strategy and a company with impact scope discloses on specific pillar indicators and shows annual progress

# Portfolio characteristics

- **Benchmark** MSCI ACWI
- **Predicted Tracking Error** 4.48%
- **Predicted Beta** 1.09
- **Active Share** 96%
- **Stock Specific Risk** 73%
- **Number of Holdings** 49

	Portfolio	Benchmark
Market capitalisation	£28.9b	£78.2bn
Price / earnings	19.7x	18.3x
Price / book	2.6x	2.1x
Historic 3yr EPS growth	10.5%	12.0%
Return on equity	17.6%	15.9%
Long term debt / capital	34.7%	39.6%
Volatility	11.3	9.6



# Investment process

Our scale allows a broad and unbiased investible universe

We look for Focus on Change opportunity at company level

## Idea generation & Research

We formalise and review our research by way of consistent “5 Question” analysis

## Stock selection

We select on materiality, conviction and global thesis corroboration

## Impact Analysis

Impact measurement framework analysing 8 different pillars

## Portfolio construction

# Global Equity: What makes us different

- **Our Focus on Change approach**
  - Looking for undiscovered or mis-priced fundamental company-level change
  - Company focussed, fundamental and style agnostic, target outperformance across investment cycles
  - Leads to non-consensus insights and outperformance from global stock-selection
- **Our optimal combination of scale and structure**
  - **61** equity analysts and **46** credit analysts, **2,100+** stocks covered, **3,000+** company meetings per year
  - Joined-up investment organisation, Global Equity PMs fully integrated into front-line research
  - Harnesses our scale to develop company-specific information advantage
- **Our portfolio characteristics**
  - High conviction portfolios with high active share (over **90% active share** across global strategies)
  - Portfolio risk budget focussed on diversified, fundamentally uncorrelated stock ideas
  - **Top quartile** performance over 3, 5 and 10 years, with 80%-100% contribution from stock selection

# Responsible investment capability

## Well established and resourced responsible investment capability

- Foundations of team established c.25 years ago
- Part of 10 strong ESG team, over 80 years collective experience in Responsible Investment
- Active RI industry involvement (PRI, Eurosif, UKSIF, VBDO, UN Global Compact, CDP; EITI; 30% Club; Insurers' Investors for Impact Investment, Investment Leadership Group)

## Successful track record of integrated responsible investment

- Over £2.2bn AuM in dedicated Ethical and Sustainable & Responsible Investment funds
- Responsible Investment team involvement in integrating ESG into other portfolios
- Seamless dialogue and collaboration with Equity, Credit and Real Estate teams

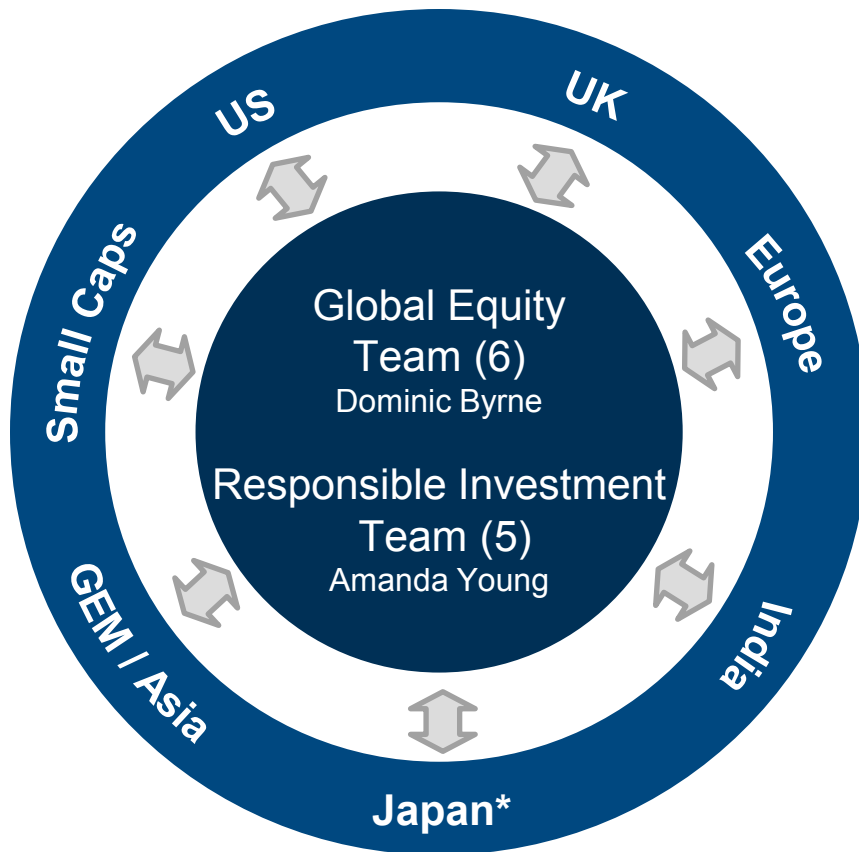
## Capability and track record of active and positive company engagement

- Full global universe rating capability, 100+ RI company engagements per year
- Led by Responsible Investment Team, joined-up with investment and governance teams
- Rigorous approach to engagement, combining risk analysis with investment materiality

Source: Standard Life Investments, 30 June 2016

Responsible Investment Team has oversight of ESG Integration and RI Product Range <sup>22</sup>

# Our people - scale and structure



Staff	Area	Average Years of Industry Experience	Average Years of Standard Life Investments Experience
6	Global Equity Team	17	11
55	Regional Equity Teams	15	9
46	Credit Team	15	5
47	Strategic partners / JV**	19	-
11	Stewardship and ESG Investment	18	7

- Well resourced regional equity teams enable large unbiased stock coverage universe
- Dual role of Analyst / PM attracts talent and drives investment debate
- ESG integrated into the mainstream investment process
- Close collaboration with Credit Team enhances stock analysis
- Global team integration into front-line research enhances conviction and global insights

\* Japan coverage by 31 equity investors at strategic partner SuMi Trust; \*\* Strategic Alliance in Japan with SuMi Trust, Joint Venture in India with HDFC  
Source: Standard Life Investments, 30 September 2016

# Idea generation & research

- Consistent Focus on Change approach, looking for bottom-up non-consensus insights
- Company contact is a primary source of insights, with 3,000+ company meetings per year globally; 500+ UK
- Further insights from Credit, Real Estate, Strategy and Multi-Asset teams
- ESG integrated into the mainstream investment process
- Evaluate conviction and upside materiality of insights on a 3 - 5 year time frame
- Investment ideas presented in a consistent “5 Questions” format for rigorous peer review

## The Five Question (5Q) Analysis

- 1 What are the Key Drivers?
- 2 What is Changing?
- 3 What Expectations are Priced in by the Market?
- 4 Why will the Market Change its Mind?
- 5 What is the Trigger?



Consistent Focus on Change approach, looking for bottom-up non-consensus insights 24



# Stock selection

~750+ Buy ideas



Stock selection based on conviction, materiality and global corroboration through team debate and peer review



20 stock Global Winners Lists: High conviction ideas for Global Equity portfolios

## Consistent 5 Question format

- Comparable across sectors and regions

## Regional Team daily meetings

- Attended by Global Team member
- Informed insight on material news
- New ideas, challenges to existing views
  - Regional portfolio action

## Regional Team sector reviews

- Attended by Global Team member
  - Twice a week
- Presentation of analyst recommendations
  - Discussion and feedback
  - Regional portfolio action

## ESG Investment Team

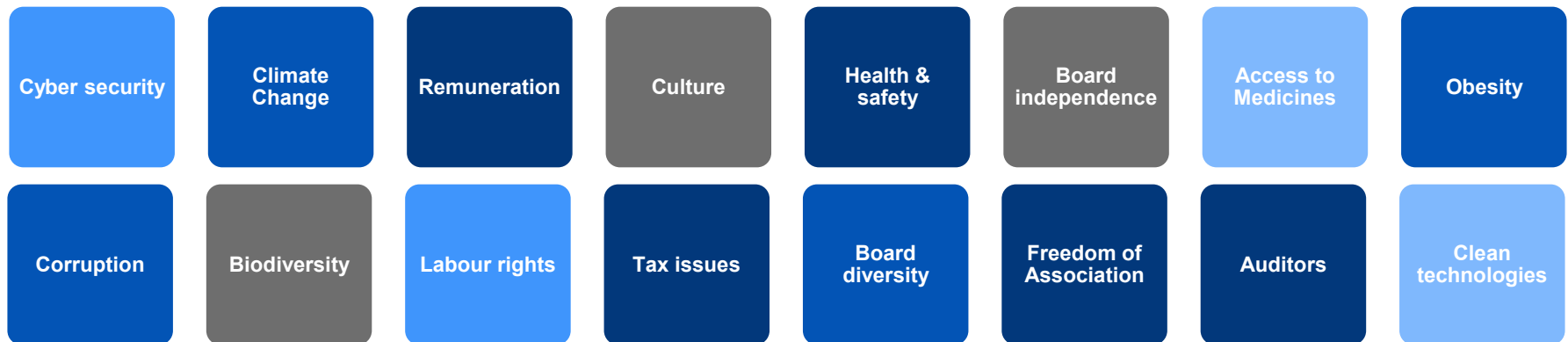
- Integrated approach throughout providing ESG insights

## Winners List anchors portfolio construction

- Monitored and measured

# Defining and integrating ESG

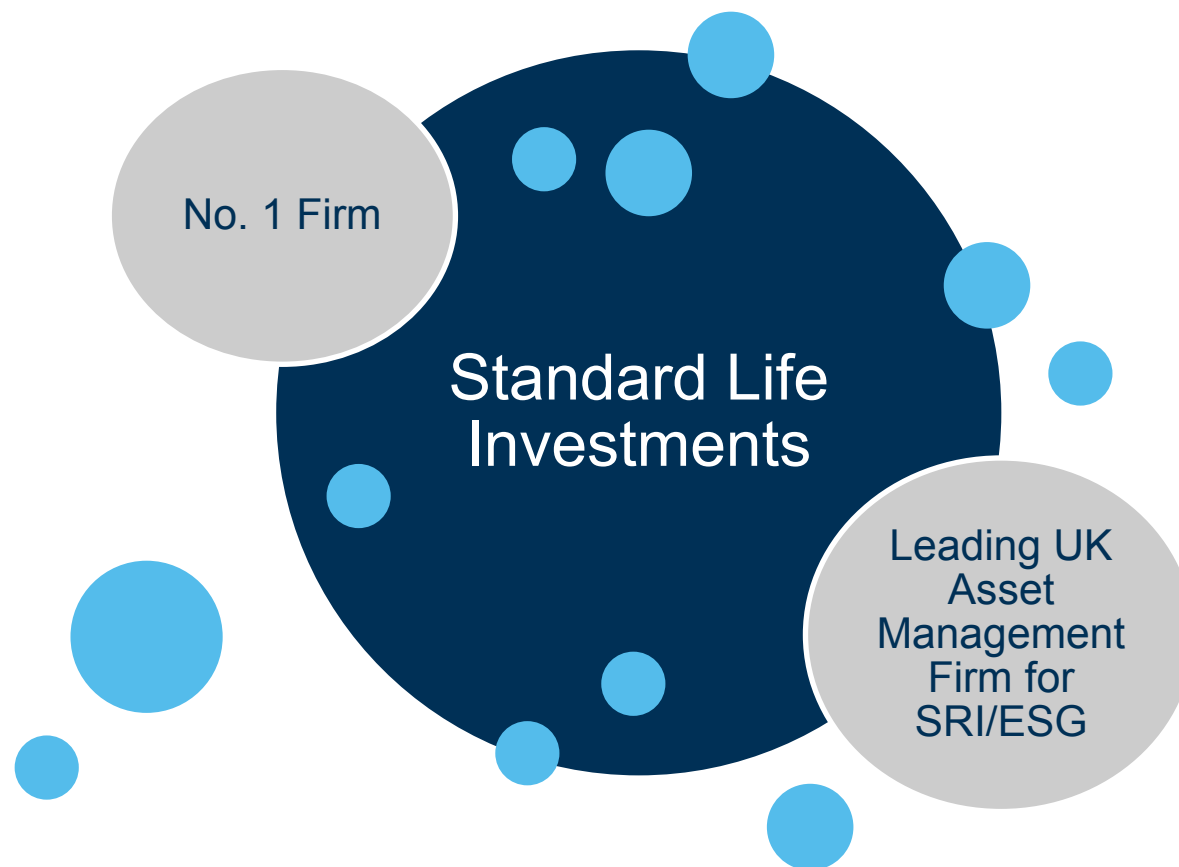
- ESG: Environmental, social and governance factors
- The assessment of ESG and market trends, business models, risks and opportunities
- Integrated as part of our investment process
- Embedded in our “Focus on Change” investment philosophy
- **Being good stewards of our clients’ money**



“Accountability goes to the heart of behaving responsibly as long-term investors”

Keith Skeoch, CEO Standard Life Investments

# Award Winning Team



SRI: Sustainable and Responsible Investment. ESG: Environmental, Social, and Governance

As voted by Pan European corporate and sell-side communities

# ESG engagement

Dedicated expertise working to add value to the investment process



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