



Third Party Sector Conference – The Evolution of Responsible Investing

Paris Jordan, Head of
Responsible Investing

An Introduction to Responsible Investing

What is it?

Responsible Investing is an umbrella term for approaches to investment that consider factors including, but not limited to, the environment, social aspects, ethical values, sustainable themes and/or engagement efforts.



The aim of responsible investing is to combine better risk management with improved portfolio returns, and to reflect investor and beneficiary values in an investment strategy.

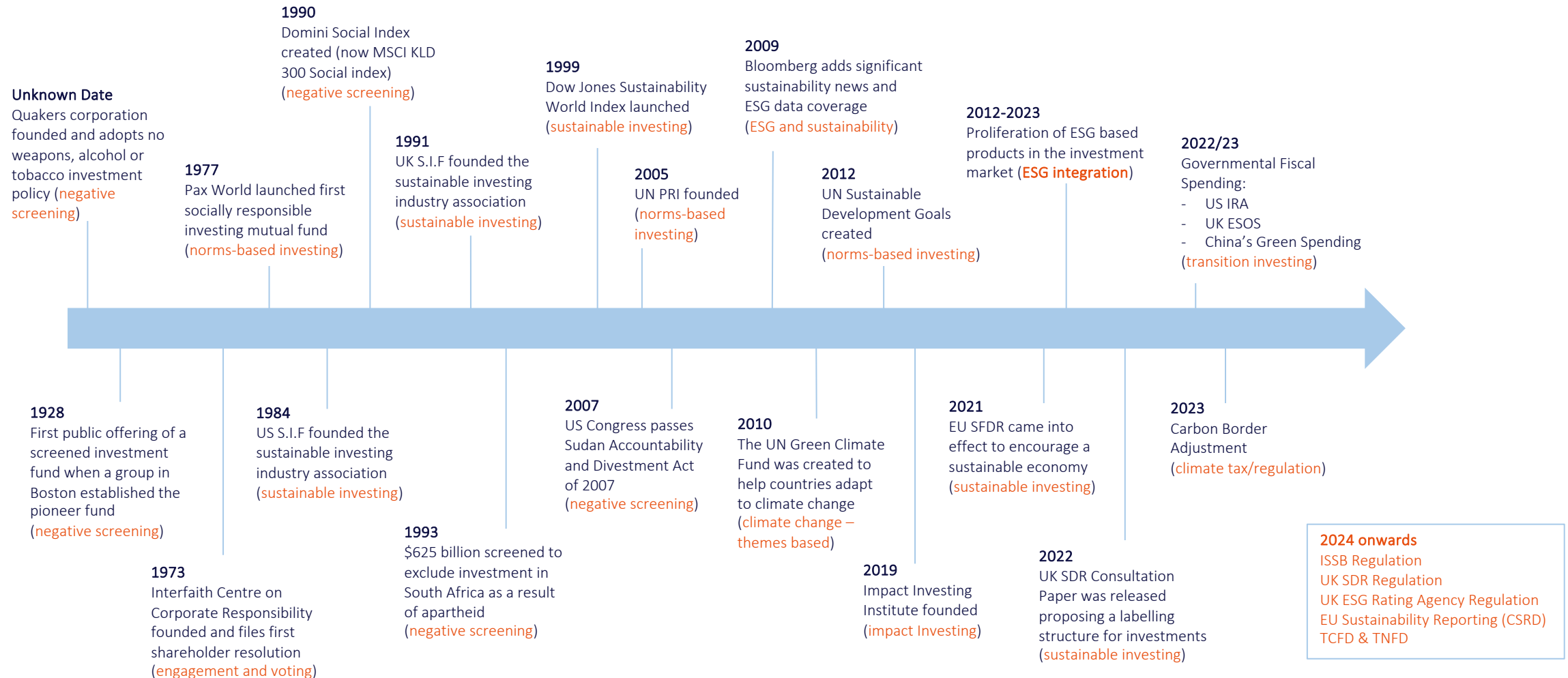
The Responsible Investing Landscape

Below are the responsible investment choices and strategies an investor can undertake. Note, multiple approaches can be undertaken simultaneously within a portfolio as approaches are not mutually exclusive*.

| APPROACH | 'TRADITIONAL' INVESTMENT | RESPONSIBLE INVESTMENT | | | | | | | PHILANTHROPY |
|-------------|---|--|---|---|---|--|--|---|--|
| | | ESG INTEGRATION | NEGATIVE SCREENING | BEST-IN-CLASS | SUSTAINABLE INVESTING | THEMATIC OR NORMS BASED INVESTING | ENGAGEMENT INVESTING | IMPACT INVESTING | |
| DESCRIPTION | No regard for Responsible Investment approaches | Forms integral part of fundamental analysis; focus on companies able to adapt to/mitigate potential risk in ESG practices to protect value and seize opportunities | Sectors or companies are excluded to avoid risks today or to better align with ethical values | Investments that target companies or industries that are leaders in their stipulated category | Investments that specifically target measurable sustainability metrics or businesses with sustainable practices | Investments that focus on Sustainability related themes (e.g. water, clean energy) or norms (e.g. SDG, UN Global Compact or Paris Climate Alignment) | Actively working with companies to improve material sustainability issues by implementing improvement programmes and tracking milestones | Address societal/enviro nmental challenges while generating returns usually via providing debt or equity to social enterprises or charities | Grants that target positive social and environmental impact with no financial return |

This framework is an evolution of the Bridges IM Spectrum of Capital. It has been adapted to incorporate the changes to the UK Responsible marketplace and SDR regulation.

Responsible Investment Market over the Years



Responsible Investment Market in Numbers

Growth in RI assets has been staggering in the last decade

\$30.3trn

NOW INVESTED GLOBALLY IN
SUSTAINABLE & ESG ASSETS, AS
AT 2022

Source: Global Sustainable Investment Alliance
Report 2023

+\$8tn

THE NET GROWTH IN
SUSTAINABLE INVESTING SINCE
2016-2022

Source: Global Sustainable Investment Alliance
Report 2023

\$130TN

FINANCIAL ASSETS COMMITTED
TO NET ZERO EMISSIONS BY 2050

Source: Glasgow Financial Alliance for Net Zero
(GFANZ)

77%

OF UK INVESTORS CONSIDER
INVESTING RESPONSIBLY BUT
HAVEN'T YET ACTIONED IT

Source: Morgan Stanley Sustainable Signals
Report, 2024

3,184

GREEN, SOCIAL AND SUSTAINABLE
BONDS ISSUED IN 2023

Source: Investment Week, Morningstar, Feb
2024

\$40trn

IN ESG ASSETS EXPECTED
GLOBALLY BY 2030

Source: Bloomberg Intelligence 2024

What is ESG?

ESG stands for Environmental, Social and Governance (ESG) and was coined over twenty years ago by the United Nations*.

ESG is an aggregated term for a multitude of factors that can be considered in fundamental analysis.

It is not synonymous with Sustainability, Impact or other terms, but they are most certainly linked as E, S, and G factors are intrinsic to those concepts.



Environmental

Takes into consideration specific environmental themes, challenges or opportunities facing a company. Focusing on financially impactful risks and how they are managed by a business:

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



Social

Takes into consideration the company's operations and the impact these could have on people; Customers, employees, citizens and suppliers. It then assesses these factors with regards to financially impactful risks:

- 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 and assesses these factors with regards to financially impactful risks.

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

How is ESG applied?

ESG factors have **traditionally** been non-financial considerations that help inform investment decisions, however, as the world has changed, some of these E, S and G factors have become more material and relevant to the operations and profits of a business.

Introducing Materiality: This is a critical concept, enabling investors/analysts to identify and **prioritise** what issues matter most to a particular business.

Together, ESG Materiality constitutes the most significant ESG factors for that business and integrating this into the research process is ESG-Integration.

Data is KEY here within this risk and opportunities assessment process.

MSCI ESG: Materiality of the Semi-Conductor Industry

Semi-conductors (microchips) are essential for new technologies, especially for AI.

Environmental

| Issue | Average Weight |
|-----------------------------------|----------------|
| Opportunities in Clean Tech | 16.1% |
| Water Stress | 11.5% |
| Carbon Emissions | |
| Product Carbon Footprint | |
| Climate Change Vulnerability | |
| Financing Environmental Impact | |
| Biodiversity & Land Use | |
| Raw Material Sourcing | |
| Toxic Emissions & Waste | |
| Packaging Material & Waste | |
| Electronic Waste | |
| Opportunities in Green Building | |
| Opportunities in Renewable Energy | |

Governance

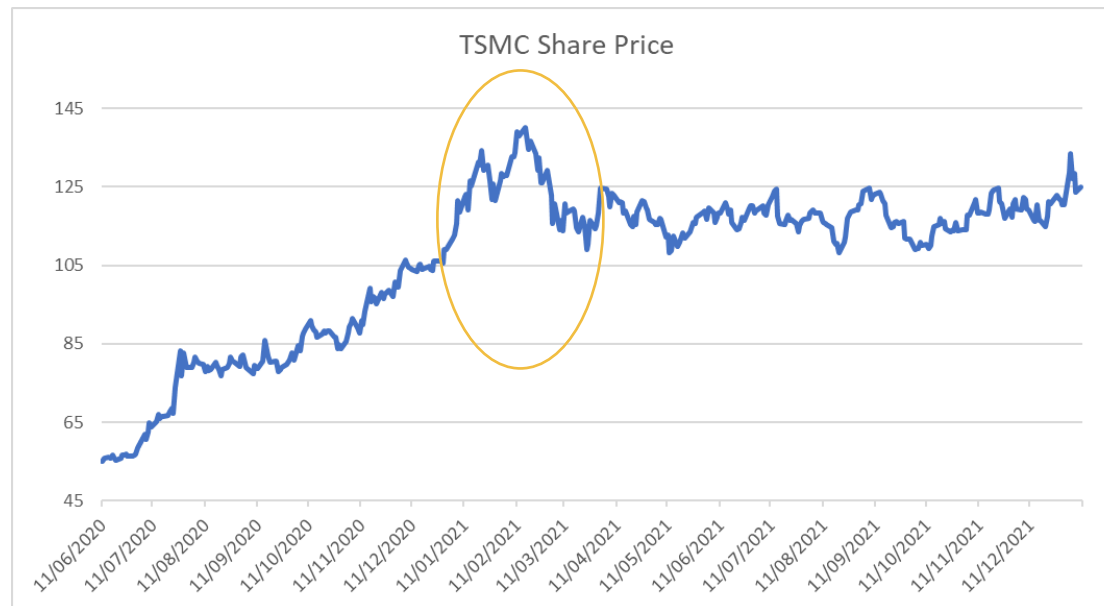
| Issue | Average Weight |
|---------------------|----------------|
| Governance | 39.2% |
| Ownership & Control | |
| Board | |
| Pay | |
| Accounting | |
| Business Ethics | |
| Tax Transparency | |

Social

| Issue | Average Weight |
|-------------------------------------|----------------|
| Human Capital Development | 22.3% |
| Controversial Sourcing | 10.7% |
| Product Safety & Quality | 0.1% |
| Supply Chain Labor Standards | 0.1% |
| Labor Management | |
| Health & Safety | |
| Chemical Safety | |
| Consumer Financial Protection | |
| Privacy & Data Security | |
| Responsible Investment | |
| Community Relations | |
| Access to Finance | |
| Access to Health Care | |
| Opportunities in Nutrition & Health | |

Materiality Example – Semi-Conductors & Water Stress

For businesses operating within the semi-conductor sector, a key material **Environmental** factor is **Water Security/Stress**.



16th February 2021: TWD140.05
19th March 2021: TWD113.63

23% drop

Drought-hit Taiwan plans more water curbs for chip hubs

By Reuters

May 19, 2021 6:24 AM GMT+1 · Updated 3 years ago



Thirsty work: TSMC starts trucking in water amid Taiwan drought to keep chip production lines chugging

Yet more woes for embattled industry

Matthew Hughes

Wed 24 Feb 2021 · 17:37 UTC

Taiwan's chip industry under threat as drought turns critical

Chipmakers in drought-hit Taiwan order water trucks to prepare for 'the worst'

By Reuters

February 24, 2021 7:06 AM GMT · Updated 3 years ago



What does Charles Stanley offer?

1. Responsible Investment Models

- Four Responsible Investment **Models** which invest across responsible investment funds and ETFs.

2. Responsible Investment Third-party Collectives

- We have a range of Responsible Investment **Collectives** which can provide sustainable and thematic exposures.

3. Exclusionary/Negative Screening





- Charles Stanley can tailor portfolios using an **Ethical Screening tool** to ensure client exclusionary preferences are met.

4. ESG Assessments via MSCI ESG

- We can employ **MSCI's ESG Materiality** framework within our research to mitigate ESG risks across a client portfolio.

Responsible Investment Models

Charles Stanley four Responsible Investment models across different risk appetites

| | Responsible 2 | Responsible 3 | Responsible 4 | Responsible 5 |
|------------------|---|---|---|---|
| Inception | 31 October 2017 | 30 June 2019 | 31 October 2017 | 31 October 2017 |
| Return Objective | CPI+1% | CPI+2% | CPI+3% | CPI+4% |
| DP Risk Profile |  |  |  |  |
| MSCI Rating* | AA | AA | AA | AA |
| OCF | 0.34% | 0.36% | 0.38% | 0.38% |
| AMF | 0.25% | 0.25% | 0.25% | 0.25% |
| Overall Charge | 0.59% | 0.61% | 0.63% | 0.63% |

*As at May 2024



Long-term track record

of managing Responsible Model portfolios



Actively managed

Ready to respond quickly to changing market conditions



Outcome-oriented focus

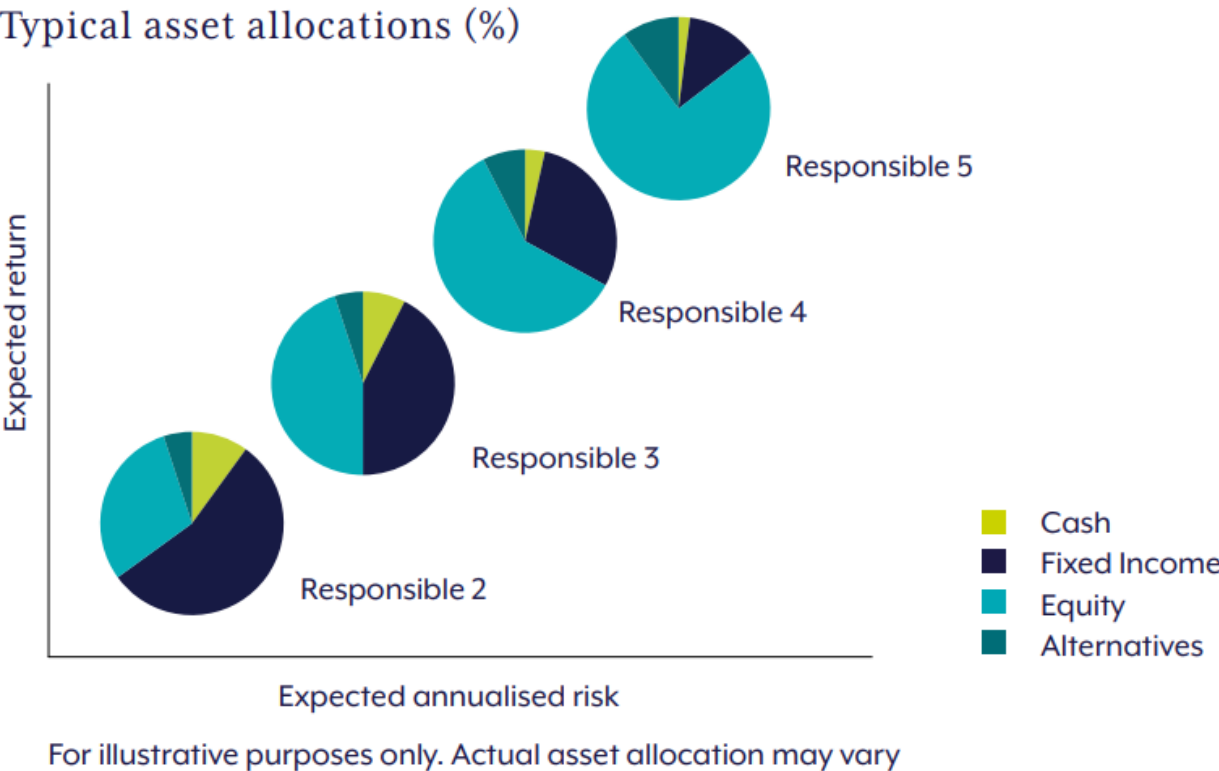
That aligns you, your client and the Portfolio Management team through the investment journey



Cost effective

Combining high-quality active management with mainly low-cost passive ETFs

Responsible Investment Models



Responsible 4

Investment objective and policy

These discretionary managed model portfolios offer multi-asset investment solutions, implemented using both active and passive funds.

The investment objective for the Responsible 4 Model Portfolio is to provide a long-term total return which is superior to inflation plus 3% returns, whilst incorporating responsible investment approaches. The performance of the model portfolio is not intended to track the rise (or fall) of any specific index.

Top ten holdings

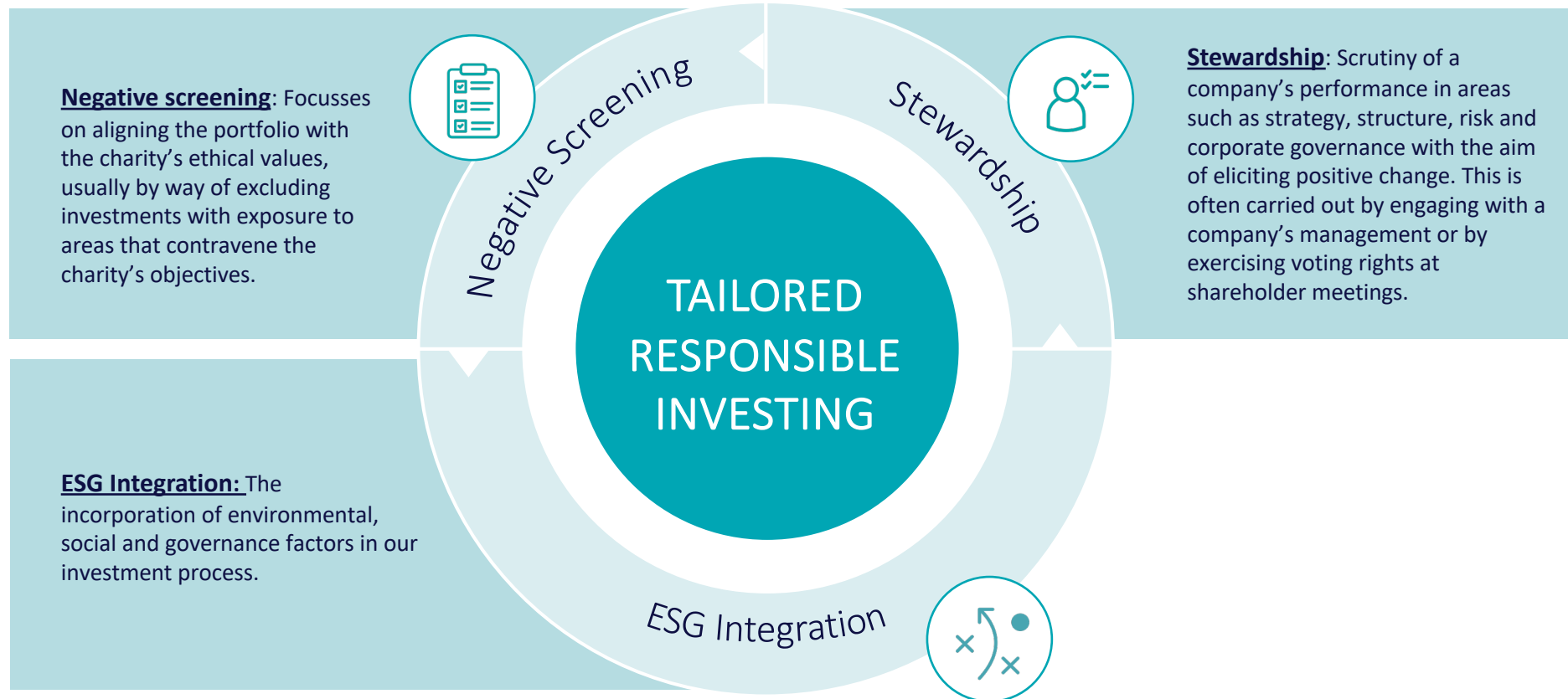
| | % |
|---|-----|
| iShares MSCI USA SRI UCITS ETF (Acc) | 9.6 |
| Xtrackers &P 500 Equal Weight ESG UCITS ETF GBP | 8.4 |
| UBS ETF MSCI USA Socially Responsible (USD) | 7.8 |
| iShares MSCI USA SRI UCITS ETF Class GBP HEDGED DIST | 7.5 |
| iShares MSCI EM SRI UCITS ETF GBP in GB | 7.2 |
| Stewart Investors Asia Pacific Sustainability B GBP Acc | 5.0 |
| Invesco GBP Corp Bond ESG UCITS ETF | 4.7 |
| Invesco US Treasury Bond 7-10Y GBP Dis Hedged | 4.6 |
| UBS ETF MSCI UK IMI SR U ETF (GBP) Ad | 4.3 |
| iShares \$ Corp Bond 0-3yr ESG UCITS ETF GBP H Dist | 4.1 |

Responsible Investment Funds

Charles Stanley have specialist investments available for investment within client portfolios

| Investment name ↕ | Management group | Type ↕ | Total ongoing charges | Sector/Geography |
|--|--------------------------------|------------------|-----------------------|--------------------------|
| Baillie Gifford Positive Change | Baillie Gifford & Co Ltd | Actively managed | 0.69% | Global |
| Brown Advisory US Sustainable Growth | Brown Advisory LLC | Actively managed | 0.87% | North America |
| EdenTree Responsible and Sustainable Global Equity | EdenTree Investment Management | Actively managed | 0.76% | Global |
| FP WHEB Sustainability | FundRock Partners Ltd | Actively managed | 1.17% | Global |
| Liontrust Sustainable Future UK Growth | Liontrust | Actively managed | 0.87% | UK |
| Rathbone Ethical Bond Fund | Rathbones Asset Management Lim | Actively managed | 0.62% | Bonds and Fixed Interest |
| Schroder Global Energy Transition | Schroder UT Managers | Actively managed | 1.36% | Specialist |

Bespoke/Tailored Portfolios for your Charity





Appendix.

Defining your objectives

Now we turn the conversation to your investments and developing an investment strategy.



We need to understand:

1. Your appetite for risk
2. Your investment preferences to be incorporated into the investment process
3. Any Environmental, Social and Governance factors or Ethical considerations to be incorporated into the investment process
4. You and your Trustees review and reporting requirements
5. Your timescales, for example do you wish to grow the fund or manage to extinction – i.e. to wind the fund up
6. The level of fees you expect to pay

Determining Risk

How much risk can the trustees take – a detailed risk questionnaire will establish this

| Output scores and Charles Stanley risk categories aligned as at April 2024 | | | |
|--|------------|---|--|
| Dynamic Planner | BITA Score | Charles Stanley risk categories aligned to BITA scores | |
| 2 Very Low Risk | 3.18 | Lower Risk 0-8 Small capital loss acceptable Primarily non-equity and Collectives | Medium Low Risk 5-11 Mostly non-equity but exposure to more volatile asset classes for potentially higher returns |
| 3 Low Risk | 5.42 | | |
| 4 Lowest Medium Risk | 7.13 | | |
| 5 Low Medium Risk | 8.98 | | |
| 6 High Medium Risk | 10.41 | Medium High Risk 8-16 Broad range of equities likely but possibly retaining exposure to non-equities. Greater appetite for volatility | Higher Risk 13-30 Significant exposure to riskier assets and volatility in search of higher returns |
| 7 Highest Medium Risk | 12.12 | | |
| 8 High Risk | 12.38 | | |
| 9 Very High Risk | 13.33 | | |
| 10 Highest Risk | 14.36 | | |

We also identify, consider and monitor a variety of risks that may affect the trusts assets

- Market risk – In periods of greater market volatility, diversification is key
- Investment Specific risks – including liquidity, concentration, geographic, currency, drawdown/shortfall, interest rate and inflation
- Capital risk – The need to preserve capital value over time

This information should not be considered as a defined or approved comparison, and the content should not be relied upon when making investment decisions. Figures are based on the latest Asset Allocation data provided by Defaqto and Charles Stanley, as at April 2024. Please speak to your Charles Stanley representative for more detail on the methodology behind the BITA Risk system.

Designing a strategy to meet your objectives

We compile information from you, and design a bespoke investment strategy to meet your charities objectives and support trustee requirements

We will:



ESG Integration at Charles Stanley

We believe that the integration of ESG data and research can be used to support our assessment of the potential risks and opportunities to which investments and their related industries and sectors may be exposed, with a view to improving long-term risk-adjusted financial returns.

Please discuss any Responsible Investment considerations that are relevant to you with your Charles Stanley contact.



MSCI is our ESG data partner, providing us with extensive coverage across equities and funds. They have a comprehensive library of ESG data points including carbon emissions data, water use and staff safety figures among many others. MSCI also offers a rating system based on a corporate's management of key material ESG risks.

Signatory of:



Charles Stanley has been a proud signatory to the **Principles for Responsible Investment (PRI)** since 2015. The PRI is a voluntary organisation that has 6 key principles that its members support. Signatories are provided with resources and support to maintain standards as the responsible investing landscape continues to evolve.

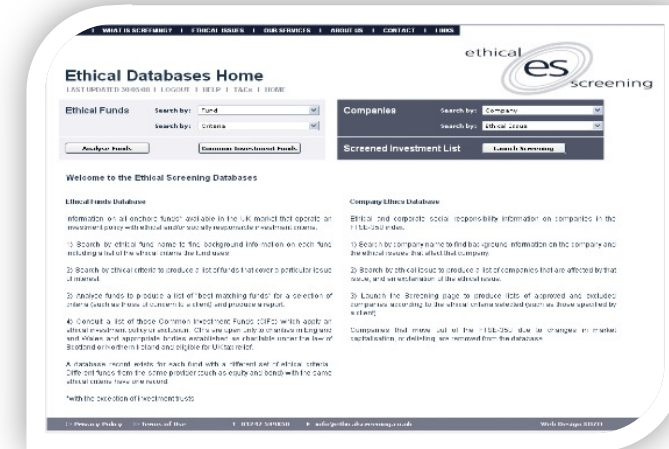
Ethical Screening



Ethical Screening was set up in 1997 to undertake research and analysis into those non-financial aspects of corporate activity that concern the ethical investor, and enable them to invest according to their principles.

Their research determines whether a company is involved in a particular activity, and the magnitude and significance of that involvement. They provide qualitative analysis to enable a full understanding as to why a company has been highlighted.

Screening is implemented to analyse companies and exclude from investment those whose activities conflict with the charity's ethical policy. The research and analysis underpinning the screening process also takes into account the positive measures such as policies, management systems and initiatives.



Stewardship

Effective stewardship is an integral part of our wider responsible investment process.

We take an active approach to stewardship, exercising voting rights on behalf of our discretionary clients where we believe it appropriate.

We recognise that the maximisation of client investment returns and outcomes may sometimes require a greater level of engagement with investee companies, including entering into an active dialogue with investee company management.

We also seek to meet company management teams on an ad hoc or regular basis and use these opportunities to ascertain that the company has satisfactory policies and governance arrangements in place.

Through our membership of the UN Principles of Responsible Investment and their Collaborative Engagement Platform, we are able to work collectively with other members to exert influence over industries and companies to which our clients have a direct or indirect exposure on key topics or initiatives.

Important information

The value of investments can fall as well as rise. Investors may get back less than invested. Past performance is not a reliable guide to the future.

Tax treatment depends on the individual circumstances of each person or entity and may be subject to change in the future.

Charles Stanley & Co. Limited is a member of the London Stock Exchange, is authorised and regulated by the Financial Conduct Authority and is part of the Raymond James Financial, Inc. group of companies.

Registered office: 55 Bishopsgate, London EC2N 3AS.

The logo features the company name 'Charles Stanley' in a white, elegant script font. The text is positioned over a dark, triangular graphic that contains a blurred image of a building facade. A small, solid dark blue diamond is located at the top vertex of the triangle.

**CHARLES
STANLEY** 