

EQ investors

Cutting through the noise: sustainable investing with EQ Investors

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Damien Lardoux, CFA, Head of Impact Investing
Louisiana Salge, Senior Sustainability Specialist

- Staff-owned discretionary fund manager
- £1.3 billion AUM (March '21)
- Founding UK B Corporation
- Experts in both passive and active sustainable solutions
- 8-year track record in sustainable model portfolios



Abundance Investment, Adam Smith International, Allbirds, Allplants, Artfinder, Bates Wells, Bulb, C-Level, Carbon Analytics, ClimateCare, DAME, Davines, Delphis Eco, Do Nation, Don't Cry Wolf, Doppler, Dr. Bronner's, Easthall Farm, Ella's Kitchen, EQ Investors, Flooglebinder, Form Nutrition, Forster Communications, Freestar Drinks, Futerra, Gong Communications, Green Element, Humankind Research, innocent drinks, Intrepid Travel, Invivo Healthcare, L&Co



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Your speakers



Damien Lardoux, CFA
Head of Impact Investing



Louisiana Salge
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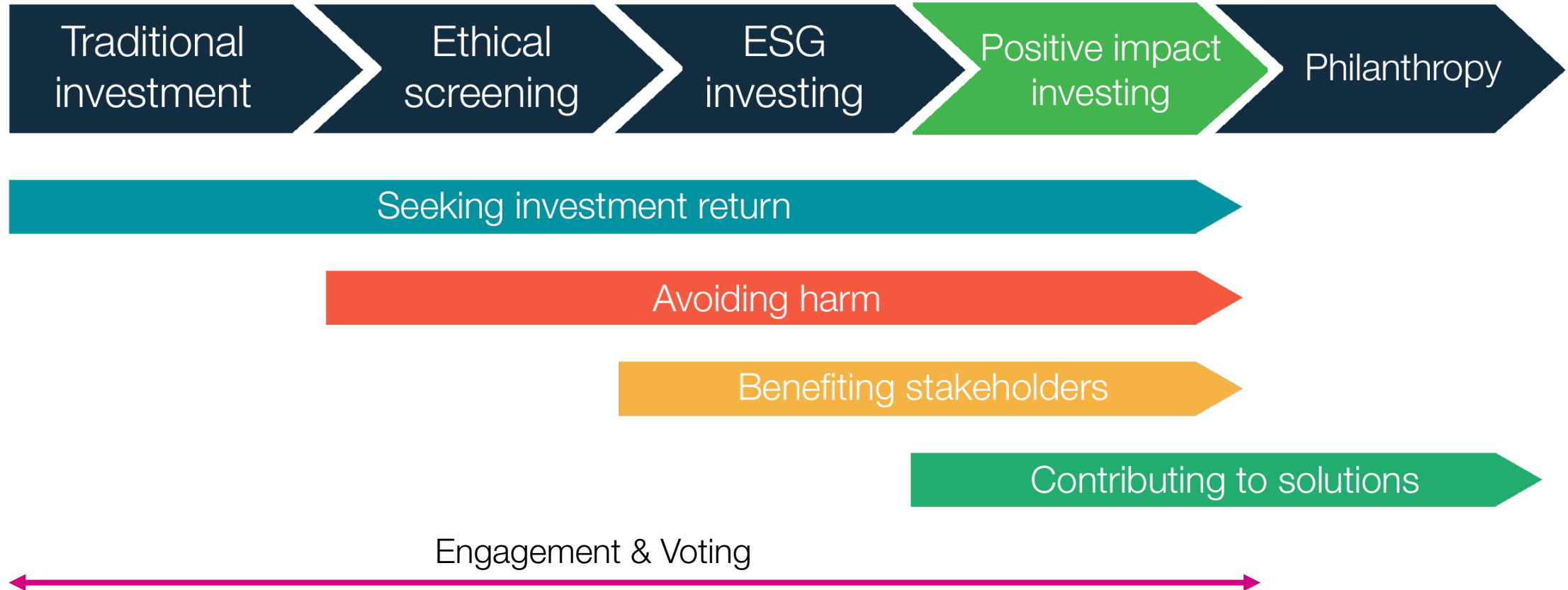
Agenda:

- Sustainable investing: Differentiating ethical, ESG*, and impact investing
- The performance case for sustainable investing
- How to build a sustainable Central Investment Proposition (CIP)?
Our tips for your due diligence
- How should I approach the subject with my clients?
- Q&A: Please use the webinar Q&A tool to submit questions

* ESG= environmental, social, governance factors

Defining sustainable investing

The spectrum of capital



(Source: EQ Investors, 2020, developed from Impact Management Project's "Spectrum of Capital" approach)

Methods and intentions

	Traditional	Ethical	ESG	Impact
Methods	Often none Sometimes: ESG integration (e.g. in financial modelling)	Exclusions based on values, norms, controversial business activities	Positive or negative screens based on business activities, measured by ESG	Positive screens or inclusions based on solution-providing businesses with reference to both products/services and business activities
Intention	None	Protect capital, protect from controversy, protect from causing harm	Realise opportunities that may enhance value and benefit real positive outcomes	Realise opportunities that may enhance value, contribute to positive outcomes aligned with unmet needs

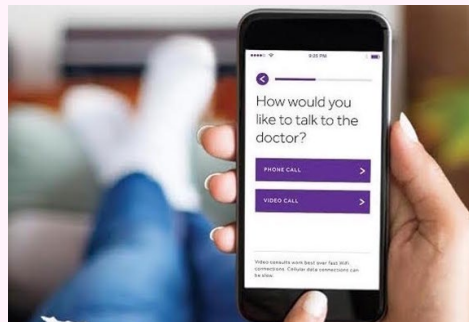
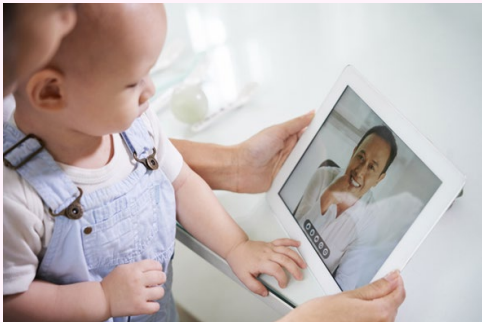
Positive impact vs ESG leader

Positive impact company



Business: digital solution connecting patients with medical professionals

Rationale: Solution provider increasing healthcare efficiency and patient outcomes. Already serving patients in around 130 countries during COVID-19 outbreak



ESG leading company



Business: household detergents, ice creams, beauty products

Rationale: A sector leader in responsibly managing business operations. This includes reducing environmental footprint, responsible supply chains, charitable projects.



Passive vs active

- Sustainability is complicated – data providers used in index construction do not capture the full picture
- ESG screening can be achieved through trackers, impact screening is more complicated
- Tracker funds usually invest in from 100 to 1000 securities. Effective engagement on all these companies is difficult
- Cost

Sustainable investing & the investment case



*“Sustainability is the biggest
investment opportunity in history”*
Al Gore

Sustainability: Performance drivers

- At a portfolio level:
 - **ESG**: Embedded through all company practices
 - **Impact**: Products/Services tackling unmet needs
- At a macro level:
 - Regulation
 - Consumer behavioural change
 - Technology/Innovation

Challenges turned into opportunities



2/3 of global population experiencing water scarcity

(Source: UN Water, 2018)

Nearly 1/3 of children aged 2-15 in the UK are overweight or obese

(Source: Gov.uk 2017)



Need to cut global emissions by 7.6% every year to meet climate targets

(Source: UN environment, 2019)

100 million people are still pushed to extreme poverty because of healthcare expenses

(Source: WHO, 2017)



Agreed framework globally

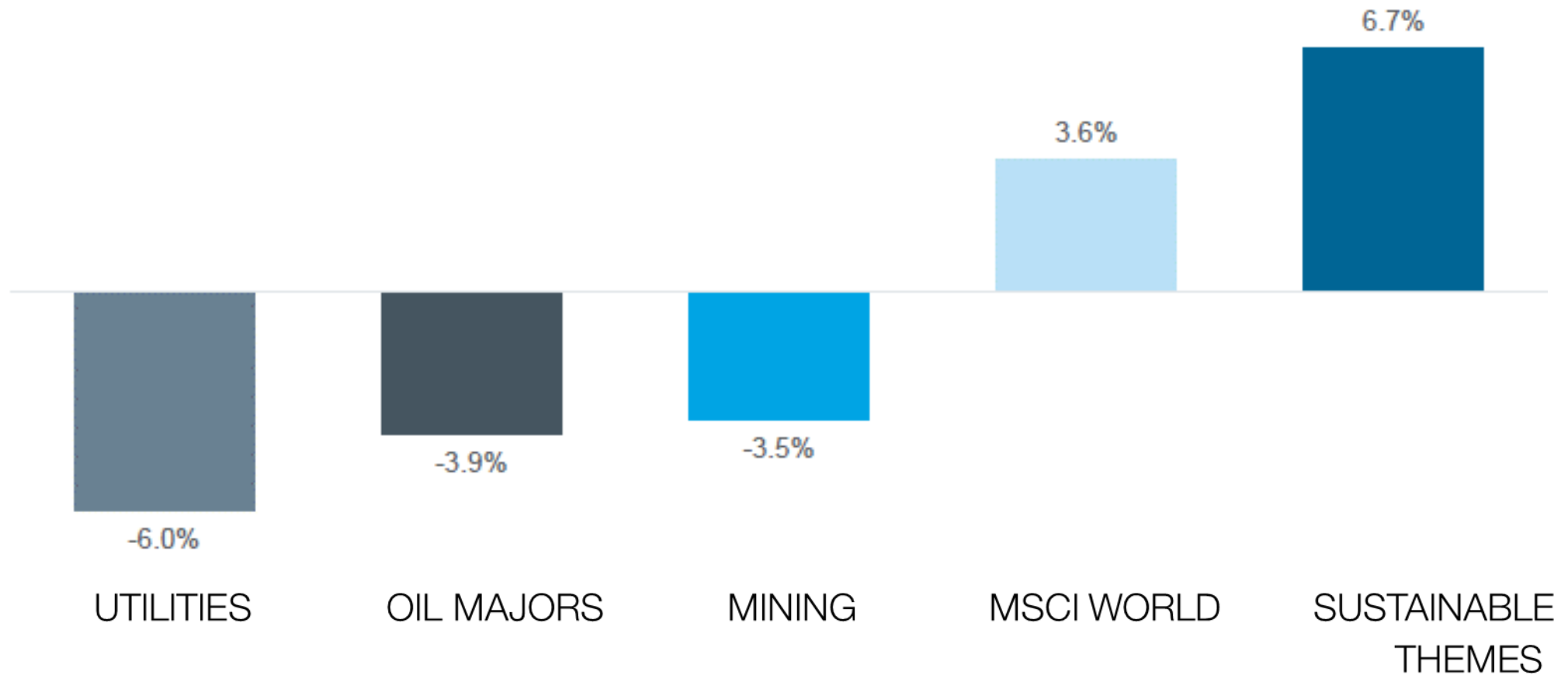
UN Sustainable Development Goals



- \$5-7 trillion needed per year to achieve the goals (Source: UNDP, 2017)

Superior structural growth

Global revenue growth by industry, (2011-2020)



(Sources: MSCI, Wheb, 2021)

How to build a sustainable CIP

Define your own positioning

- Where on the sustainability spectrum do you want to position your proposition?
- One or several investment options on your CIP?
- Opt in or opt out solution?

A. Experience & commitment

- Is the company culture committed to sustainability?
- Is it a recent add-on? What direction is the rest of the firm's offering going?
- Will the company innovate along

Our tips: Check track record of sustainable strategies, internally dedicated research resources, firm's role in community beside investments

Example – EQ Investors: Certified Benefit Corporation since 2015, 12 years of experience in Impact Investing, a 8 year track record in impact MPS.

B. Engagement & Stewardship

- Is the fund manager proactively driving positive change?
- Most upside potential is from *improving* companies' sustainability over time – is this a focus?
- Are proxy voting rights used to support positive change

Our tips: Examples of engagements, voting record, examples of driving best-practice in the industry

Example – EQ Investors: Key aspect of fund due diligence, own engagement targets for 2021, CA100+, all funds are active stewards of capital

C. Measurement & Transparency

- Can the manager demonstrate the sustainability of the investment proposition?
- Do you have clarity of what type of companies are invested, which are avoided?
- Does it help you connect clients with their investments?

Our tips: Sniff-test, check for evidence of impact reporting, engagement reporting, portfolio look-through transparency

Example – EQ Investors: Annual impact report, quarterly case studies, fund factsheet details SDGs, X-ray tool to test managers and provide transparency

D. Service & support

- Do you have an investment manager, helping you navigate this new conversation with clients?
- Will they help you win new / retain existing business?

Our tips: Evaluate whether it just an off-the-shelf solution or an evolving partnership?

Example – EQ Investors: Personal meetings and education sessions, contact person in investment team, quarterly webinars, pitch support, conferences

How should I approach the subject
with my clients?

ESG factfinding - Shall I use a questionnaire?

- Regulations post Brexit still unclear
- Minimum of one question about ESG is currently seen as good practice by FCA
- Limitations of lengthy questionnaires
 - Overwhelming for clients
 - Usually best matched by a bespoke approach
 - Most clients don't hold precise views on the topic

ESG factfinding – Examples of questions

- Do you have social or environmental preferences that you would like to see considered for your investments?
- What would you say is more important for your investments; keeping costs low or maximising sustainability?
- Would you like your investments to make a positive impact to society and the environment?

ESG factfinding alternative – Conversional?

- Focus on individual's life motives
- Examples of questions:
 - What type of cars do you drive?
 - Who is your electricity provider?
 - Do you make donations to charities?
- Keep a record of your conversations

Different clients might need different ESG solutions

How to decide which portfolios to recommend to clients with
“sustainability preferences”

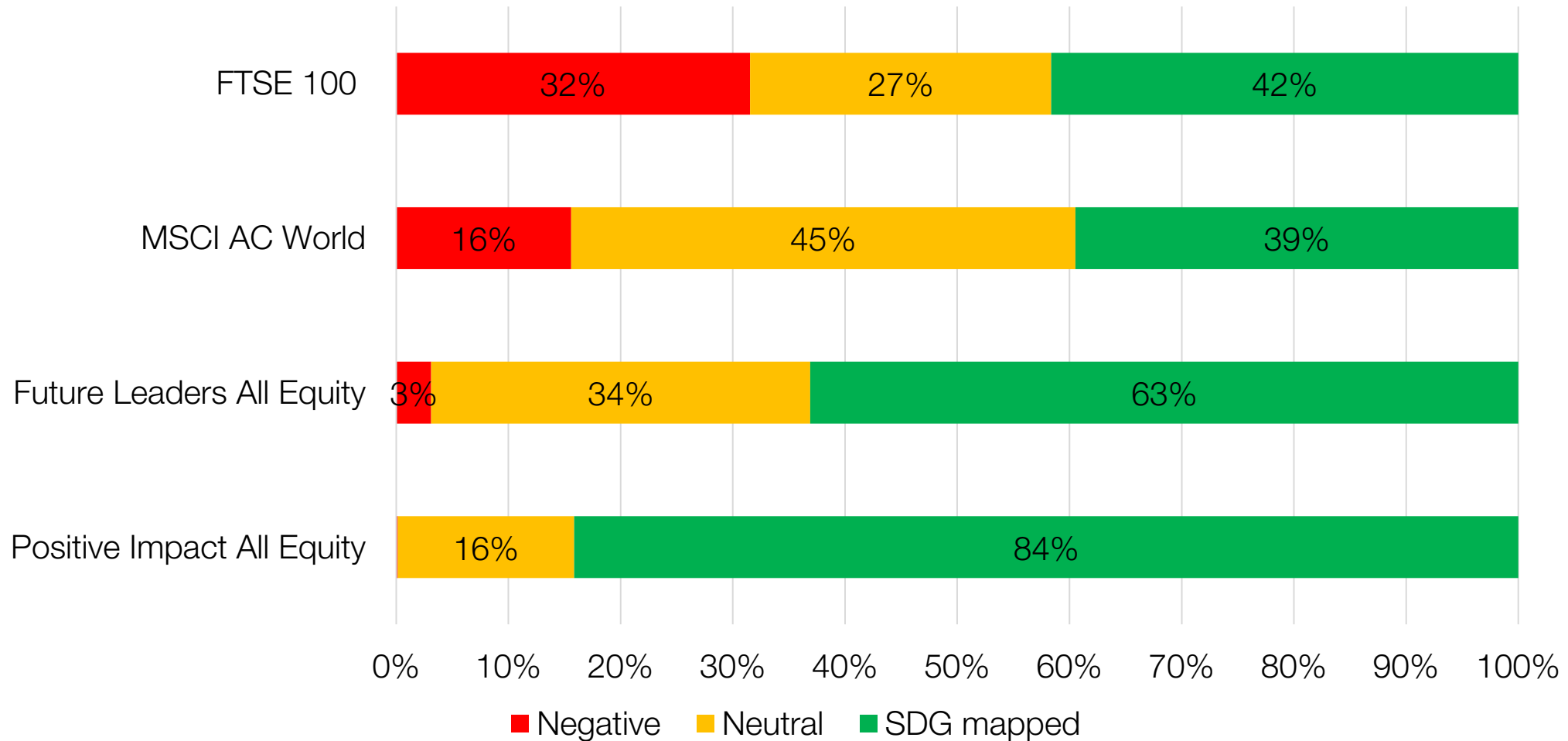
Impact Investing (active)

- Want to target solutions to the world's challenges
- Interest in engagement for change
- Passionate about sustainability in personal life
- Strong ethical preferences (negative screens)

ESG Investing (passive)

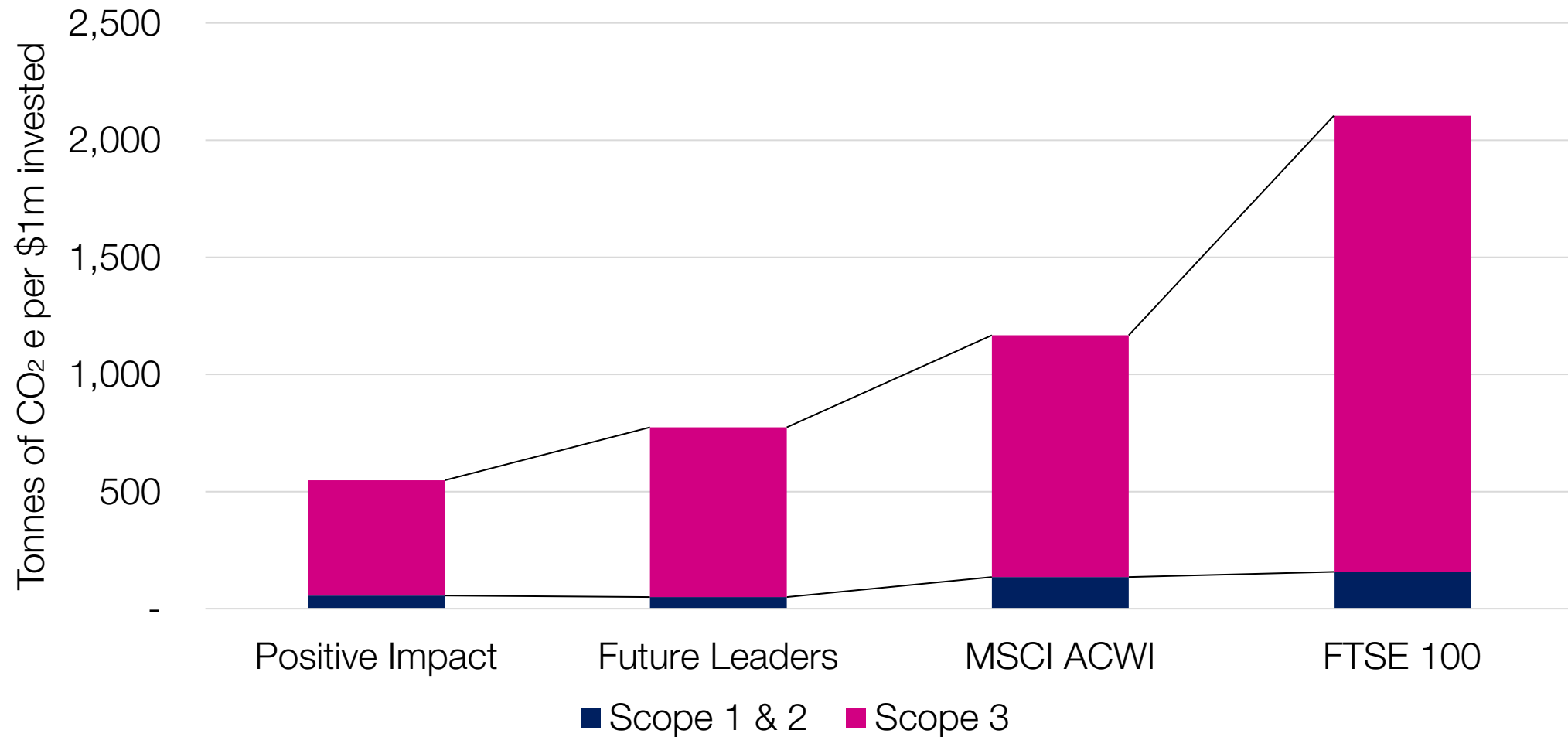
- Focus on improving sustainability across sectors
- Clients that put cost over sustainability
- Clients that want to risk-mitigate their investments in a changing world

Client education – UN Goals mapping



(Holdings data for All Equity model portfolios: Morningstar, Analysis: EQ Investors, December 2020)

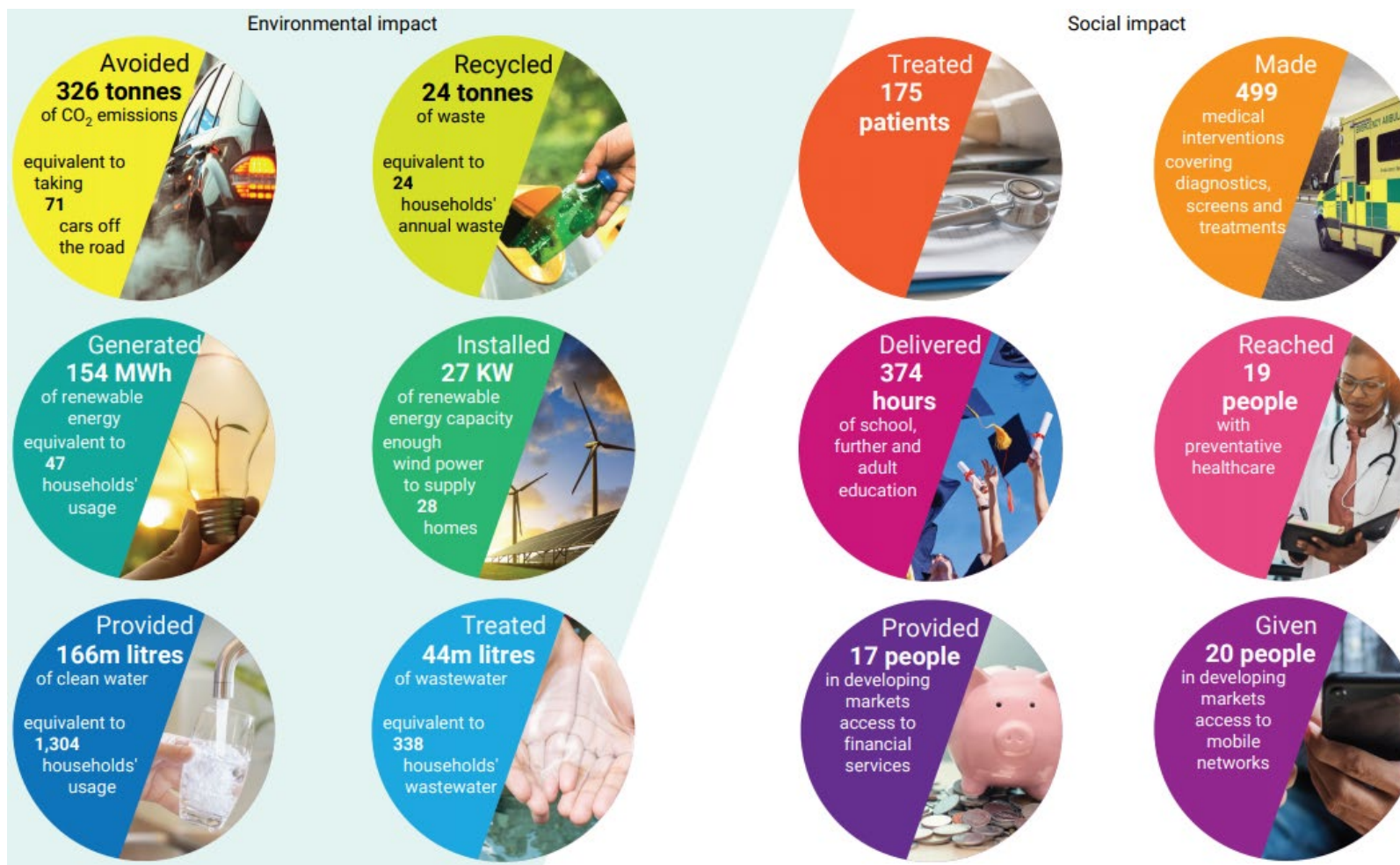
Client education - Carbon footprint



(Data: Urgentem, Analysis: EQ Investors, December 2020)

Client education – Impact measurement

Example report, £1m invested in EQ Positive Impact Adventurous Portfolio



This impact calculator illustrates the underlying positive impacts that companies in EQ's Positive Impact Portfolios contribute to the world. This positive impact is ultimately generated by the end users or beneficiaries of the products and services of invested businesses; the data does not include positive impacts that result from non-material parts of invested businesses. For an in-depth explanation of our impact methodology, please visit: <https://eqinvestors.co.uk/library/positive-impact-methodology-2020/> 29

How to access EQ Investors?



#positiveimpact

- Active portfolios with a dual mandate aiming to deliver market-leading returns whilst maximising impact
- DFM Fee of 0.33%-0.20% (based on AUM)

Total MIFID II charge of 0.93%-1.20%



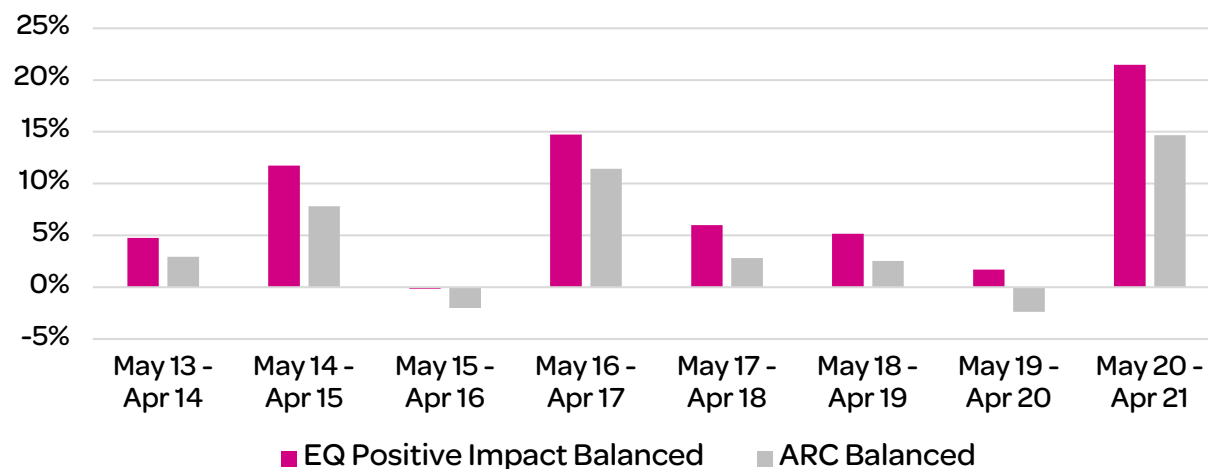
#futureleaders

- Passive portfolios for clients aiming to invest sustainably at low cost
- DFM Fee of 0.25%-0.125% (based on AUM)

Total MIFID II charge of 0.46%-0.53%



8 year track record of outperformance



Past performance is not a guide to the future. The value of investment and the income derived from it can go down as well as up and clients can get back less than they originally invested.



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Fundment

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Hubwise

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Parmenion



7im

Standard Life



Q&A

Please use the webinar Q&A tool
to submit questions

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Past performance is not a guide to the future. The value of investment and the income derived from it can go down as well as up and clients can get back less than they originally invested.

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