Adviser Guide to our Sustainable Portfolios

The need for sustainable investing

Our actions today shape the world of tomorrow. Whether it's working to prevent climate change or tackle social inequality, we all have a responsibility to drive positive change.

Integrating these considerations into our investment process is a very important step; something that we at City Asset Management ('CAM') have already been doing in our traditional portfolios. We now offer another service for clients who wish to invest their money for good – the CAM Sustainable portfolios. These portfolios have a more rigorous selection process, to ensure our approach invests responsibly and delivers a positive impact to the planet and society.

Navigating markets to deliver a genuinely sustainable solution requires expertise, experience and resources – a combination that we at CAM have consistently delivered for over 30 years. Our Sustainable service allows you to focus on financial planning and building relationships with your clients, in the knowledge that their financial goals and sustainable investing needs are in safe hands.

"ESG factors are important not just when considering a sustainable mandate, but in all forms of investing. That's why ESG factors are integrated as part of our investment process for all portfolios. But there is clear demand from many investors to 'do the right thing' and make more impact with their investment choices. That's why our Sustainable service goes one step further and provides exposure to the most sustainable opportunities."

NICK COGHILL, CHIEF EXECUTIVE

What is sustainable investing?

Sustainable? Responsible? ESG? There are many different definitions of sustainable investing, ranging from funds which recognise the issues but take no action to funds which actively look to bring about positive change to these global issues.

What can we offer you?

Our starting point is reviewing ESG (environmental, social and governance) factors. ESG considerations are important for many different reasons, and not just to do good. There are actual costs to companies and governments associated with ESG risks, such as the cost of carbon, regulatory fines and energy efficiency. The need for action on climate change and the pursuit of 'Net Zero' policies are set to change the business landscape for companies around the world. Companies that adapt to this new landscape sooner rather than later will be better placed to make good returns for their investors.

But our sustainable portfolios go further. They only contain funds that are either:

- **Sustainable**
  Investing in assets that demonstrate superior management of ESG issues or actively contribute to sustainable solutions. This strategy also involves actively screening out exposure to certain sectors or companies, such as tobacco or fossil fuel extraction industries or companies that have poor ESG policies and controversy track records. It can sometimes be referred to as 'responsible' or 'sustainability themed' investing.

- **Positive Impact**
  Seeking out opportunities that deliver a positive impact towards one of the pillars of sustainable development, such as investment in renewable energies or social housing. This approach includes measuring and reporting against these impacts, so as to demonstrate the investor contribution.

No compromise

While a sustainable solution may constrain the universe of funds we can invest in, we do not believe your clients need to compromise on their investment goals in order to invest sustainably.

Within a traditional ESG integrated portfolio, there are some grey areas. For example, there is scope to invest in companies transitioning their business models, rather than companies who have already made significant progress to improve their credentials. While that is a perfectly acceptable approach for some, there is growing demand from many clients to avoid certain areas and focus on the best-in-class sustainable companies. And we believe these positive impact, sustainable mandates have an important role to play, guiding the rest of the industry and establishing 'best practice' when it comes to analysing the ESG impact of companies.

Introducing our Sustainable portfolios

Our proposition is built to deliver real returns over the investment cycle, helping your clients achieve their financial goals. Our approach to sustainable investment seeks to strike a balance between achieving strong investment returns with the minimum possible risk, while investing in funds which meet our criteria for sustainability.

Real Return Investing
Our investment approach is based on achieving real returns, and leverages our pedigree in investing to beat inflation.

Diversified Portfolio
We seek to achieve our target returns with the minimum amount of risk, and all of our Sustainable portfolios are diversified across a number of asset classes such as Equities, Bonds, Property, and Alternatives.

Minimum Sustainable Threshold
Every investment fund in our Sustainable portfolios must meet our minimum thresholds for Environmental, Social and Governance (ESG) standards.

Positive Impact
Our Sustainable portfolios aim to make investments that demonstrate specific positive impact for the environment or society. A target of at least 30% for our Bespoke service and 10% for our Managed Portfolio Service will be allocated to Positive Impact funds.*

** From time to time, as a result of potential asset allocation moves, we may be below this target.*

Our investment process

Our Sustainable portfolios are designed to meet the needs of your clients who wish to follow a sustainable investment mandate. However, our investment philosophy will not change. We remain 'real' investors, and our core portfolios look to grow meaningfully over time at a rate higher than inflation, to create wealth over the longer term. To differentiate these portfolios and invest more sustainably, we have made some additions to our investment process.

Strategic asset allocation	We take long-term capital market assumptions from a number of providers to give an indication of the expected risk and return of each asset class, as well as their correlation with each other. We then aim to find the optimal mix of assets to achieve target returns for the minimum risk and update annually.
Tactical asset allocation	Our investment committee meet monthly and review current market data and research to make short-term tactical adjustments to our long-term strategic allocations.
Fund due diligence and ESG fund rating	Our analysts screen all sectors to identify the best opportunities, including reviewing ESG factors to assign an ESG rating (see below). This creates a shortlist of fund managers for one-to-one meetings.
Portfolio construction	Our investment committee is collaborative, and all funds added to the buy list are voted for by the whole team. Individual investment managers will use their skill and experience to construct clients' portfolios from the buy list and monitor and rebalance them as and when appropriate.

ESG rating system

Each potential investment is assessed according to our proprietary ESG rating system. We look at the level of ESG analysis that is involved in a fund manager's process and how 'sustainable' they are seeking their portfolio to be. This can mean different things to different people, and there is an element of subjectivity here. So while we will use quantitative ratings (such as Sustainalytics Carbon Scores and sector exposures) as an input to our thinking, we will not be wedded to any of them.

Instead, we rely on our skilled and experienced investment research team to provide a holistic rating of an investment based on the data and underlying process of the management team.

OUR ESG RATINGS RANGE FROM 1 TO 4

1. No ESG Integration	ESG factors are not materially integrated into the investment process.
2. ESG Integration	Taking ESG factors into account for valuations and the investment process.
3. Sustainable	Actively screening out funds or companies based on ESG criteria. Also will not invest in certain sectors.
4. Positive Impact	A fund or company that has sustainable objectives as well as financial objectives, and delivers a measurable positive impact.

How does the investment process differ for our Sustainable portfolios?

While we use the rating to understand the ESG credentials of our traditional portfolios, our Sustainable portfolios will aim to invest only in investments that we believe are doing more than just integrating ESG factors into their process. The way the world is moving, ESG factors are increasingly important contributors to market returns and some form of ESG integration is becoming a bare minimum. Our Sustainable portfolios will hold funds to an even higher standard to be differentiated and 'more sustainable', meaning only investments with an ESG rating of 3 or 4 will be included.

The UN Sustainable Development Goals (SDGs)

What are the UN SDGs?

The UN Sustainable Development goals were established by the United Nations in 2015 “to provide a blueprint for a better and sustainable future for all”. They range from Eradicating Poverty to Strengthening Global Development Partnerships and are underpinned by 169 targets which provide explicit indicators of progress made.

Why are they relevant to investing?

Most fund managers will make sure companies in their portfolio do not directly contradict any of these goals; partly as they want to do the right thing, but also because a business might be financially challenged if they do. Sustainable and Positive Impact funds will go a step further and look to measure the impact of a company on the UN SDGs, only investing if it is actively contributing to a sustainable future by reference to some of the UN SDGs. Some of these goals are more investable than others, but we believe that the majority, if not all, of the UN SDGs will be represented in the portfolio.

Help your clients achieve their financial goals while building a better future for everyone

To find out more about our sustainability efforts and Sustainable portfolios, please contact our Business Development Team on **sales@city-asset.co.uk** or visit us at **www.city-asset.co.uk**.

Useful glossary

While sustainable investing is a relatively new market development, the terminology used can sometimes be confusing. For example, the terms ‘sustainable’, ‘ESG’ and ‘responsible’ investing are often used interchangeably, when there are subtle differences between each approach.

This glossary of terms is designed to help you understand how we have defined some key phrases. You can find a more complete list of terms and their definitions on our website: **www.city-asset.co.uk/sustainable-glossary**.

1.5 Degrees Target: The Paris Agreement, which came in to force in 2016, has a goal of limiting global warming to well below 2 degrees Celsius (preferably to 1.5 degrees Celsius), compared to pre-industrial levels. To achieve this long-term temperature goal, countries must aim to become carbon neutral by 2050.

Carbon Neutral: When a company’s carbon emissions are offset by carbon removals. Carbon Neutral is an easier target than ‘net zero’, as it allows companies to offset emissions rather than not produce any at all.

Corporate Responsibility: Companies have a responsibility to consider a variety of environmental, social and governance factors and also how their operations impact the community, environment and society.

ESG: ESG stands for Environmental, Social and Governance. These three factors encompass the non-financial impact of companies and can help to determine whether they make good or bad investments.

ESG Integration: The practice of incorporating ESG information into investment decisions to help enhance risk-adjusted returns.

Impact Investing: Investments which have the intention of creating a Positive Impact as well as a financial goal.

Net Zero: A state in which the greenhouse gases going into the atmosphere are balanced by those removed from the atmosphere. This is important because – for CO_2 at least – this is the state at which global warming stops. The Paris Agreement underlines the need to reach Net Zero emissions.

Positive Impact: A positive benefit for the environment, society or a community. For example, this could include the provision of social housing or development of renewable energy sources.

Positive Screening: The process of identifying companies or funds that score well on ESG criteria and including these in an investment strategy.

Real Returns: Returns that are above inflation. Inflation can seriously erode wealth over time. Real return investing allows investors to grow their portfolio at a rate higher than inflation, to create wealth rather than watch it wear away.

Sustainability: A way of meeting the needs of the present without compromising the ability of future generations to meet their needs.

Sustainable Investing: An investment strategy where ESG factors are used to compare companies or funds by identifying potential risks and opportunities beyond more traditional considerations.

Sustainalytics Carbon Scores: Ratings provided by Sustainalytics that assess a company's carbon risk. They are calculated based on an evaluation of the company's material exposure to and management of carbon issues.

UN Principles for Responsible Investing (PRI): An independent, non-profit community of over 4,000 organisations who are committed to sustainable investment. The PRI works to understand the investment implications of ESG factors and support its community in incorporating these into their investment and ownership decisions. You can find out more at **www.unpri.org**.

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