

Socially Responsible Investing at Ellis Bates

Where people, planet and
profit *can* live together



ellis bates
FINANCIAL ADVISERS



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Why are SRI funds important to us?

Socially Responsible Investing (SRI) has always been at the heart of what we do at Ellis Bates. It has formed a key part of our investment philosophy and decision-making process since we launched our first SRI portfolio in 2008.

What is Socially Responsible Investing?

Socially Responsible Investing is an investment strategy which seeks to consider both financial return and sustainable social/environmental good to bring about positive social change, without causing harm to current or future generations.

Climate Change

One of the greatest threats of our generation is climate change. This is associated with extreme weather conditions, which damages our planet, disrupts food and fresh water supplies and in turn, can have significant impact on our health and wellbeing. Since the Industrial Revolution, global temperatures have increased by 1.2°C and climate scientists expect them to continue to rise, putting life (both on land and at sea) at risk.

Various studies attribute the main cause of climate change to unsustainable human activities, such as burning of fossil fuels and cutting down forests. For civilisation to prosper, a sound ecosystem is essential, so these unsustainable behaviours must be dealt with.

We look to governments to spearhead climate change, but large corporations with operations around the world also have a vital role to play.

Our Role as Investors

As investors, we too have a part to play. By investing in funds whose underlying companies are conducting their activities in a responsible way, we are encouraging those businesses to continue acting responsibly. At the same time, by avoiding companies that are causing harm to the planet and people, this can send a powerful message to the market, and encourage management to put measures in place to control their Environmental, Social and Governance (or ESG) risks.

ESG criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

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What are the benefits of SRI?

One of the key benefits of SRI is that it aligns investors' environmental and social interests, with long-term profitability. SRI investors do not have to make a choice between being socially responsible and generating returns.

Potential Lower Share Price Volatility

According to research cited by the United Nations, and carried out by other organisations, companies with high ESG ratings have historically demonstrated lower levels of share price volatility relative to their lower-rated peers.

It then follows that companies with higher ratings have (on average) lower costs of capital – in other words, they can borrow money at cheaper rates of interest. Consequently, because of these lower costs, they move into profitability more quickly.

This is not to say that SRI is without risk. For example, companies may not follow through with their environmental and social pledges, called 'greenwashing' and 'social washing' respectively. There is also no standardised methodology for the way in which companies should report on their ESG performance. However, as more data becomes available, this will allow investors to make more informed investment decisions.

Long-Term Investment Returns

From an investment perspective, SRI has the potential to be a means of generating attractive returns over the long term. Companies demonstrating poor practices, whether they are damaging to the environment, have poor human rights records, or are poorly managed for example, are more likely to fail and not be around for the long term. Diligent investors simply would not invest in any such companies and hence we incorporate ESG considerations across all our portfolios as standard. SRI has always formed a fundamental part of our investment process.

The SRI universe of companies has also widened significantly over the years. In the early days of SRI, investors had little choice, with the universe consisting mainly of smaller companies operating in niche areas of the market. As a result, investors often considered investment returns as a bonus, and were more conscious of contributing capital to positive change. Nowadays, more companies are incorporating ESG policies into their business practices, so investors have greater investment choice. Investors are now able to find opportunities within various sectors, industries and countries which are aligned with their core values.

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A commonly held view is that SRI portfolios underperform conventional portfolios over the long term. Since launching our SRI portfolios they have performed very much in line with our Growth portfolios, and significantly outperformed their benchmarks*.



How do we screen and choose our SRI funds?

The funds we hold in our SRI portfolios must demonstrate a commitment to key areas of responsible investment, and that a socially responsible investment culture is intrinsic to their approach. To measure and assess a fund's ESG credentials, we have various tools at our fingertips.

United Nations Sustainable Development Goals (UN SDGs)

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

As part of our commitment to our clients, as socially responsible investors we are committed to supporting the SDGs, so much so, that every single fund we hold can easily be associated with one or more of these goals.

Negative Screening

Every fund in our SRI portfolio has a negative screen and deliberately excludes companies involved in activities deemed to be unacceptable such as alcohol, tobacco and fossil fuels.

Positive Screening

Positive screening seeks to support companies making a positive contribution to the environment and/or society through their products and services, such as combating climate change and standing for social justice.

ESG Rating Agencies

ESG rating agencies look at a fund's underlying investments and scores them based on specific ESG criteria. These ratings help as a starting point in our research process, but it is important to remember that agencies use their own methodologies to scrutinise businesses and along with subjective interpretation, this can result in ratings varying dramatically for the same product. We therefore have to use our own judgement to assess whether we think a fund is suitable for inclusion in our portfolios, regardless of any ESG label they may have been given.



Shareholder Engagement

One of the most important issues for SRI investors is shareholder engagement. Here, shareholders enter into dialogue with management to encourage behavioural change. This is based on the view that SRI investors could sell their non-green assets but the assets may simply end up in the hands of a less ethically minded investor. This does little to improve the way those businesses are run, and the impact their operations have on the environment and society. It is for this reason that every fund in our SRI portfolios must have engagement and proxy voting policies and procedures in place.



We meet with each fund manager to ensure they are fully aligned with our clients' ethical beliefs.

Fund Manager Meetings

This is an integral part of our SRI screening and investment process, as it allows us to satisfy ourselves that the funds we invest in really are as 'good' as they say they are.

Over the years, we have developed strong relationships with many fund houses, including several highprofile names with a huge global presence, that are responsible for billions of pounds of assets. This longevity of relationship means we have access to one-to-one meetings with their managers, enabling us to fully understand their investment processes, how they incorporate ESG factors, the risks they are exposed to, and how their funds are expected to perform in various market conditions.

We will meet the managers of every single fund in our SRI portfolios, before we invest, to ensure their products are aligned, now and going forward, with our clients' ESG and ethical beliefs. At the end of the day, these fund houses are the custodians for our clients' money, and everything we do comes from understanding our clients' needs and goals.



ENVIRONMENTAL

Assessment of the impact companies are having on 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

Assessment of the social impact companies are having on people in the world.

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

GOVERNANCE

Assessment of the structure, procedures and practices that control and direct a company.

- Diversity
- Inclusion
- Remuneration

How are the SRI portfolios helping to combat environmental issues?

Each of the funds in our SRI portfolios invest in companies that are contributing to positive environmental change, or exclude companies deemed to be causing environmental damage. Additionally, the managers have strong records of actively engaging with the companies in which they invest, to push for action on climate change.

To give an example: EdenTree is a pioneer in the field of SRI, with its roots dating back to 1887, and they launched some of the first socially responsible funds in the UK in the 1980s. Climate change is a key component of EdenTree's responsible investment engagement strategy across their entire product range. They assess companies based on their contribution to climate change and the managers engage with businesses on a range of environmental issues such as decarbonisation and biodiversity. Under their SRI Transparency Code, EdenTree regularly publishes details of its research and engagement on its website.

In addition to their funds, EdenTree has demonstrated that they are truly committed to combating environmental issues at a much higher level. They are a member of the Institutional Investors Group on Climate Change, whose mission is to drive significant and real progress towards a net zero and resilient future by 2030. EdenTree is also a signatory of the COP21 Paris Pledge, which aims to strengthen the global response to the threat of climate change.

Another example in our SRI portfolios is WHEB, who were founded in the 1990s as an environmental corporate finance boutique by Rob Wylie and Kim Heyworth. Today, WHEB is responsible for a single global equity strategy, FP WHEB Sustainability. The companies it invests in must be aligned with their sustainability investment themes, of which five are environmental: Resource Efficiency, Cleaner Energy, Environmental Services, Sustainable Transport and Water Management.

WHEB is a Certified B corporation, demonstrating they meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

How do SRI funds help provide opportunities for young people?

Case study of three of our chosen funds

Threadneedle UK Social Bond, has two social outcomes:

- Education learning and skills in primary, secondary, further and adult education. The fund holds bonds issued by various universities including Leeds, Manchester, Southampton, Cardiff, UCL and De Montfort.
- Employment and training, including creation of jobs in deprived areas, good employment standards and vocational training and apprenticeships. According to its 2020 Impact Report nearly half of the bonds in the portfolio are concentrated in sectors providing intermediate (NVQ3) level job opportunities, including apprenticeships.

The fund also invests in a number of bonds issued by building societies which promote equality and financial education.

FP WHEB Sustainability has education as one of its key themes. The 2.8% allocation to this theme comprises two stocks: Strategic Education which aims to create innovative and relevant learning experiences that prepare students for the workforce, today and in the future. Grand Canyon Education aims to be an educational service company that provides an array of support services in the post-secondary education sector.

The investment process that Liontrust applies to its Sustainable Future fund range is based on the belief that in a fast-changing world, the companies that will survive and thrive are those which improve people's quality of life, e.g. through educational advances, among others. Further, in its latest Assessment of Value report, Liontrust confirmed its commitment to launch the Liontrust Foundation (which they will be funding), that aims to promote positive change in the wider community and provide educational and employment opportunities to underprivileged communities.



Ellis Bates is made up of teams of real people and we really do have deep roots in SRI

Our Social Responsibility team focusses on four areas:

Opportunities for Young People

We actively offer work placements and attend careers fairs in our communities. A study by UCAS shows that two-thirds of employers are more likely to offer jobs to graduates with relevant work experience, because it demonstrates their passion and interest in that field and we are keen to offer this opportunity for progression. We invite GCSE and A-Level students to spend time with us, to give them a real insight into a career in financial services. We have a very active apprenticeship programme. Several members of our team are also very active in charities focused on giving help and support to young people in their career choices and development.

Charity

Central to our company values are care and making a difference. As a team, we actively support charities and organisations, with close links to SRI. We operate a payroll giving scheme which enables all staff to donate via automatic deductions from their monthly pay. Each member of staff is also given a volunteer day to pursue and support their chosen charity.

Financial Education

We have a team of volunteers delivering financial education workshops to schools and colleges. These cover a range of topics such as managing their future finances, staying safe from scams, and loans and mortgages. Also, our free financial clinics offer support and guidance on key financial matters and to help people to get back on track with their finances or helping them to plan for life events.

The Environment

As part of our collective responsibility, we are exploring different ways we can make a difference to the local environment, including reducing our carbon footprint, promoting environmental awareness and supporting education initiatives.

