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InFocus

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Standard Life Investments Global Equity Impact Fund

The Fund is ideal for clients who want to 'invest for a better future', while still seeking a positive financial return

The Fund seeks to address numerous issues relating to climate change, rising inequalities, and unsustainable production and consumption

It does so by investing in companies whose activities or products are specifically designed to address these challenges

Graphic 1: The global goals



Graphic 2: Impact pillars

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

Introducing the Fund

Through the Global Equity Impact Fund, we aim to have a positive social and environmental impact, while still seeking an above-market financial return for our clients. We do so by investing in companies with technologies, products, services and/or business models that provide solutions in areas such as healthcare, education, agriculture, energy and poverty.

We align our impact approach to the UN's Sustainable Development Goals (SDGs). Announced in January 2016, the SDGs are a universal set of 17 principles aimed at tackling climate change, rising inequalities, and unsustainable production and consumption (Graphic 1). We have used the SDGs as the foundation for our Fund, creating eight pillars of impact under which a company's activities are measured. These include sustainable energy, the circular economy, food & agriculture, sustainable real estate & infrastructure and more (Graphic 2).

Catch the wind

We take long-term positions in stocks where we see good financial upside and a significant social and/or environmental impact. For example, Vestas Wind Systems, which is a sizeable holding in the portfolio, is the world's largest wind-turbine manufacturer. The company has struggled lately due to near-term margin pressures. However, we believe this is a short-term issue and think Vestas will maintain its leading industry position thanks to its superior R&D spending and the introduction of new products.

In addition, we expect to see increased growth in new turbine orders as wind power becomes increasingly prominent within the global energy production mix.

Building for a better future

Another name to highlight is John Laing, the UK-listed infrastructure investor and manager. With its focus on transport, energy and environmental infrastructure, as well as investing in renewable energy projects, its strategy aligns with our Sustainable Real Estate & Infrastructure Pillar.

The Pillar supports SDGs 9 and 11, which promote resilient infrastructure, inclusive & sustainable industrialisation and innovation. These SDGs also seek to make cities and human settlements inclusive, safe, robust and sustainable. Working in conjunction with governments, John Laing delivers targeted solutions to improve roads and street lighting, and support renewable energy demand. It also provides healthcare and education infrastructure, as well as social housing. Operating across the UK, Europe, Asia Pacific and North America, John Laing's infrastructure development and services deliver measurable solutions that enable countries in these regions to meet the UN's stated goals. From a financial point of view, we believe the company can continue to generate mid-teen returns on equity and grow its NAV (net asset value) significantly thanks to its healthy pipeline of projects and geographic expansion plans.

The circular route

Umicore is a Belgian global materials and recycling group that operates in two particular fields – clean-tech for the auto industry and battery recycling. Importantly, it is one of only a few companies that can recycle the precious components in electric vehicle (EV) batteries. This is a fast-growing field, as drivers transition from diesel/petrol to hybrid or EVs. Indeed, the company announced record results in 2017, with margins and returns improving significantly. We believe its future looks encouraging. Umicore recently raised \$1.09 billion in an equity placement in order to help fund investment in its EV batteries business, including building the first cathode material production site in Europe. With the UK, Netherlands and France set to ban petrol/diesel cars by 2030/40, the EV market will only grow.

Healthy eating

Within the Food & Agriculture Pillar, we have identified Dutch firm Wessanen. With the motto "Healthier Food, Healthier People, Healthier Planet", it seeks to provide wholesome food choices that are produced in ways that are better for the environment. Wessanen also educates consumers about food choices and seeks to foster an awareness about how food is produced, highlighting the importance of an eco-friendly approach to eating. In our view, the consumer shift to organic, healthy and sustainable food consumption is a structural one rather than a fad. As such, we are confident Wessanen's strategy will not only deliver a positive environmental and social impact, but also sustain above sector-average growth.

Stay protected

Remaining within this Pillar, we hold Zurich, an insurance firm that sells crop protection to farmers in the US. It recently expanded its services through the acquisition of Rural Community Insurance Agency. RCIA offers enhanced technology, increased crop coverage and expanded hectares insured, which Zurich will roll out to existing customers. From a financial point of view, we believe Zurich has laid out a credible strategic plan and that there is upside to market expectations on the savings it can achieve. Furthermore, recent M&A activity, including the RCIA acquisition, demonstrates discipline in capital allocation and reinforces our confidence in the company's capital strength and ability to achieve its 2019 targets.

Final thoughts...

The outlook for mainstream equity impact investing is bright, as investors increasingly look for financially attractive investment solutions that make a difference to the planet. Thanks to our rigorous stock-selection process and industry-leading impact measurement framework, we believe the Fund represents a compelling way for our clients to access this exciting sector.



"The world faces numerous challenges, from climate change and poverty, to inequality and pollution. As asset managers, we believe we can play a vital role in helping to address these issues – while still seeking an above-market financial return for our clients."

Dominic Byrne
Fund Manager

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