

Square Mile Impact Portfolio

What is impact investing?

Impact investing is for people who want to use their money to make a wider positive social or environmental impact as well as meet their financial needs, and want to see evidence of the social and environmental impact.

Example: A fund investing in companies addressing healthcare needs, generating renewable energy and improving energy efficiency; and that reports on its impacts in terms of patients cared for, clean energy generated and resources saved.

What are the Square Mile Impact Portfolios

Launched in December 2020, the Square Mile Impact Portfolios are designed to meet the needs of investors seeking to do good with their money, whilst also meeting their financial goals.

These diversified multi asset portfolios are available in three risk profiles, and follow the 3D Investing framework of doing good, avoiding doing harm and leading change.

In this document, we outline how this is achieved and how your clients' money can make a demonstrable positive social and environmental impact.

Investment Funds in an Example Client Portfolio

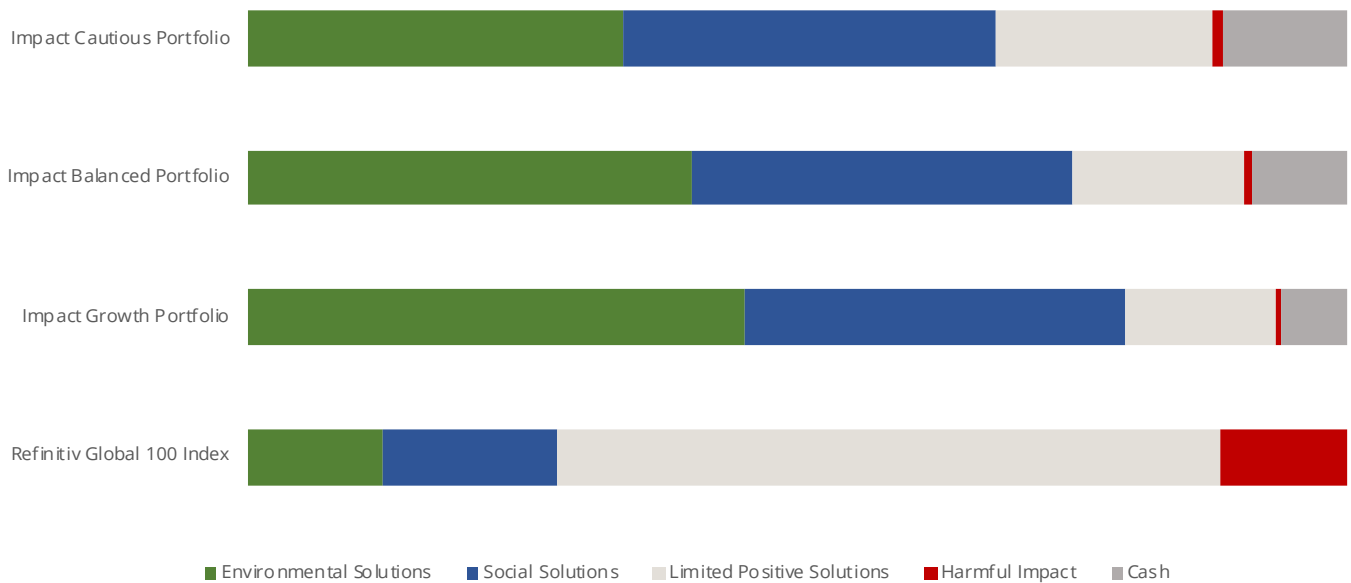
Fund	3D Investing Rating	Approach	Impact Rationale
Baillie Gifford Positive Change	 GOLD	Impact	Social inclusion, environment, healthcare, 'base of pyramid'
Federated Hermes Impact Opportunities	 GOLD	Impact	Food security, health & wellbeing, education, financial inclusion, future mobility, impact enablers, energy transition, circular economy
L&G All Stocks Gilt Index	Not rated	Conventional	Supports UK Government spending
Liontrust SF Global Growth	 SILVER	Sustainability	Resource efficiency, safety and resilience, health
M&G Positive Impact	 GOLD	Impact	Social equality, health, education, circular economy, natural capital, climate solutions - via leaders, enablers and pioneers
Montanaro Better World	 GOLD	Impact	Environmental protection, low carbon economy, healthcare, innovative technologies, nutrition, wellbeing
Ninety One Global Environment	 GOLD	Impact	Climate Solutions - electrification, renewable energy, resource efficiency
Pictet Global Environmental Opportunities	 SILVER	Impact	Resource efficiency, pollution control. Companies assessed within Planetary Boundaries Framework.

Investment Funds in an Example Client Portfolio (continued)

Pictet Water	Not rated	Sustainability	Water infrastructure
Rathbone Ethical Corporate Bond	 REVIEWED	Ethical	Includes high impact charity bonds
Sarasin Responsible Corporate Bond	 BRONZE	Responsibility	Thematic preference for green bonds, water, social housing, public transport, clean energy, charities, education, mutuals, environmental infrastructure, health and social care
Stewart Investors Worldwide Sustainability	Not rated	Responsibility	Useful products and services that benefit society
Threadneedle UK Social Bond	Not rated	Impact	Social outcomes - affordable housing, financial inclusion, health, social care, employment and training, utilities, communication, transport
Wellington Global Impact Bond	 GOLD	Impact	Life essentials (water, affordable housing, sustainable food, health); safety, education, financial inclusion, digital inclusion; clean energy, resource efficiency
WHEB Sustainability	 GOLD	Impact	Cleaner energy, environmental services, resource efficiency, sustainable transport, water, education, safety, health and wellbeing

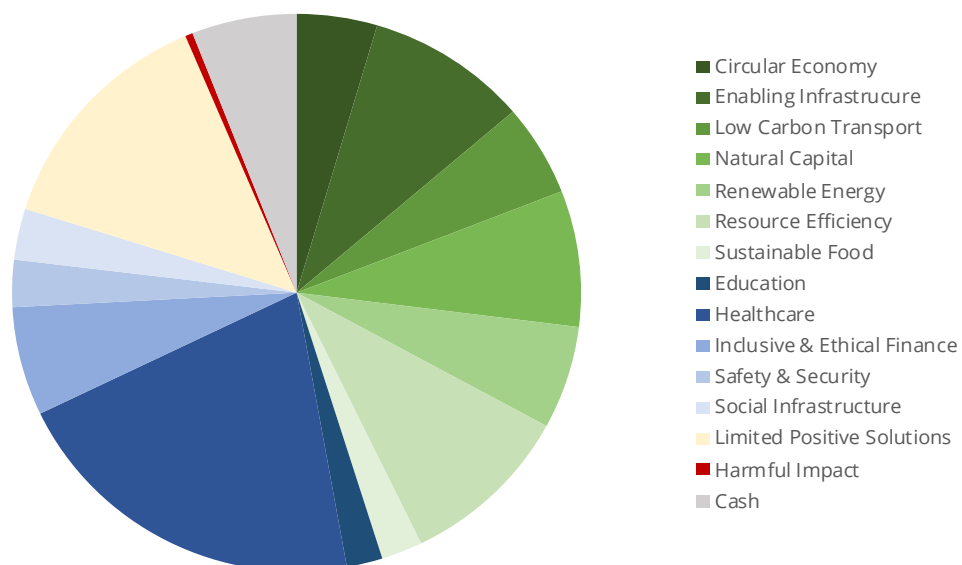
Portfolio Exposure to Social and Environmental Solutions

The portfolios for your clients are demonstrably different to a conventional investment, with the majority of the portfolios being invested in social and environmental solutions and a small minority in companies which have a harmful impact. The charts below demonstrate this by comparing the portfolios with a conventional index constituting the 100 largest companies in the world based on market capitalisation.



* See pages 5 and 6 for explanations of the United Nations Sustainability Development Goals









We categorise each underlying company held by the funds in a portfolio so you can see what proportion of your client's money is being allocated to different social and environmental themes. These are mapped to the United Nations Sustainable Development Goals (see notes below for details of the methodology).










Explanation of Sustainable Developments Goals

Each investment is assessed as to how its core product or service contributes to the Sustainable Development Goals (SDGs). A threshold of 50% of revenues is applied, whereby a company is only considered to provide a solution to a social or environmental challenge if more than 50% of its revenues are derived from one or more of the listed solutions. Stocks identified as 'Limited Positive Solutions' do not generate more than 50% of their revenues from products or services that we consider to constitute a solution to the Sustainable Development Goals. They may mitigate their harmful impacts and although these companies may have negative impacts, they are not considered to be as serious as those under the 'Harmful Impacts' classification.

Each solution is mapped to the most appropriate SDG with solutions including the following:

Solution	Description	SDG alignment
Circular Economy	Waste management and recycling, environmental consultancy, product manufacture with high recycled content	
Education, jobs and learning	Educational publishing, educational establishments, training	 
Enabling infrastructure	Platforms and technologies that are key parts of moving to a sustainable world – e.g. electrical transmission networks, cloud infrastructure	
Healthcare	Medical Equipment, Pharmaceuticals, Health Services	
Inclusive and ethical finance	Microfinance, Sustainable Investment & Ethical Banking, Peer to peer lending, Municipal finance, inclusive payment systems	 
Low carbon transport	Train & Tram operators, Bus & Coach operators, Bicycle manufacture, Electric Vehicles, Rail Infrastructure	
Natural capital	Water Supply & Sanitation, Water Filtration, Air Filtration, Forests	 

Renewable energy	Solar, Wind, Biomass, Hydro	
Resource efficiency	Energy Efficiency, Natural Resource Efficiency	
Safety & Security	Cyber security, building and automotive safety, food safety	
Social infrastructure	Social & affordable housing, Care Homes, Hospitals, Dental & GP Surgeries, Schools, Libraries & Universities, Police stations, law courts	 
Sustainable food	Food storage, food safety, non-intensive farming, wholefoods, organic & high welfare food manufacture, precision agriculture	 

Full details of our 3D methodology can be viewed at www.squaremileresearch.com/3D-methodology.

Exposure to Harmful Activities

The portfolio is largely invested in funds that avoid controversial activities and avoiding harm is a key strand of the 3D methodology. However, some compromise is inevitable to achieve a diversified and balanced portfolio. In the spirit of openness, we've identified the following issues that you and your clients should be aware of:



Air Transport

The Threadneedle UK Social Bond Fund invests in regional airports which have a high environmental footprint.



Alcohol

The portfolio does not exclude companies which manufacture or sell alcoholic beverages.



Animal Testing

Some of the funds invest in companies that test their products on animals to demonstrate product safety and efficiency. These include household goods and healthcare products. Many of the funds adopt a 3R's policy of 'reduce, refine and replace' to ensure that animal testing is minimised.



Finance

Investment is made in banks, insurers and investment companies that finance companies which are associated with harmful impacts, e.g. defence contractors, fossil fuel extraction. The exposure to such companies is much lower in this portfolio than is typically the case, with the majority of holdings having no exposure to such companies.



Fossil Fuels

To our knowledge, none of the funds directly invest in fossil fuel production, but some may invest in the distribution and generation of energy from fossil fuels if the provider is a leader in the energy transition.



Military

All of the funds avoid armaments companies, but the L&G All Stocks Gilt Index fund invests in UK gilts which fund government spending. The majority of this relates to socially positive activities such as the provision of social welfare and healthcare, but 6% is spent on defence.

Leading Change

100% of the portfolio investments are managed by firms which demonstrate a clear intention to improve the environmental, social and governance standards of the companies in which they invest. This is evidenced by:

- Case studies
- Engagement summaries
- Voting records
- Details of collaborative initiatives

In addition, Square Mile is leading change by engaging with

these fund managers to enhance their social and environmental impact. We systematically seek to 'raise the bar' by sharing best practice and encouraging managers to improve their reporting and investment practice in terms of social outcomes. This includes systematically asking for:

- Full descriptions of each holding in the fund to enable investors to clearly see how each underlying investment meets the social and environmental objectives of the fund.
- A breakdown of voting and engagements by type (Environmental, Social or Governance) to aid comparison and transparency
- Systematic, targeted reporting on engagements so that the investor can see the extent and actual impact of engagements, rather than having to rely on ad hoc and potentially misrepresentative case studies
- Impact outcomes such as clean energy generated, in order to make clear the real life impacts of the fund

Contact Us



Sophie Martin
Business Development Manager
sophie.martin@squaremileresearch.com
+44 (0) 7468 692 827

Important Information

This report is for professional advisers and other regulated firms only. The content on this report is provided for general information only and is not intended to amount to advice on which you should rely. You must obtain professional or specialist advice before taking, or refraining from, any action on the basis of the content of the report. This report has been approved by Square Mile Investment Services Limited, which is authorised and regulated by the Financial Conduct Authority under Firm Reference Number 625562.

