

The Association of Financial Mutuals

Aligning your assets with yours and your members' values

THEORY PRIN WO FAITH RES INT VALUES RESP TRUTH
ETHICS EQUALITY CONVENTIONALITIES
PHILISOPHY MORALS TRUST RULES AUTHENTICITY CHARACTER
PERFORMANCE ETIQUETTE DECENCY ECT HONOR DS PURPOSE INOCENCE FAIRNESS

Guy Ellison

10TH OCTOBER 2022



Deciphering The Jargon



The Responsible Investment Continuum

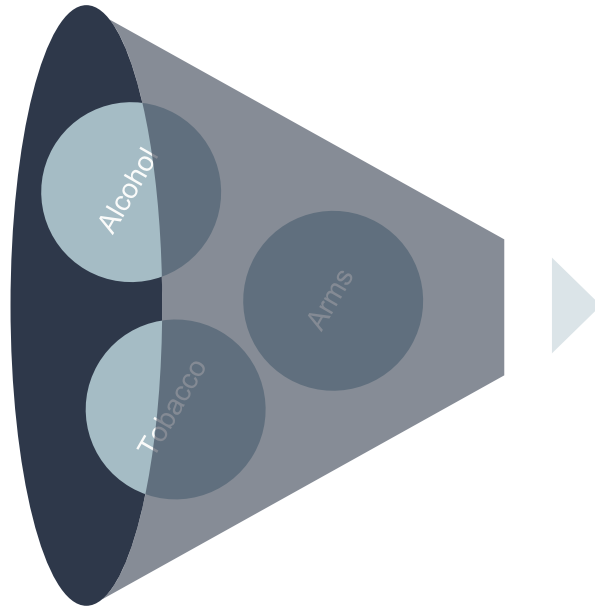
Knowing your 'Responsible' from your 'Impact'

	Traditional	Responsible	Sustainable	Impact Driven			Philanthropy	
Approach				'Finance First' ←	↔	→ 'Impact first'		
Financial Goals	Target competitive risk-adjusted financial returns			Unchartered 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 return 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 on-commercially viable models, inc. guarantees	Address societal challenges with donations or with the expectation of full capital loss

Sources: Bridges Impact+ and the Impact Management Project

Values (or Ethical) Investing Precedes This

Ethical Restrictions



Approach	Traditional	Responsible	Sustainable	Impact Driven		Philanthropy		
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The "Impact Economy"

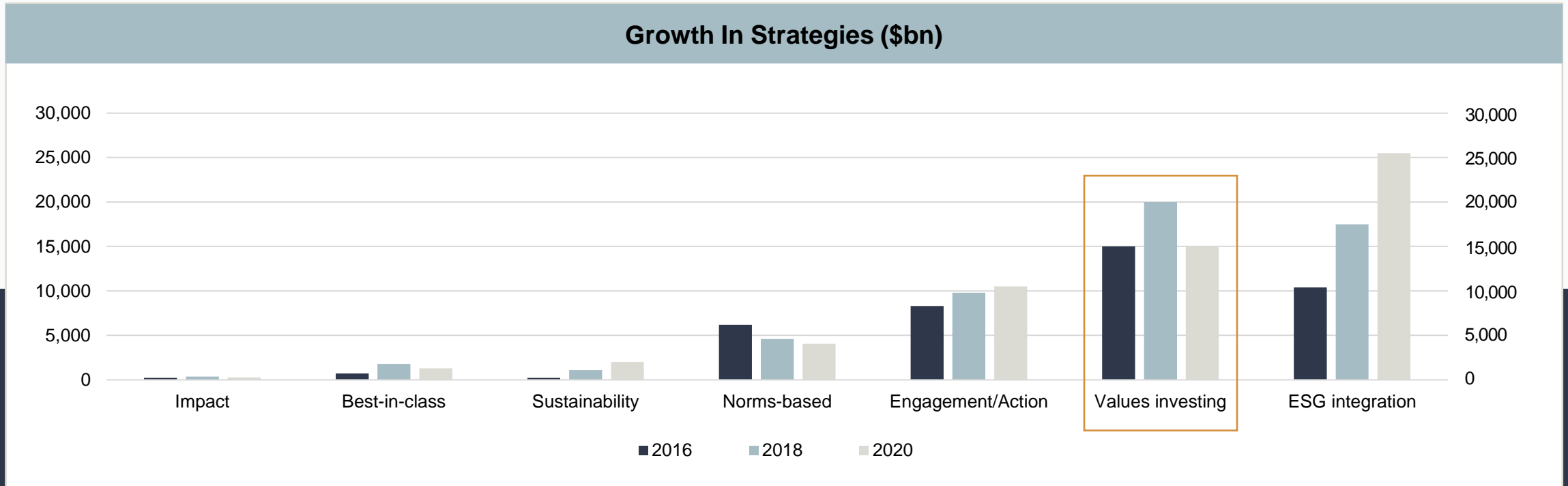
Question One

Does your Mutual currently have a clearly defined set of Ethical restrictions?

Options: Yes / No / Not Sure



Before ESG's Boom, Values-Investing Dominated



In practice we would expect to see several of these 'styles' used together.

For example, for many of our Charity clients – the cohort with typically the most well-established Ethical views – we would automatically incorporate ESG integration and Engagement.

Your Assets, Your Values



Some Common Exclusions & Considerations



**Business
Involvement
Screening**

Adult Entertainment

Alcohol

Fossil Fuels

Gambling

Predatory Lending

Tobacco

Weapons



Production



**Significant
Ownership**



**Associated
Production**

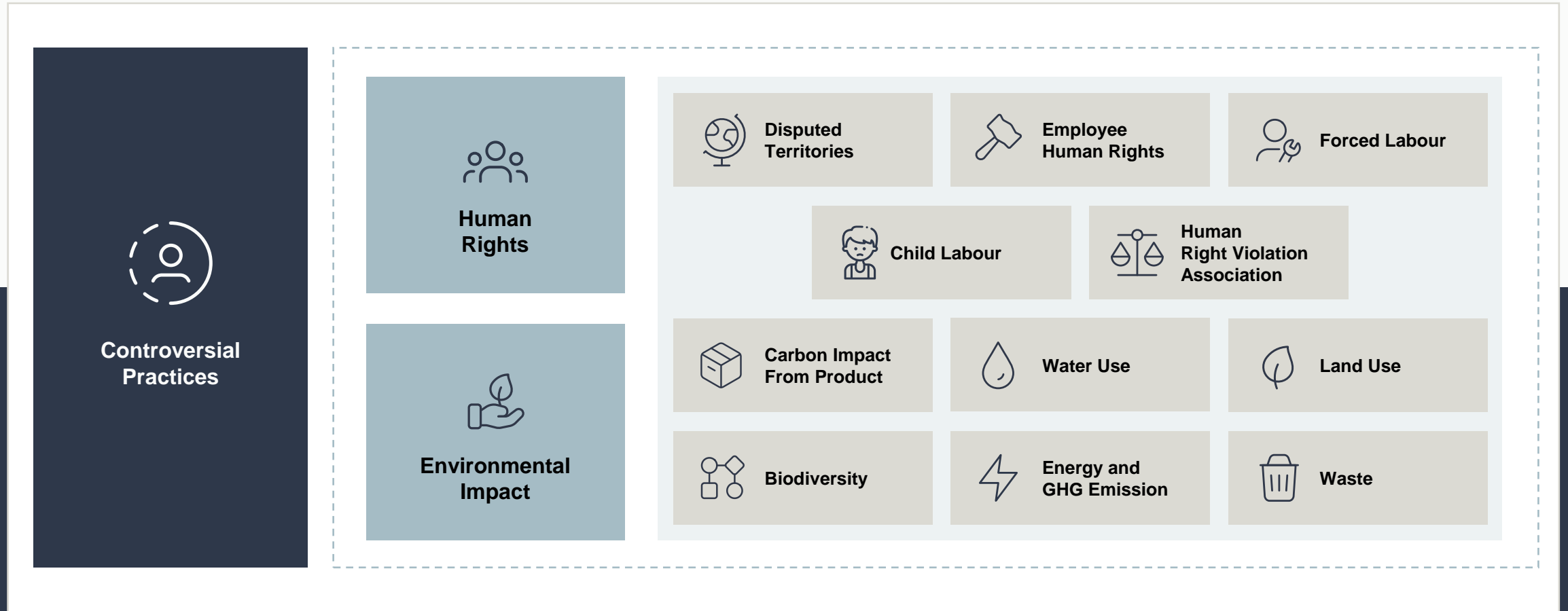


Distribution



Retail

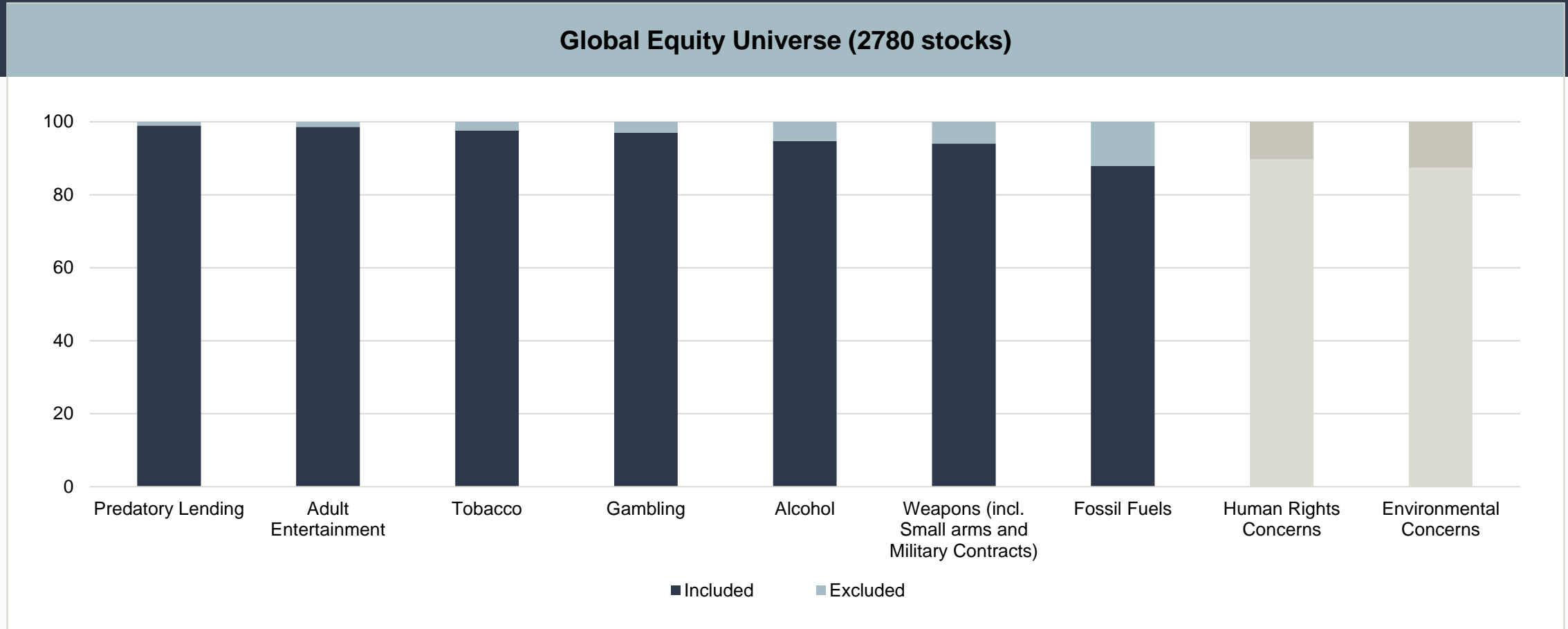
Beyond The “What” And Into “How”



Source: Investec, Sustainalytics

Still Plenty Of Investment Opportunity

But expect tracking error to be greater



Source: Investec, Sustainalytics

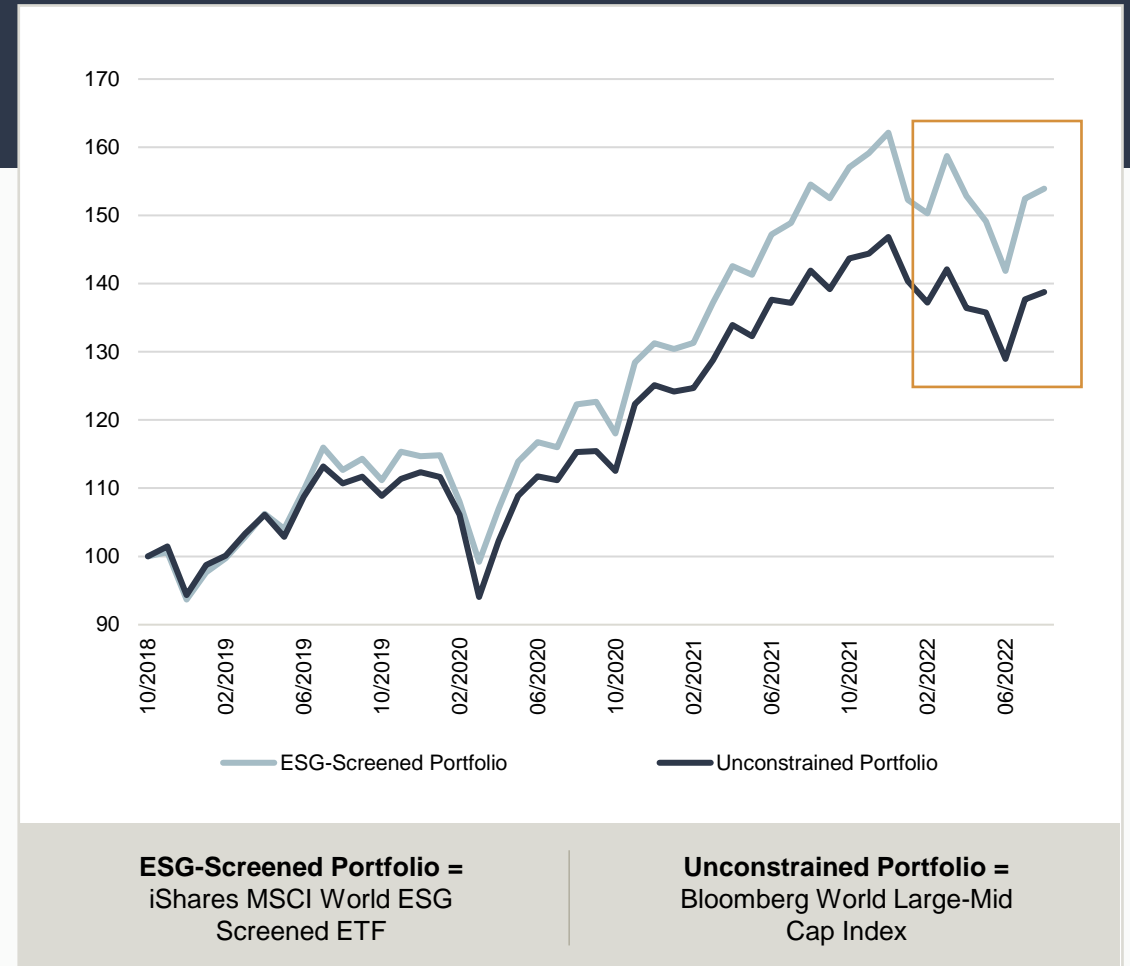
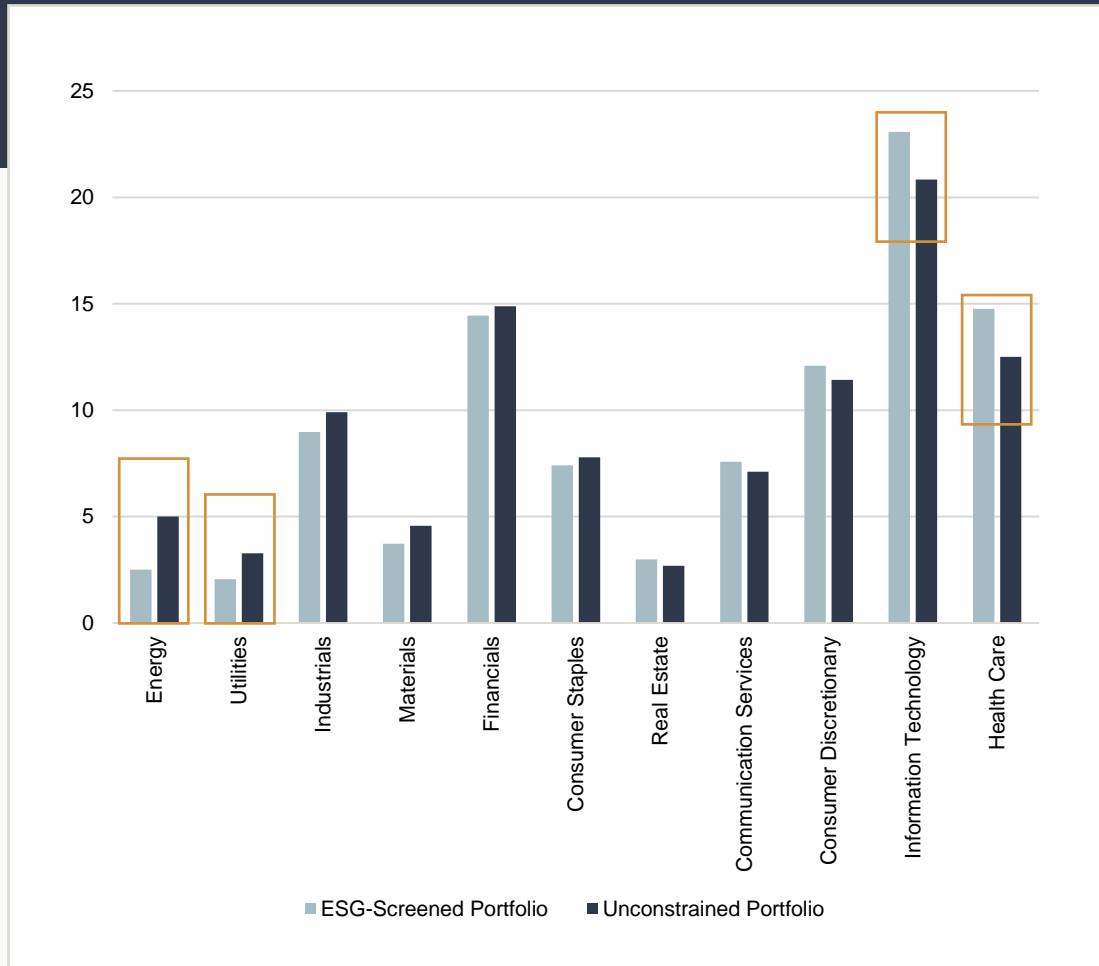
'Sin' Stocks The Place To Be In 2022

As at 30th September 2022

Index Name	% Weight*	YTD% Change
MSCI United Kingdom IMI	100.0	-6.6
Energy	13.2	39.0
Materials	8.8	1.6
Metals & Mining	7.3	10.3
Industrials	12.2	-19.0
Aerospace & Defense	1.8	10.6
Consumer Discretionary	6.2	-31.3
Consumer Staples	18.8	-2.2
Beverages	4.8	-7.3
Tobacco	4.4	23.2
Healthcare	12.1	0.5
Pharmaceuticals	10.8	2.7
Financials	16.6	-9.5
Information Technology	2.0	-19.8
Communication Services	4.0	-20.9
Utilities	3.7	-9.0
Real Estate	2.6	-35.3

*Source: MSCI Global, FactSet

But Doesn't Mean Forgoing Long Term Returns

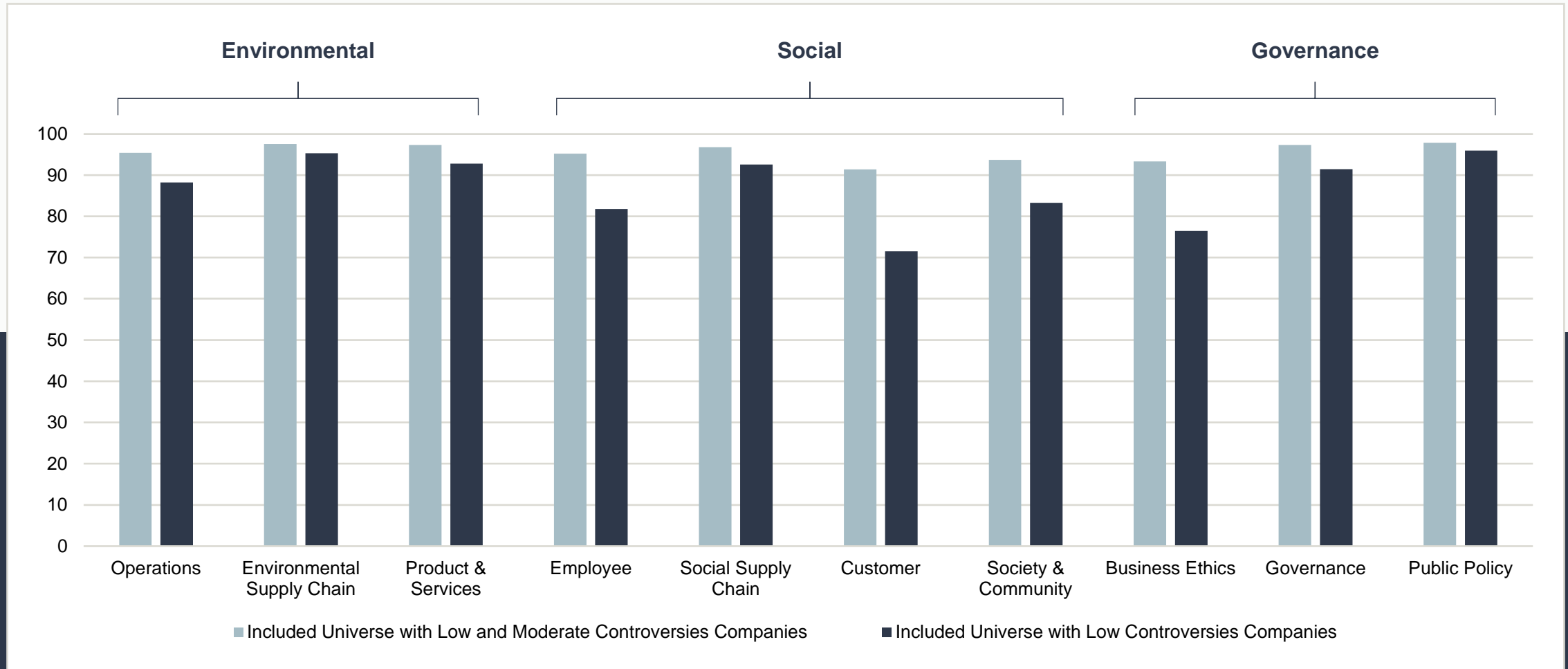


ESG-Screened Portfolio =
iShares MSCI World ESG
Screened ETF

Unconstrained Portfolio =
Bloomberg World Large-Mid
Cap Index

Source: Investec, Bloomberg, iShares

Limitation In The Eyes Of The Beholders



Source: Investec, Sustainalytics

Question Two

Are you interested in finding out more about reflecting your Mutual's values in a portfolio?



Going Beyond Values

Alignment with the Sustainable Development Goals (SDGs) a good yardstick



Helping you, help others and improve the planet



ISS - World's leading provider of corporate governance, proxy voting and ESG analysis



Assess over 10,000 companies' alignment with each of the UN's 17 SDGs based on:

- The alignment of the company's Products and Services with each SDG - how much of their revenues are aligned, positively or negatively, with each SDG
e.g. Pharmaceutical companies are naturally positively aligned with 'Good Health & Wellbeing' (SDG 3)
- The alignment of the company's Operations with each SDG – how does a company's behaviour align with the delivery of the SDGs
- Any controversies as identified by ISS' separate research



Resulting in an overall SDG Rating score for each company between -10 (bad) and +10 (good):

- If a company only has positive scores for each individual SDG, the largest positive value is taken as the overall score
- If a company has a mix of positive and negative scores for each SDG, the largest and smallest are added to give the overall score
- In the unlikely scenario that a company only has negative scores for each SDG, the most negative would be counted



Our subscription to ISS' service allows us to align clients' portfolios with the SDGs and report this to clients on an ongoing basis

Global Sustainable Companies

Investing your members' assets in companies making a positive difference

Utilising ISS' objective independent SDG scoring system, we propose to construct a portfolio of global companies who have a positive overall SDG score (and exclude companies who have a negative overall score)

INCLUSIONS (Examples)



Roche (Pharmaceuticals): +9.8 score for 'Good Health & Wellbeing' (SDG 3) due to very good 'Products & Services' score



Unilever (Consumer Goods): +7.1 score for 'Climate Action' (SDG 13) due to good 'Operations' score



Apple: +5.2 score for 'Responsible Consumption & Production' (SDG 12) due to good 'Operations' score

EXCLUSIONS (Examples)



British American Tobacco: -10.0 score for 'Good Health & Wellbeing' (SDG 3) due to very poor 'Products & Services' score



Alphabet (Google): -8.2 score for 'Decent Work & Economic Growth' (SDG 8) due to a bad 'Controversies' score



Amazon: -9.2 score for 'Decent Work & Economic Growth' (SDG 8) due to a particularly bad 'Controversies' score

Thank you



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