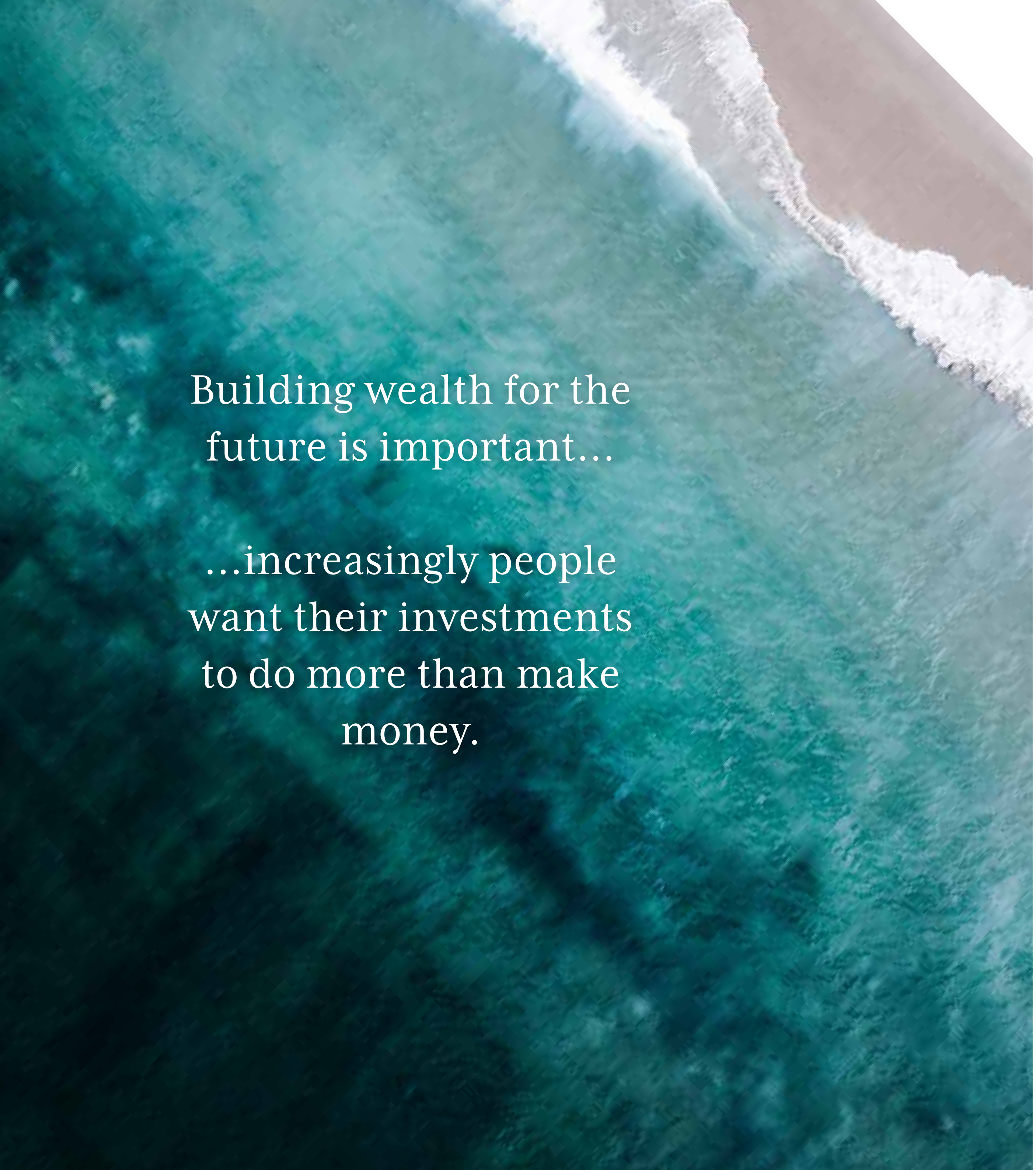
CHARLES STANLEY
Wealth Managers

Focusing on you

FOCUSING ON

Socially responsible investing



Building wealth for the future is important…

…increasingly people want their investments to do more than make money.

Your guide to socially responsible investing

This guide is designed to introduce the key approaches to socially responsible investing and how they are relevant to the day to day business of investing.

The human impact on the environment means changes to the way society and industry operates are necessary, while societal problems such as poverty and inequality need to be tackled.

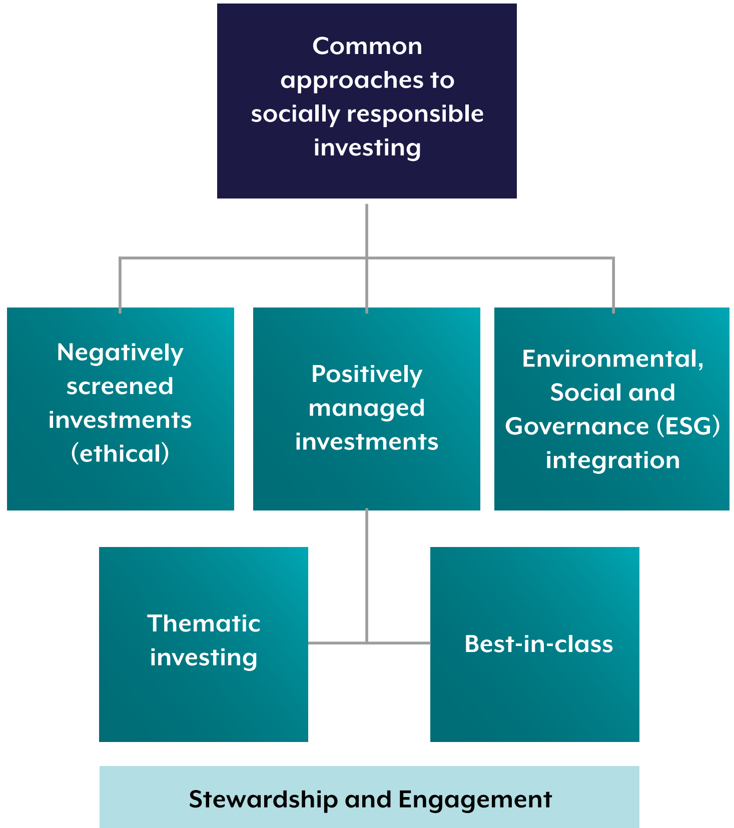
Choosing investments that take account of these issues is socially responsible investing.

What is socially responsible investing?

An approach to managing assets that sees investors include environmental, social and governance (ESG) factors as well as financial return in their decisions about what to invest in.

It aims to combine better risk management with improved portfolio returns, and to reflect investor and beneficiary values in an investment strategy. It complements traditional financial analysis and portfolio construction techniques. This is often used as an umbrella term that encompasses various approaches.

What approaches are there to socially responsible investing?



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What is ethical investing?

Ethical investing focusses on aligning the ethical values of an investor with the investments within their portfolios. An ethical investment is mainly guided by ethical codes, religious beliefs or personal values and is often carried out using exclusionary screening.

Examples of possible exclusions include areas that are deemed to be harmful to society and the environment, such as weapons, gambling, tobacco and coal mining.

What is negative screening?

Avoiding investing in companies engaged in what are perceived to be harmful activities, such as tobacco, gambling or manufacturing weapons.

What is positive screening?

Rather than avoiding investment in certain areas, each sector is assessed for opportunities to invest in companies which focus on specific ESG themes or exhibit stronger ESG characteristics than their industry peer group. This can be implemented through thematic investing or best-in-class.

What is ESG?

Environmental, social and governance (ESG) factors are non-financial considerations that inform investment decisions based on an assessment of the risks these factors pose to investments. ESG is not only about what a company manufactures or sells, but also how it goes about it.

What is ESG integration?

This approach includes the consideration of ESG factors in investment analysis and investment decisions. ESG integration can be considered to be the analysis of all material factors in investment analysis and decision making.

Environmental

Takes into consideration the impact companies are having upon the planet today and in the future.

- Pollution, waste and emissions
- Raw material sourcing
- Native bio-systems and species
- Renewable energy and efficiency
- Recycling

Social

Takes into consideration the social impact the companies are having upon people in the world.

- Human rights
- Workers conditions and rights
- Corporate citizenship
- Wider community
- Consumer protection

Governance

Takes into consideration the interests of all stakeholders affected by the company's activities.

- Business ethics
- Equality and diversity
- Fair treatment of labour
- Health and safety
- Shareholder rights

What is thematic investing?

An investment approach that includes investments on the basis of specific themes. Examples of themes include investing for clean energy, energy efficiency solutions, healthcare solutions and financial inclusion.

What is best-in-class?

An investment approach that focuses on capturing sector-leading companies when measuring certain sustainability criteria. This approach seeks to identify the best company within a sector rather than excluding the sector as a whole. An example would include investing in the most energy efficient or lowest carbon energy producer.

What is stewardship / active ownership?

Stewardship is defined in general terms as the responsible management of something entrusted to one's care. In terms of investing, stewardship typically aims to promote the long-term success of companies through monitoring and engaging with their strategy, performance, risk, structure, and corporate governance, including culture and remuneration as well as social and environmental issues. The goal is to enhance shareholder value and help companies to achieve their potential, as well as leading to long-term benefits for society and the economy. It will likely involve a significant dialogue between investor and company and actively voting at shareholder meetings.

What is engagement?

Purposeful dialogue between investors and companies on ESG and other matters in order to promote responsible business practice. Engagement can help drive positive change as well as enhance an investors' research, providing insight into company strategy, competitive positioning and efforts to manage risks and opportunities.

Engagement can be a powerful tool for bringing about positive change

As an investor in a company, you can engage with a company's management by exercising your voting rights at shareholder meetings. These events can bring a material change to an organisation, by voting on resolutions that impact the way in which the company is operated, such as the appointment and remuneration of board members or financial considerations such as dividend approval or rights issues*.

*If you are a discretionary client of Charles Stanley, we vote and engage with the company on your behalf.

Does socially responsible investing mean giving up returns?

Where an investor excludes investment in activities which are not compatible with their values, this approach may reduce the number of possible investment opportunities available to the investor. Limiting the number of opportunities by excluding certain sectors or stocks according to any factor can incur an 'opportunity cost', in terms of the potential performance foregone.

Yet there is evidence that some responsible investing approaches can lead to higher shareholder returns. Businesses that address short term risks whilst adapting to longer term structural trends should have more chance of success than businesses that don't. Poor environmental, social and governance practices, may ultimately be harmful to a business. Socially responsible investing means favouring companies that value long term business sustainability, not just short term profitability, and in the long run that could lead to better long-term returns for shareholders.

This is why we believe investors should be conscious of ESG factors when assessing investments. After all, to ignore them could mean not fully assessing the risks to which an investment is exposed. Companies are also aware there is increasing emphasis on transparency and high standards that go far beyond the traditional financial metrics on which investors have historically focused. Ultimately, this affects the extent to which they can attract capital and the rates at which they can borrow, so they have a vested interest in improving their business practices. The more people invest responsibly, the greater the pace of corporate change.

By taking ESG factors into account, investors are likely to deliver better results – both in terms of long-term shareholder returns and environmental, social and governance impacts – which is why this form of investing is becoming more prominent. Indeed, we believe it will soon become standard practice for ESG characteristics to be considered prominently alongside traditional financial metrics.

How does ESG apply in the real world?

Below are some examples of ESG issues that, once crystallised, had a material impact on shareholder returns and the wider economy.

Environmental issue

Negative environmental & financial impact

BP – Deepwater Horizon oil disaster

In 2010, BP reported the biggest oil spill on record in the Gulf of Mexico, one of the largest environmental disasters in history. The five million barrels that leaked into the ocean caused a devastating impact on local marine wildlife and tourism for years following.

In the immediate aftermath of the disaster, BP's share price halved; that year it reported a loss and suspended the dividend. In addition the cost of the clean-up was reported to be in excess of $65bn – showing how an event like this can impact on the environment, the economy, the company and on its shareholders.

Social issue

Positive social impact & financial impact

Ben & Jerry's - Philanthropy

In 1985 Ben & Jerry's took an unprecedented decision to commit 7.5% of the company's annual pre-tax profits to philanthropy. In 2000 the company was acquired by Unilever, a global company with over 400 brands. Unilever continues to support the Foundation through an annual allocation that takes into account Ben & Jerry's ice cream sales. Whilst the social element of ESG tends not to correlate strongly with the value the stock market places on a company's earnings, it nonetheless contributed to the attractiveness of the company, both as a brand and as a place to work.

In 2015, the annual contribution amounted to $2.8 million. Ben & Jerry's continues to drive employee engagement in philanthropy and social change within the local community, in addition to supporting grassroots activism and community organisations for social and environmental justice around the country.

Governance issue

Negative environmental & financial impact

Volkswagen – Emissions scandal

In 2015 Volkswagen admitted using software in roughly eleven million of its vehicles to manipulate the level of nitrous oxide in diesel emissions when the vehicles were tested.

When this scandal broke the share price fell 40% and has remained below the pre-scandal level. It is estimated that the total cost of "emissions gate" to Volkswagen is €34 billion.

Whilst ostensibly about the environment, this scandal runs somewhat deeper and, at the minimum, highlights poor governance and a weak control structure within the company.

Other useful terms

What is sustainable investing?

Historically used interchangeably with 'responsible investing', a sustainable investment strategy takes a long-term view aiming to generate investment returns while fulfilling certain sustainability (often ESG) criteria such as delivering on specific and measurable positive sustainability outcomes. Investments are chosen on the basis of their economic activities (what they produce or what service they deliver) and on their business conduct (how they deliver their products and services). More broadly, sustainability means meeting the needs of the present without compromising the needs of future generations.

What is impact investing?

Impact Investments are made with the intention of generating positive and measurable social and environmental impact alongside a financial return. They might, for instance, invest in companies directly tackling challenges such as climate change, water management, pollution or inequality. Impact investing is often associated with lower financial returns, though this is not always the case.

What is green investing?

Investment in companies contributing to better environmental practices in areas including investments in renewable energy, energy efficiency, clean technology, low-carbon transportation infrastructure, water treatment and resource efficiency.

What is greenwashing?

Organisations accused of 'greenwashing' are those that, for marketing purposes, present themselves or their products as more focused on environmental or sustainability issues than they really are.

What is corporate social responsibility?

This term refers to the commitment of an organisation, beyond what is required by law, to ensure that the social, economic and environmental impacts of their actions create a net benefit to communities and society. This is founded on the belief that all corporations have a 'duty of care' to all their stakeholders in every area of their business operations and that being a responsible citizen improves the long-term business success of a company.

The Spectrum of Capital

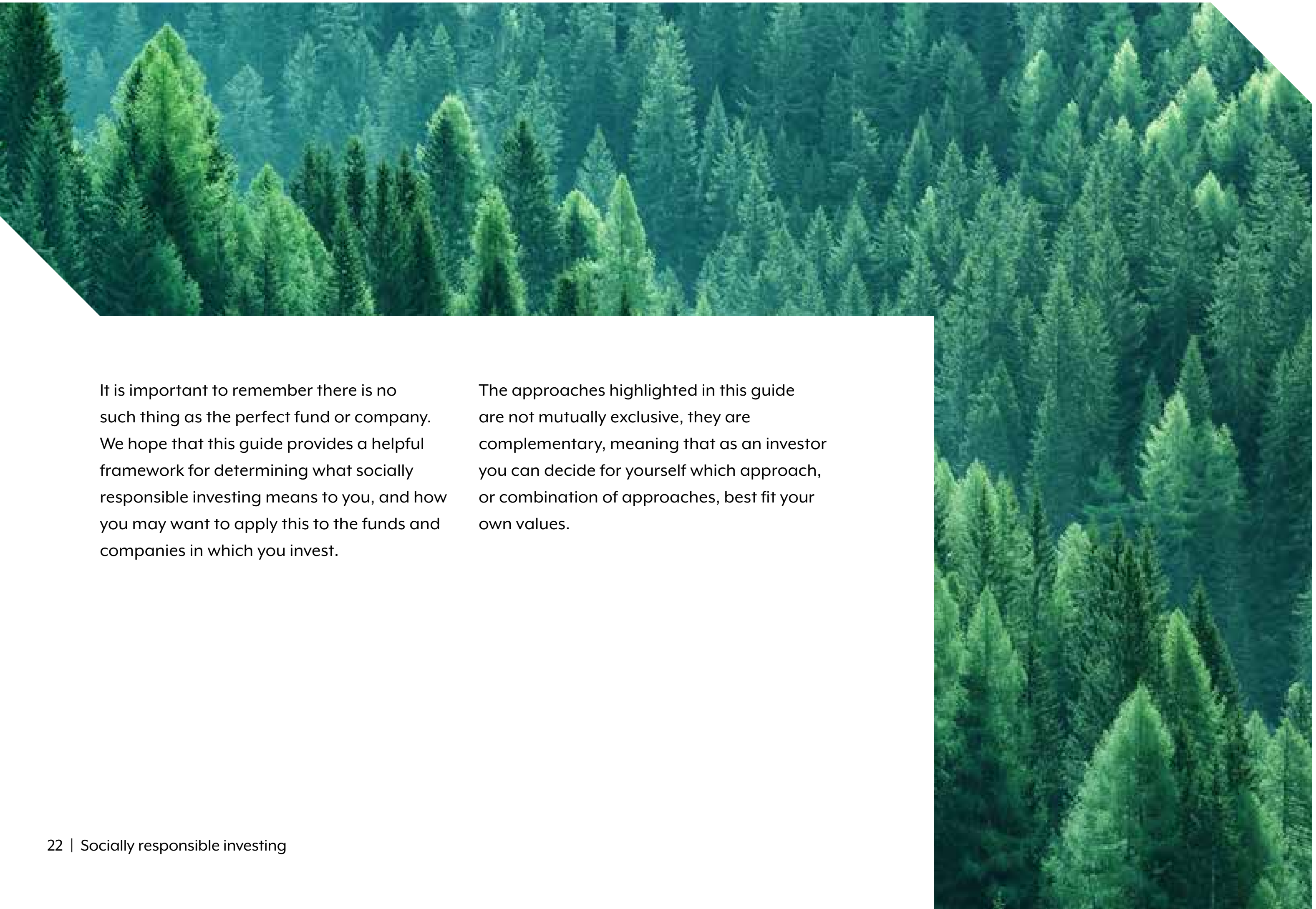
Choices and strategies for investors on the 'spectrum of capital'

Approach	**Traditional**	**Responsible**	**Sustainable**	**Impact Driven**			**Philanthropy**	
				'Finance first'		'Impact first'		
Financial goals	Target competitive risk-adjusted financial returns				Uncharted returns	Below-market returns	Partial capital preservation	Complete capital loss
Impact Goals		Avoid harm and mitigate ESG risks						
			Benefit all stakeholders					
				Contribute to solutions				
Description	Limited or no regard for ESG practices or societal impact	Mitigate risky ESG practices, often in order to protect value	Adopt progressive ESG practices that may/are expected to enhance value	Address societal challenges that generate competitive financial returns for investors	Address societal challenges where returns are unknown, or investors risks largely unknown	Address societal challenges that require a below-market financial return for investors	Address societal challenges by supporting non-commercially viable models, inc. guarantees	Address societal challenges with donations or with the expectation of full capital loss

The 'Impact economy'

Source: Bridges Impact + and the Impact Management Project

Socially responsible investing means different things to different people



It is important to remember there is no such thing as the perfect fund or company. We hope that this guide provides a helpful framework for determining what socially responsible investing means to you, and how you may want to apply this to the funds and companies in which you invest.

The approaches highlighted in this guide are not mutually exclusive, they are complementary, meaning that as an investor you can decide for yourself which approach, or combination of approaches, best fit your own values.

Charles Stanley's core values

Caring, fair and progressive.

These provide an overarching framework within which Charles Stanley operates, including our view on socially responsible investing.

Charles Stanley is a signatory of the United Nations' Principles of Responsible Investment (PRI), a voluntary and aspirational set of investment principles that offers a menu of possible actions for incorporating ESG factors into investment practice. By signing up to these principles, Charles Stanley has made a public commitment to socially responsible investment, acknowledging the importance of considering environmental, social and governance issues.

Focusing on you

CHARLES STANLEY
Wealth Managers

This guide does not constitute personal advice based on your circumstances and the contents should not be considered as a personal recommendation to deal. Investment decisions in funds and other collective investments should only be made after reading the Key Investor Information Document, Supplemental Information Document and/or Prospectus. If you are unsure of the suitability of any investment please seek professional advice.

The Taxation of pensions is based on individual circumstances and may be subject to change in the future. The information contained within this article is based on our understanding of current UK tax provisions, which is subject to change, and the benefits of which would depend on your personal circumstances.

Investors should be aware that past performance is not a reliable indicator of future results and that the price of shares and other investments, and the income derived from them, may fall as well as rise and the amount realised may be less than the original sum invested.

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