investors

Positive Impact Portfolios

Ethical Investing for the 21st Century

Introducing EQ

EQ is an award-winning boutique wealth manager acting for private clients, small companies and charities all around the UK. Our aim is to be the best, not the biggest.

“ For more than 30 years I have set out to provide a rigorous, research-based approach to investment, coupled with excellent client service. That approach worked well at Bestinvest, which I founded in 1986. It became one of the most successful companies in the sector and set standards that have now been widely adopted. Those principles are just as valid today and form the core of the EQ philosophy.

In wealth management Big does not necessarily mean Better. Unlike many of our competitors we have no external shareholders, nor do we have any intention of ever selling our business. That puts us in the enviable position of being able to fully align our interests with those of our clients. ”

John Spiers, CEO

Our people

Our staff are our most valuable asset. Businesses that don’t treat their own staff well cannot deliver good service to clients, so we involve our staff in all aspects of running the business, contributing ideas to help ensure continuous improvement.

EQ's team of 60 is based in the City of London. The following talented group of individuals look after our model portfolio service, including our Positive Impact Portfolios:

Independent Research

EQ's investment process is based on independent research. Our in-house research team supports the portfolio managers to make investment decisions in our clients' best interests.

EQ invests across the whole of the market with no ties to particular fund managers or fund groups.

Kasim Zafar, CFA
Portfolio Manager

Damien Lardoux, CFA
Portfolio Manager

Sophie Muller, CFA
Senior Investment Analyst

Josh Seagar
Investment Analyst

David Ellener
Investment Analyst

Michael Born
Fund Research Analyst

Business as a force for good

We are proud to be a UK founding B Corporation: the international standard for companies that believe in using business as a force for good. EQ is authorised and regulated by the Financial Conduct Authority, and has Chartered status as a financial planning firm.

Certified B Corporation

Financial Planner Awards 2015 — 20th Anniversary — Winner: Ethical Investment planner of the year

Financial Planners CII Chartered

Being Positive

It's not always easy to be positive about the future of the planet and its inhabitants. The 21st century appears to have delivered a perfect storm of economic uncertainty, social upheaval and environmental change.

Many people are questioning whether the traditional approach to investment, which has advocated the accumulation of wealth at almost any cost, is too one dimensional. Can such a single minded objective really insulate you from the many issues we are all facing? Perhaps a broader strategy which seeks to invest for social and environmental benefit as well as profit should have a place in your portfolio.

Invest in businesses which have the power to do good

The Positive Impact Portfolios

Better Society 2016 AWARDS SHORTLISTED

INVESTMENT WEEK Sustainable Investment Awards 2015 HIGHLY COMMENDED

Established in 2012, these portfolios are for clients that:

- Are seeking strong financial returns over the long term.
- Prefer to invest in industries and businesses that aim to deliver social and environmental benefits through their activities.
- Are concerned about the damage that certain industries and types of business can cause to society and the physical environment.

They can be used as a stand-alone investment solution for those who view social and environmental considerations as paramount to their investment objectives, or as separate specialist portfolios.

Each investor has their own portfolio which is invested in a well-diversified mix of 20-25 funds and actively managed by EQ. They can be held both in ISA (tax-free savings) or SIPP (personal pension) accounts. There are six levels of risk available, with the maximum equity exposure ranging from 35% to 85%.

Stockmarkets are volatile and so in all cases we advocate a minimum time horizon of five years (although portfolios can usually be liquidated on seven days notice).

Available for ISAs and pensions

"We have worked with EQ Investors and their research team for a number of years and have been regularly impressed by their fund review process, and the depth of their research."

Neville White, Head of SRI Policy & Research,
Ecclesiastical Investment Management Limited

Risk warning: past performance is not a guide to future performance. The value of investments and the income derived from them can go down as well as up, so you could get back less than you originally invested.

Late 1700's
Religious investors in the US refused to invest in alcohol, tobacco, and slave trading.

1928
US Pioneer Fund became the first mutual fund to screen out sectors.

1960's
Push for screening out arms companies during the Vietnam War.

1970's
Apartheid in South Africa led to the first negative screening of a country.

1980's
Socially Responsible Investment (SRI) adopted by churches and universities.

Launch of thematic ethical funds.

2009
Global Impact Investment Network (GIIN) formed.

2012
EQ launches Positive Impact Portfolios.

2013
National Impact Initiative launched by G8.

2014
Social Stock Exchange set up.

Social Investment Tax Relief (SITR) introduced.

What is impact investing?

An investment approach that aims to make a positive contribution to society or the environment, alongside an attractive financial return.

Socially responsible investing is not a recent phenomenon, it can actually be traced back several centuries. Early initiatives were all based on the exclusion of controversial sectors such as tobacco or armaments rather than on investing in businesses which have the power to do good. That's what Impact Investing is seeking to achieve and it has begun to take off.

Positive screening

"Seeking out companies making a positive impact..."

+

Negative screening

"Avoiding companies that are obviously harmful..."

=

Positive Impact

Delivering strong financial returns

The EQ Positive Impact Portfolios are not just about selecting investments that do good, they are also about selecting good investments.

Negative screening techniques inevitably result in nil, or minimal, exposure to some sectors such as tobacco which have often been highly profitable investments for a century or more. Therefore, it is not surprising that some studies have demonstrated that a 'sin portfolio' outperforms an ethical one.

However, the positive impact approach leads to selecting companies that are actually trying to do good and run their business in a sustainable manner. Such companies avoid fines and other penalties; they have stronger relationships with their customers, suppliers and staff. Furthermore, they tend to operate in sectors with high growth potential. Research by fund manager Wheb has illustrated that growth is higher in their universe of 1,000 investable companies than in the stockmarket generally, as shown opposite:

Research carried out by Cambridge Associates in conjunction with its launch of an impact investing benchmark suggests positive impact funds may actually outperform conventional funds.[1]

Our own analysis of past performance suggests that there is little or no correlation between impact and financial return – the adverse impact of negative screening seems to be compensated by the benefits of the positive impact investments. On that basis there is no reason to expect a positive impact approach to have an adverse impact on performance.

1 *Introducing the Impact Investing Benchmark*, Cambridge Associates, June 2015

> **"*No sacrifice in financial return is required.*"**

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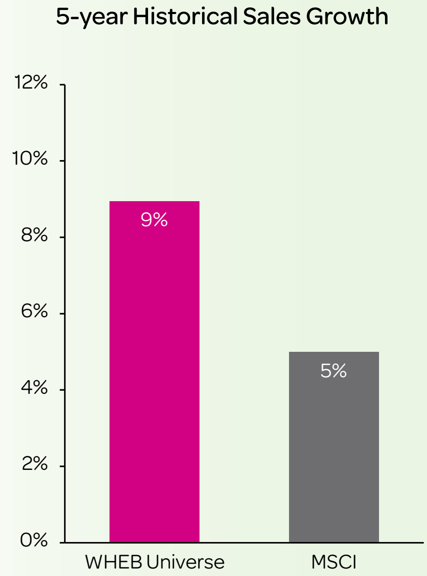
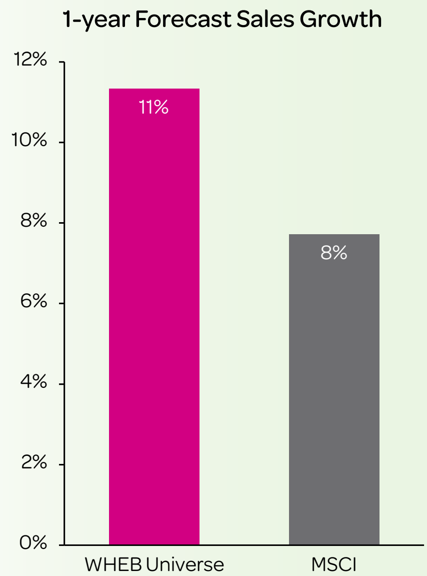
Linking Positive Impact to Higher Growth

The research below is from WHEB, a specialist investor into companies making a Positive Impact. It shows that both historical and forecast sales growth figures are higher for companies in their 'investment universe' – i.e. which they have screened for social and environmental impact – when compared to average figures from the MSCI World Index (whose constituent companies are not screened).





Source: WHEB. Data as at 31 March 2016.

Global issues, global opportunities

The Positive Impact Portfolios focus investment on solutions to the most pressing social and environmental issues of our time.

1 CLIMATE CHANGE

The evidence is unequivocal: climate change is a reality and the Earth has already warmed significantly as a result. Scientists are observing knock-on impacts on natural and human systems across the globe.

Continued emissions of greenhouse gases will cause further warming and changes in all components of the climate system. Limiting climate change will require substantial and sustained reductions of greenhouse gas emissions.[1]

Making a Positive Impact

We invest in industries that are creating the post-fossil fuel economy, and have fully divested from those responsible for fossil fuel production and ozone depletion.

We invest in...	We avoid...
✓ Clean fuels	× Coal
✓ Sustainable transport	× Oil
✓ Renewable energy	× Ozone depleting chemicals
✓ Energy conservation	
✓ Sustainable forestry	

2 HEALTH

Thanks to the concerted efforts of governments, researchers, and health organisations around the world, global human life expectancy has increased by 5 years since the turn of the millennium and the gap between African and European life expectancy has narrowed by almost the same.[2]

Ensuring good health and well-being for all is at the heart of improving life prospects for millions of people worldwide.

Making a Positive Impact

Our investments target a range of healthcare innovations and avoid industries that pose a risk to human health.

We invest in...	We avoid...
✓ Health care	× Alcohol
✓ Medical research	× Armaments
✓ Promoting healthy lifestyles	× Genetic engineering
✓ Natural food production	× Nuclear energy
✓ Water resources	× Pornography
✓ Pollution control	× Tobacco
✓ Health & Safety	

INVESTOR WARNING: CAPITAL AT RISK

1 *Summary for Policy Makers, Climate Change 2013: The Physical Science Basis*. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change.
2 *World Health Statistics 2016 Report*, World Health Organisation

NATURAL RESOURCES

3

Humanity's 'ecological footprint' continues to grow. We currently use the equivalent of 1.6 planet Earth's to provide the resources we use and absorb our waste. In other words, it takes the Earth one year and six months to regenerate what we use every year.[3]

Moderate UN scenarios suggest that if current population and consumption trends continue, by the 2030s, we will need the equivalent of two Earths to support us. And of course, we only have one.

Making a Positive Impact

We invest in sectors that are developing efficient ways of using and conserving our limited natural resources.

We invest in...	We avoid...
✓ Natural resources conservation	× Animal testing
✓ Recycling	× Fur trade
✓ Sustainable agriculture	× Mining
✓ Sustainable forestry	
✓ Water resources	

INEQUALITY

4

The world's population continues to grow: by 2050 it is estimated there will nearly 10 billion humans, more than 2.6 billion of them younger than 18. Many children born today will enjoy vast opportunities unavailable 25 years ago. But not all will have an equal chance to grow up healthy, educated and able to fulfil their potential or become fully participating citizens.[4]

Ending poverty, protecting the planet and ensuring prosperity for all underpin the UN's Sustainable Development Goals for 2030.

Making a Positive Impact

We focus on sectors that are helping to reduce social inequality while avoiding those with poor reputations in this area.

We invest in...	We avoid...
✓ Responsible employers	× Gambling
✓ Community engagement	× Poor corporate governance
✓ Social care	× Poor labour standards
✓ Affordable housing	× Political corruption
✓ Education	× Human rights abuses
✓ Empowerment	
✓ Financial inclusion	

3 http://www.footprintnetwork.org, Global Footprint Network 2016
4 *The State of the World's Children 2015 Report*, UNICEF

How we build the portfolios

Each Positive Impact Portfolio is constructed from 20-25 funds. The process we follow to select them is based on well-established principles for successful investment.

1

Asset allocation

First we focus on the big picture. Academic research indicates that 90% of investment returns depend on achieving the right balance between equities, bonds and other types of asset. Our aim is to identify which markets offer the best value right now, as these are the areas where the biggest gains are to be made.[1]

2

Fund selection

There are more than 20,000 funds available to investors in the UK, but the vast majority of these make no attempt to screen their investments in respect of impact. We restrict the number of funds available to those that do screen their investments. Then we assess:

a) how much impact they achieve, and
b) their potential to deliver good financial returns.

3

Portfolio construction

Building a portfolio can be compared with creating a recipe: each ingredient needs to be of the highest quality but it is also vital that they combine well. We take advantage of sophisticated analytical techniques to ensure each portfolio is properly balanced, blending ethical funds with much more tightly-focused thematic funds (such as those specialising in water or biotech).

4

Monitoring and rebalancing

Portfolios are monitored on a daily basis and regularly rebalanced. Rebalancing is essential to maintain growth: effectively selling assets that have become expensive and reinvesting in those that are cheap. The EQ asset allocation and fund selection committees meet quarterly to review all portfolios, or more frequently if there is a material change in markets or circumstances.

1 *Valuing Wall Street: Protecting wealth in turbulent markets* by Andrew Smithers & Stephen Wright

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Dual-focus on impact and performance

We conduct rigorous due diligence on each manager to ensure the portfolios perform both financially and ethically.

No fund is included on ethical credentials alone

A. Impact assessment

We have developed a rigorous and systematic approach for impact assessment which takes into account the fact that different fund managers screen their investments in different ways.

We focus our investment selection towards those funds delivering solutions rather than simply avoiding problems, using a proprietary scorecard system that rewards fund managers more highly for positive than for negative screening.

Furthermore, to make sure our investment process works in practice we will double-check the underlying stocks to make sure fund managers are really doing what they say they are.

B. Performance assessment

Each fund must aim to deliver an attractive return for its sector of the market. We put each fund through a rigorous quantitative assessment which looks at the consistency of historic risk adjusted returns.

The fund is then plotted on a grid that measures its impact and performance assessment. Those with the best combinations are selected for an intensive review that includes an in-depth interview with the fund manager.

Each recommended fund becomes the subject of a detailed report that is then reviewed by our fund selection committee.

Engaging with fund managers

Our philosophy is about investing for the long term. We build long term relationships with our fund managers and engage proactively with them on the issues we care about.

Ethical investing is rarely black and white. Should we invest in a fund that has holdings in the oil and gas sector, but which includes innovations to reduce carbon emissions? In our view there is no simple answer to this.

Using a scorecard approach enables us to identify the managers that, on balance, are making the most impact addressing climate change, conserving natural resources, improving health and reducing inequality.

If we decide to invest then this is just the start of an ongoing conversation. If we see a holding that doesn't meet our expectations then we question it. And as a result of our dialogue we have seen managers divest in companies that we'd rather avoid.

Case studies

The following four examples show how the underlying investments within the Positive Impact Portfolios are making a difference.[1]

CLIMATE CHANGE

Investing in renewables

Fossil fuels such as oil or coal still represent more than 80% of the total energy supply and are the major contributor to climate change.

Strategy

EDP Renewables is one of the largest renewable energy producers in the world, producing electricity in 12 countries across Europe and the Americas using renewable energy sources, with a primary focus on wind power.

Investment solution

EDP Renewables receives investments from the Jupiter Ecology fund, which favours companies having a positive impact on the environment globally.

Investment

edp renewables
powered by nature

HEALTH

Winning the fight against Ebola

The 2014 outbreak of Ebola in West Africa has claimed over 11,000 lives. When the epidemic began there were few diagnostic services in place, no known vaccine, and few medical teams prepared to isolate, treat and prevent cases of infection. The response was a truly global collaborative effort which included the successful trials of a new Ebola vaccine, VSV-EBOV.

Strategy

The Wellcome Trust, the renowned UK medical research charity, co-funded clinical trials of the VSV-EBOV vaccine in Guinea during 2015. The trials came at a critical moment, demonstrating up to 100% efficacy in individuals. The vaccine has since been licensed to Merck pharmaceuticals for further clinical trials.

Investment solution

The Wellcome Trust received investments from the Colombia Threadneedle UK Social Bond fund, which supports socially beneficial activities in the UK and globally.

Investment

wellcome trust

1 These case studies and the funds invested in them were present in the Positive Impact Portfolios on 1 June 2016. Both are subject to change without notice as all our portfolios are continually monitored and rebalanced regularly. EQ does not have ties or commitments to any particular fund(s) and does not invest directly into the underlying companies.

Investment

Saving London's water

London suffers from serious water stress. The city's water comes from two rivers, the Thames and the Lea, and a limited number of boreholes. Being one of the driest capitals in Europe, it is vulnerable to drought. Yet with many of its water mains dating back to the Victorian era, around 30% of London's water is lost due to leaks.

Strategy

Pure Technologies is a US listed company that provides new solutions for leak detection. Their roving acoustic sensors can be run through in-service water mains, pinpointing every leak in a pipe system to help target maintenance work.

Investment solution

Pure Technologies receives investments from the Pictet Water fund which invests in companies operating in water supply, water technology and environmental services.

Investment

Creating jobs for ex-offenders

Over 85,000 people are in prison in England and Wales. Nearly half of the adults who leave prison every year are convicted again within 12 months of release. Unemployment has been identified as one of the main factors alongside the lack of support, mental illness, alcohol and homelessness.

Strategy

Midlands Together is a social business launched in 2013 which buys old properties and refurbishes them with the help of ex-prisoners. It aims to reduce the risk of reoffending by creating stable jobs for ex-offenders, who are further supported by a training and mentoring programme. In their first year of operation, Midlands Together successfully created and safeguarded 17 full time jobs for ex-offenders, none of whom reoffended.

Investment solution

Midlands Together receives investments from the Rathbone Ethical Bond fund which favours companies or issuers having a positive impact on the environment or the society.

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Aiming to be the best, not the biggest.

Next steps:

For further information please contact us:

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positiveimpact@eqinvestors.co.uk

> *…admirably level headed fund managers*

Anthony Hilton, Evening Standard

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