WINNERS & SPINNERS

THOUGHTFUL INVESTING REPORT 2020

CASTLEFIELD

THE THOUGHTFUL INVESTOR

CONTENTS

OUR AIM

As experts in ethical investing, we at Castlefield take it upon ourselves to expose those misrepresenting their investment products as “sustainable” or “ethical” when in reality they are doing very little to advance the responsible investment sector. As well as pointing out strategies which we feel don’t adequately meet the needs of investors who wish to have their values reflected in their portfolios, we aim to highlight those providers that do. This is the motivation for our Winners and Spinners Report.

INTRODUCTION

The Castlefield Winners and Spinners report is back! After a three-year absence, we have once more taken it upon ourselves to delve beneath the 'ethical', 'ESG' (environmental, social and governance) and 'sustainable' fund labels and claims. Our aim is to expose the fund managers whose so-called responsible investment offerings fail to deliver the values expected by investors – and to spotlight the achievements of those providers genuinely walking the ethical walk as well as talking the talk.

Green and socially responsible investing (SRI) has seen an explosion of interest in the past couple of years. Growing numbers of private investors have heard high-profile wake-up calls from the likes of Greta Thunberg and David Attenborough, as well as institutional figures such as Mark Carney; but at the same time it has become increasingly clear that there's no need to sacrifice profit for principles, as SRI funds have more than held their own against mainstream peers, particularly through the Covid-19 pandemic.[1]

That boom is evident in the surge in assets under management in SRI funds, which almost doubled between January 2019 and June 2020 to £33 billion as investors channelled their savings into ESG-focused choices, according to the 2020 Investment Association (IA) industry survey.[2] Retail sales in the first half of 2020 were an astonishing four times higher than over the same period in 2019.

Nor does this wave of engagement show any sign of declining. The CFA Institute 2020 investor trust study found that globally, while only 19% of institutional investors and 10% of retail investors currently invest in funds with an ESG focus, a much higher percentage – 76% and 69% respectively – are interested in doing so.[3]

Investors have not been the only ones keen to catch the ethical wave. The number of UK funds and ETFs with a socially responsible focus was in slow decline from 2011 to 2016, but Morningstar figures show that fund managers have launched more than 200 new ones since then - including 60 in the first 10 months of 2020.[4]

RAPID GROWTH IN SOCIALLY RESPONSIBLE FUNDS SINCE 2017

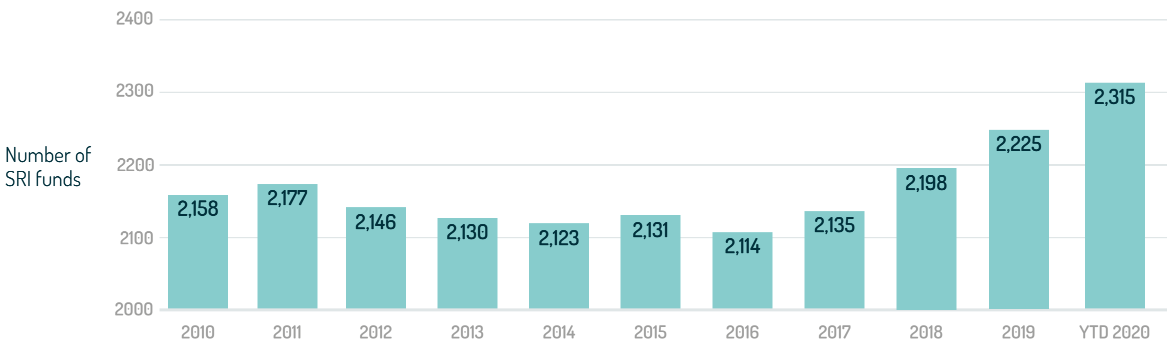


Chart shows total number of UK domiciled open-ended SRI funds and ETFs, excluding feeder and funds of funds.
(Source: Morningstar, 29/09/2020)

1. https://www.morganstanley.com/pub/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable_Reality_Analyzing_Risk_and_Returns_of_Sustainable_Funds.pdf
2. https://www.theia.org/industry-policy/research/investment-management-survey
3. https://trust.cfainstitute.org/wp-content/uploads/2020/05/CFAI_TrustReport2020_FINAL.pdf
4. Morningstar data, open ended funds and ETFs (UK domiciled), excluding feeder and funds of funds, 29 September 2020

However, such a surge in interest throws up associated problems - one being the diversity of different focuses these funds may have, and the difficulty for investors of working out which approach to SRI any particular fund is following.

The IA attempted to tackle that problem in 2019 with the launch of its Responsible Investment Framework,[5] which categorises the various components of responsible investment. But a Which? report published in August 2020[6] makes clear that for private investors, all is still far from straightforward. The report found that there's widespread uncertainty around the many 'green' labels used – for example only a fifth of investors knew what ESG stands for, and there was confusion as to what those labels actually mean.

The Which? report also highlights the issue of greenwashing – data being misrepresented or misused by fund managers to make funds look 'greener' than they really are, particularly in marketing material.

As Olivia Bowen of Castlefield comments: "The number of SRI funds available has increased dramatically over recent years. Largely we welcome this, but there are cases of greenwashing. Our industry used to be fairly sceptical about ethical investment, but thankfully nowadays it's become fully accepted as a valid investment strategy. However, due to this, there are firms that simply introduce an ethical fund to their range in order not to be left behind, but don't fully invest in their offering nor believe in it."

And that, of course, is where the Castlefield Winners and Spinners report comes in.

"One of the real positives about our Winners is the clarity and transparency of their purpose and the commitment to achieving their aims that we observe. These are the key aspects, beyond simple performance, that feature in our thinking," comments Castlefield's Simon Holman. "You might have great performance from a fund with an 'ethical' label – but we believe that if it's stretching criteria to include the companies that drive such performance, that's not what investors truly want."

5. https://www.theia.org/sites/default/files/2019-11/20191118-iaresponsibleinvestmentframeworkglossary.pdf

6. https://www.which.co.uk/news/2020/08/is-ethical-investing-just-too-difficult/

THE WINNERS

Our three Winners for 2020 are a diverse bunch, including a long-standing pillar of impact investment, a more mainstream global sustainability choice and a bond fund, and all the managers have gone the extra mile to embed their SRI values and communicate them clearly to investors.

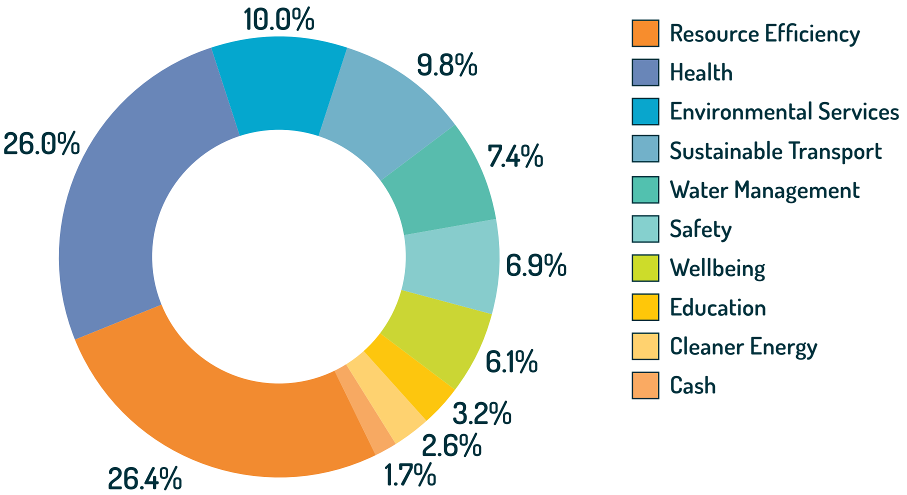
Castlefield's Simon Holman explains that in making the final cut, fund managers' transparency and commitment is key, as well as simple principles such as employing a long-term investment horizon and demonstrating meaningful commitment to company engagement. "We're not looking for funds that shine briefly and then peter out," he says. "We'd typically like to be able to identify a positive performance aspect too, but that's the icing on the cake really."

1. FP WHEB SUSTAINABILITY FUND

The WHEB Sustainability fund has an outstanding track record as a Castlefield Winner, having been named in every report since 2012 – and once again the accolade is richly deserved.

The team aims to deliver a positive impact by following nine investment themes, looking for "companies with solutions to the sustainability challenge of moving to a zero carbon economy", according to managing partner George Latham.[7] Within that universe, the team seeks out high-quality, resilient businesses with good management and a robust structure, that are set to grow market share.

WHAT'S IN THE PORTFOLIO?



(Source: WHEB, as at 31/08/2020)

7. George Latham, WHEB, 02/10/20

CERNER CORPORATION/APTIV

Among the top 10 holdings, a health-focused example is UK business Cerner Corporation, which sells healthcare technology such as electronic records management and population health management software. Cerner's products are used in individual doctors' practices and entire health systems. In the sustainable transport arena, meanwhile, vehicle components manufacturer Aptiv supplies the automotive industry with safety technologies and also produces electrical systems for hybrid and electric vehicles.[8]

As an impact investor, WHEB expects active involvement with the companies it invests in. "If we find a good-quality company but identify areas where it could be better still – in regard to governance or transparency, for example – we'll see that as a target for engagement and improvement," explains Latham.[9]

TPI COMPOSITES

There are various examples of engagement on the WHEB website, but one recent one involves TPI Composites, a young business which had never published data on the environmental or health and safety issues associated with its operations. WHEB encouraged the company to produce a sustainability report when it invested in 2017, and over the next three years TPI built up its published data and recruited additional staff to do the job. With input from WHEB, its first sustainability report was published in March 2020.[10]

Importantly, the investment team continues to raise the bar in terms of its commitment to transparency for investors. Castlefield was particularly impressed by the fact that it publishes the minutes of all its investment advisory committee meetings, at which the fund's independent advisory panel assesses and challenges the team's investment decisions. Sharing the minutes gives investors in the fund real insight into the team's justifications for stock selections and how they fit its positive impact mandate.

> "As an impact investor committed to providing investors with measurable real improvements for the planet, WHEB has built an online impact calculator."

In addition, as an impact investor committed to providing investors with measurable real improvements for the planet, WHEB has built an online 'impact calculator'[11] where investors can see the difference their holding has made over a specific period.

For instance, WHEB's calculator indicates that a £10,000 investment in the fund for two years to December 2019 would have generated 26 MWh of renewable energy, treated 210,000 litres of waste water and recycled four tonnes of waste material (among other things). "Impact investing enables savers to think about their money in a different way, in terms of actual outcomes for good," says Latham.

More generally, with only one fund and a single strategy, WHEB has made a point of embedding its ethos of positive impact throughout its entire business, becoming a Certified B Corporation (to become a Certified B Corporation the entity is assessed for every aspect of its social and environmental impact, from supply chain to charitable giving and employee benefits). A prime example of a fund manager that really walks the SRI walk.

See Appendix A for Ten Largest Holdings and Performance Data, p.14

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8. https://www.whebgroup.com/media/2020/10/20201001-WHEB-Factsheet.pdf
9. George Latham, WHEB, 02/10/20
10. https://impact.whebgroup.com/impact-casae-study/tpi-composites/
11. https://impact.whebgroup.com/impact-calculator/

2. ROYAL LONDON ETHICAL BOND

Although ethical bond funds have featured in previous years, Royal London's offering is a newcomer to the Winners list for 2020. It has made the cut on the back of consistent long-term performance – over 10 years it is more than 40% ahead of its sector average, as the chart on page 6 shows – allied to a set of ethical criteria that Castlefield views as being very much in tune with the concerns of investors. As Simon Holman of Castlefield explains: "It's a very good example of a negatively screened fund where key industries are avoided."

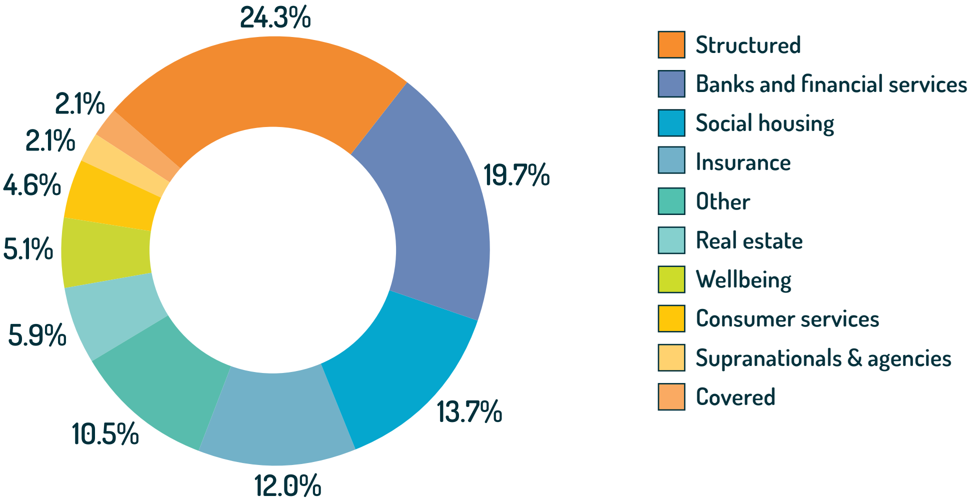
Royal London's Sustainable Investment team have a bottom-up approach to investing, extensively researching the credentials of each and every potential new investment. They do not rely on external ESG research. They equally weight the governance, ESG leadership or positive net benefit case with our financial analysis and draw heavily on the expertise of the fund managers and analysts who run the Sustainable Funds, the Responsible Investment team and their external Advisory Committee. Everyone has input and an equal voice in the approval process. The Advisory Committee meets at least three times annually and provides expert external insight and challenge on the companies they screen, emerging ESG topics, considerations for the funds, and performance.[12]

> "It's a very good example of a negatively screened fund where key industries are avoided."

Manager Eric Holt screens out those companies with significant involvement in any of eight key areas: alcohol, armaments, gambling, tobacco, pornography, environment (companies which have a high environmental impact and which have 'no evidence' of appropriate environmental management systems), human rights (companies with a strategic presence operating in countries of concern, and with 'no evidence' of policies or systems to manage human rights risks), and animal testing (companies that test cosmetics or other products (excluding medicines) on animals, or that provide animal testing services or test specific ingredients used in excluded products).[13]

It's important to note that the screening process does not necessarily totally preclude investment in major sectors such as fossil fuels. Instead it takes into account both the severity of a business's environmental impact and the extent to which it has appropriate measures in place to manage that impact. The investment team also assesses whether the bond in question provides appropriate compensation for the ESG risk involved.

WHAT'S IN THE PORTFOLIO?



(Source: Royal London Asset Management as at 31/08/2020)

12. https://www.royallondon.com/globalassets/docs/shared/investment/69348-stewardship-and-ri-report-2020.pdf
13. http://www.rlam.co.uk/Home/Institutional-Investor/our-capabilities/Fixed-Income/OEICs/Ethical-Bond-Fund/

SOCIAL HOUSING

In addition, the fund seeks out investments with potential to make a positive contribution to society, provided those companies pass the primary screening process. The fund's existing social housing holdings, for example, reflect Royal London's long heritage of investing in the social housing sector. One recent purchase is a bond issued by Chelmer Housing, a locally managed and governed charitable housing association, based in Chelmsford, Essex, which provides high-quality affordable homes, helping the less well-off get a toehold on the housing ladder.[14]

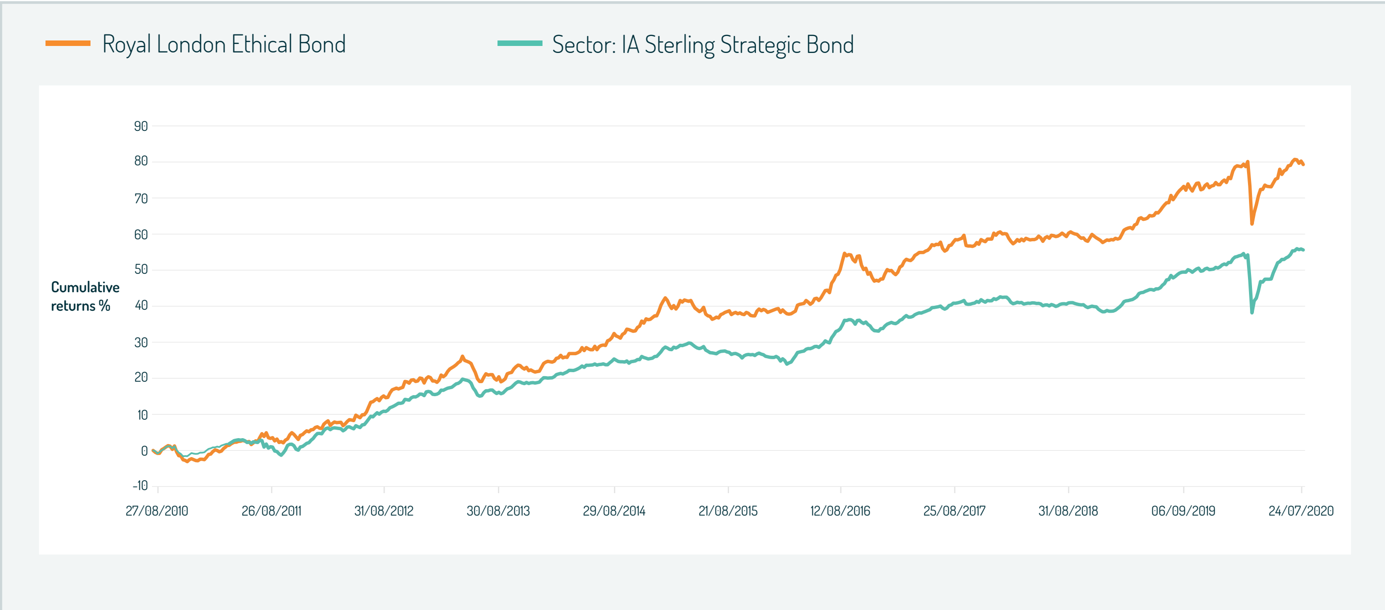
"The top 10 social housing organisations that Royal London currently lends to, ranked by the value of the bonds we hold, currently provide nearly 300,000 general needs social housing properties across the UK," Holt adds.

There's also an element of engagement involved. "Climate risk exists as one of our six priorities for corporate engagement, and so we do seek to communicate with companies on areas such as their preparedness for the transition away from fossil fuel," explains Holt.[15]

But Royal London makes clear that the Ethical Bond fund's approach is primarily based on negative screening; there are other Royal London funds that aim to support the transition towards a more sustainable world by backing businesses making positive contributions to the environment and society.

See Appendix B for Ten Largest Holdings, p.15

STEADILY AHEAD OF ITS SECTOR OVER 10 YEARS



(Source: FE Analytics; data shows cumulative returns over 10 years to 31/08/2020)

Past performance is not a guide to future performance. The value of an investment can fall as well as rise and returns are not guaranteed. With investment your capital is at risk.

14. http://www.rlam.co.uk/Documents-RLAM/Fund%20Manager%20Commentary/Monthly%20Fund%20Commentary/Fixed%20Interest/Royal%20London%20Fixed%20Income%20Commentary.pdf

15. https://adviser.royallondon.com/globalassets/docs/shared/infographics/rl0203-secretlifeofpensions-social-housing-uk-infographic.pdf

3. STEWART WORLDWIDE SUSTAINABILITY FUND

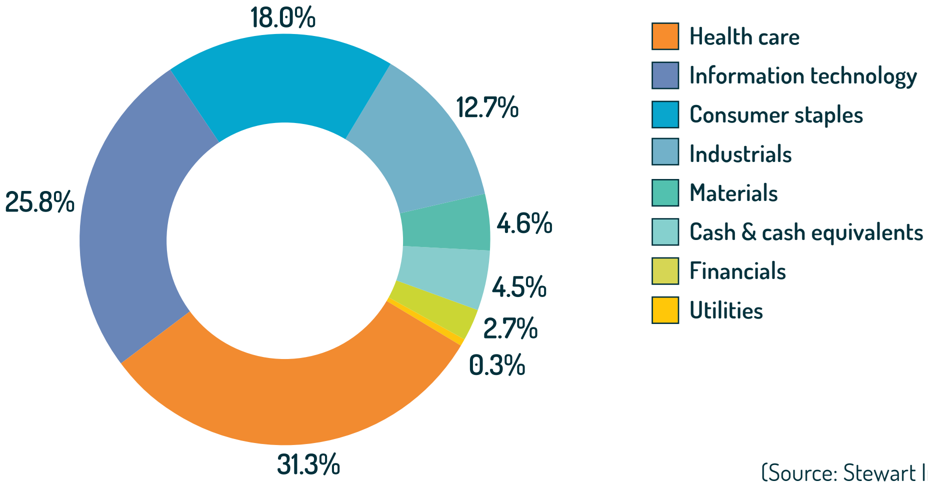
“Stewart Investors’ approach is to me the epitome of what Sustainability is about: the members of the team sign the investment equivalent of the Hippocratic Oath taken by doctors, promising to uphold ethical standards,” says Simon Holman.

> "We aim to build portfolios of companies that both contribute to and benefit from sustainable development"

The focus of the sustainability funds is specifically on positive sustainable development, as opposed to ‘green’, ‘clean tech’ or ‘ethical’ investing. There is therefore no traditional ethical screening process, although certain sectors, including tobacco and defence, are excluded. Instead, as analyst Lorna Logan puts it: “We aim to build portfolios of companies that both contribute to and benefit from sustainable development and as such, we actively seek out companies that are making a positive impact on the world.”[16]

See Appendix C for Ten Largest Holdings, p.15

WHAT'S IN THE PORTFOLIO?



(Source: Stewart Investors, as at 31/08/2020)

The Worldwide Sustainability team aims to identify quality companies in both developed and emerging markets, but also to avoid downside risk – which, as Holman points out, “is too often wilfully ignored by many fund houses”. It takes the view that products or services actually needed by society will, over the longer term, provide less volatile returns. The fund’s long-term returns (see graph overleaf) demonstrate the validity of this approach (the same team also runs the Asia-Pacific and GEM Sustainability funds, which have longer track records).

UNILEVER

Stocks being considered for the portfolio are put through a ‘sustainability lens’, which assesses whether a company has a positive or negative impact on society. For instance, the portfolio’s largest holding, Unilever, is a global leader in sustainability practices, one example being its drive to reduce food waste in its operations. Waste was almost halved between 2016 and 2019, from 363g to 193g per tonne of food produced.[17]

16. Lorna Logan, Stewart Investors, 30/09/2020

17. https://sfg.stewartinvestors.com/project-drawdown-insights

However, Logan stresses that no company is perfect, and very often in practice there are difficult grey areas. "A crucial role for our analysts is therefore to assess both the operational impacts of the company itself and the wider impacts on society via the use of its products and services,"[18] she says.

This process is a multifaceted one, involving wide reading, the use of third party data on specific topics such as carbon foot printing, and meetings with management teams in which a range of topics is discussed, such as how sustainability is built into their culture and how they manage operational impacts.

One valuable move towards greater transparency for investors in this respect is the new interactive map available on the Sustainable Funds microsite,[19] which outlines all the fund's holdings, a brief summary of the investment rationale, how each company contributes to the sustainable development goals, and also some potential areas of concern to be flagged for engagement.

And engagement is certainly taken very seriously, with a focus on issues such as responsible business practices and environmental considerations. "Holding companies to account is a key part of what we look for in Winner funds, and the Stewart team can demonstrate a multi-year approach in this regard, " says Holman.

VITASOY

One example of productive engagement is with Hong Kong-based Vitasoy, which produces plant-based food products. "We have been engaging with Vitasoy for several years now, across two key topics: the level of sugar in its products and the recyclability of its packaging," says Logan. The company has made positive strides in both respects, and continues to improve year on year - for instance, all packaging is now FSC certified, up from 52% in 2016.[20]

Logan adds that there are many other examples where engagement has contributed to positive change. "It is often difficult to say that our voice was the deciding factor in the decision to change, as we are often just one voice among many; however, it shows how important shareholder engagement can be."[21]

FUND RESILIENT IN COVID-INDUCED MARKET FALLS

(Source: FE Analytics; data shows cumulative returns over 10 years to 31/08/2020)

Past performance is not a guide to future performance. The value of an investment can fall as well as rise and returns are not guaranteed. With investment your capital is at risk.

18. Lorna Logan, Stewart Investors, 30/09/2020
19. https://sfg.stewartinvestors.com/interactive-map
20. Lorna Logan, Stewart Investors, 30/09/2020
21. Lorna Logan, Stewart Investors, 30/09/2020

THE SPINNERS

Identification of Spinners involves a sharp eye for greenwash in marketing material, or for funds whose make-up means they're ethical in name only. "We're looking for funds using the ethical or ESG label as a marketing tool, rather than actually implementing criteria that matter. In essence, we're asking which funds risk giving this part of the industry a bad name," explains Castlefield's Simon Holman.

Spinners may be long-established funds or new launches, active or passive: for instance, the Vanguard SRI European Stock index fund was named as a Spinner in 2017, in part because of its holdings in tobacco. Happily, Vanguard has revisited its strategy to exclude tobacco stocks from its SRI portfolios, which Castlefield applauds as an important step in narrowing the gap between the labelling of these funds and their investment process.

One of the 2020 Spinners is a ground-breaking initiative from Legal & General that seems to have tripped itself up in terms of governance; another is a UK-focused fund from a major fund house, with portfolio holdings that sit uneasily with its SRI labelling; the third is a light-touch passive offering, again with some surprising constituents.

1. THE FUTURE WORLD GIRL FUND

The full name of this fund, launched in September 2018, is the Legal & General Future World Gender in Leadership UK Index fund, and it invests in companies based on how they are performing against four measures of gender diversity. [22]

Castlefield are diversity champions and understand the positive impact it can have, so there was a ripple of intrigue when the index-tracking L&G newcomer was announced. The marketing material talks in great detail of the business benefits of diverse teams,[23] which is a sentiment Castlefield agrees with and is backed up by academic evidence.[24]

However, a closer look at the index followed by the fund – the Solactive L&G Gender in Leadership UK Index – reveals that it has been outsourced to a company with an all-male management team.[25]

> "There is no consideration of the environmental or social aspect of the companies in which it invests."

"The dichotomy between L&G's claim to prize diversity highly and the fact that it doesn't actually use this as a criteria for selection of its index provider means that unfortunately the marketing material seems rather hollow," comments Simon Holman.

In addition, as the presence of Royal Dutch Shell, BP and British American Tobacco in the top 10 holdings makes clear, there is no consideration of the environmental or social aspect of the companies in which it invests. "Although we note that this is not a declared remit for the fund, it's worth noting that we could not consider it to be an ethical fund," he adds.

22. https://www.legalandgeneral.com/investments/investment-content/girl-fund/

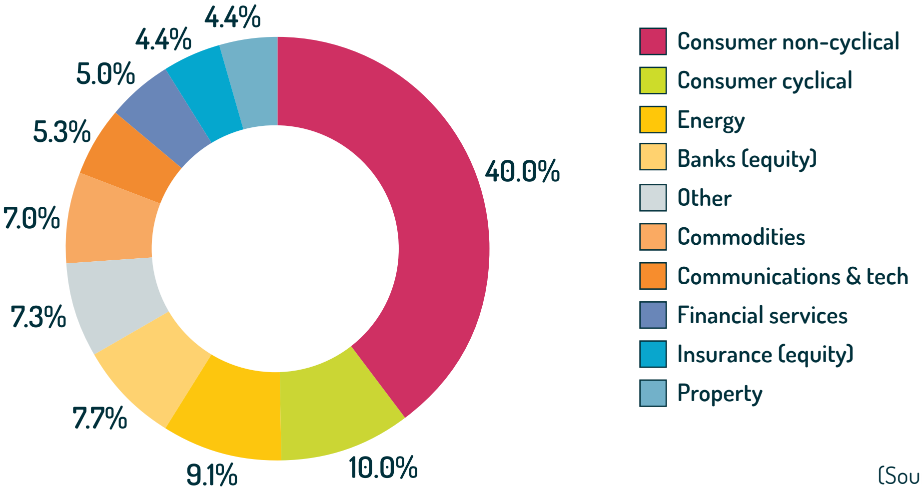
23. https://www.legalandgeneral.com/investments/investment-content/girl-fund/

24. A study performed by Professor Ser-Huang Poon of the Alliance Manchester Business School and Dr Ming-Tsung Lin of De Montfort University looked into the performance of passive investment products. The market-traded equity portfolios were skewed to favour one gender vs another by tracking an index dominated by businesses with strong male or female leadership. Their findings showed that neither portfolio delivered significant out-performance. However, the male-dominated index displayed greater volatility and, when modelled against conditions during the financial crisis, performed worse. In addition, the research indicated that gender-diverse senior management teams are connected to reduced levels of controversy, and to better corporate social responsibility outcomes as a consequence.

25. https://www.solactive.com/about-us/

When the criticism was put to L&G, Castlefield received the following response: "LGIM has long been a champion of diversity and inclusion and we take the issue of gender equality and the importance of diversity very seriously, in our own organisation and in those we engage with, as well as in those we invest in. The fund is currently undergoing a review, and once we have a clear outcome in that respect, this will of course provide us with room to address that feedback and ensure that it is incorporated and that the marketing material aligns with the fund's objectives."

WHAT'S IN THE PORTFOLIO?



(Source: L&G, as at 31/08/2020)

TOP 10 HOLDINGS

NAME	%
ASTRAZENECA PLC	8.2
GLAXOSMITHKLINE PLC	5.8
DIAGEO PLC	5.5
ROYAL DUTCH SHELL PLC	5.2
UNILEVER PLC	4.3
HSBC HOLDINGS PLC	3.9
BP PLC	3.3
RELX PLC	2.7
RECKITT BENCKISER GROUP PLC	2.7
BHP GROUP PLC	2.5

(Source: L&G, as at 31/08/2020)

EARLY DAYS, BUT GENDER FOCUS LAGGING SO FAR

	1m	3m	6m	1yr
L&G Future World Gender in Leadership UK Index I Acc in GB	0.89	-2.78	-8.78	-15.72
Sector : IA UK All Companies TR in GB	3.12	1.36	-6.12	-8.79

(Source: L&G; cumulative performance to 31/08/2020)

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2. SCHRODER RESPONSIBLE VALUE UK EQUITY FUND

"The inclusion of this fund as a Spinner shines a light on the complexities of assessing ESG funds, and on the diversity of funds that exists in the field," says Castlefield's Olivia Bowen.

Schroder Responsible Value UK Equity is run by the Schroder Value team, so it focuses specifically on cheap 'value' stocks (unlike many SRI peers, which tend to favour growth and technology stocks). Unlike the other value funds run by Schroders, it has a third-party negative screening process in place, which restricts investment in companies involved in military products and services, non-military firearms, pornography, tobacco, gambling, alcoholic drinks, high interest rate lending and human embryonic cloning. However, there is almost no screening on the basis of climate change or environmental considerations.[26]

For those companies that make it through the negative screen, manager Nick Kirrage also assesses how ESG factors affect the balance of risk and reward, looking at the way businesses treat their stakeholders and conduct their own affairs to help him determine the sustainability of margins in each case, although again these assessments seem to focus more on social than environmental factors.

> "The fund holds significant positions in the likes of oil giant BP and miner BHP - unlikely candidates for an ethically or socially responsible fund."

Kirrage makes the point that the team follows "clear rules", and that no moral judgement about the sustainability or suitability of a prospective holding is involved. The upshot is that although the fund sticks rigorously to its selection process, it is permitted on that basis to hold significant positions in the likes of oil giant BP and miner BHP, as well as banks including Barclays, HSBC and Standard Chartered – all unlikely candidates for an ethical or socially responsible fund.

TOP 10 HOLDINGS

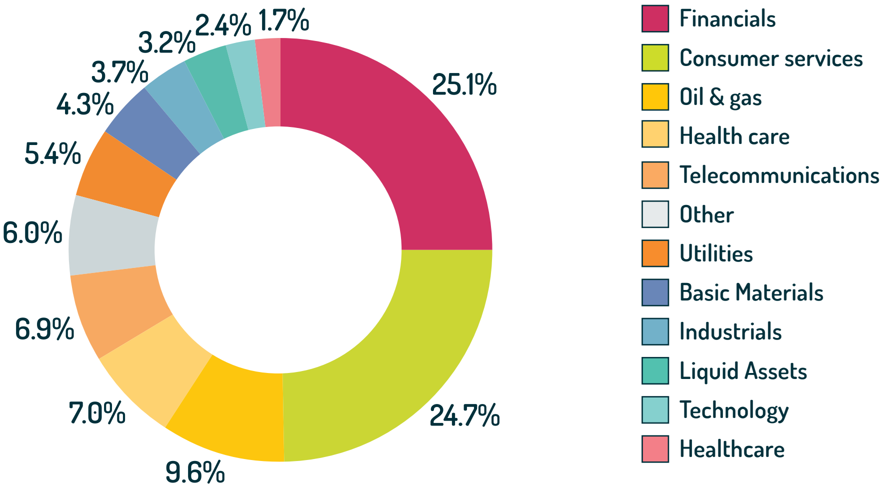
NAME	%
AVIVA	4.70
GLAXOSMITHKLINE	4.50
TESCO	4.50
BP	4.30
BHP GROUP PLC	4.30
PEARSON	4.10
MORRISON(WM.)SUPERMARKETS	4.10
STANDARD CHARTERED	4.00
BARCLAYS PLC	3.80
NATWEST GROUP PLC	3.80

(Source: Schroders, as at 30/09/2020)

The team's argument is that as value investors in an ESG space, they are dealing largely with long-established businesses that have fallen from grace, rather than clean new tech-oriented ones. They say investment enables them to help change such companies, and through them the wider industries, for the better – both through positive engagement and by keeping them out of the hands of private equity investors who would be much less concerned about ESG issues.[27]

26. https://www.schroders.com/getfunddocument/?oid=1.9.47464
27. Nick Kirrage, Schroders, 07/10/20

WHAT'S IN THE PORTFOLIO?



(Source: Schroders, as at 30/09/2020)

Kirrage gives the example of BP, which plans to cut its oil production by 40% over the next five years and is focusing its attentions instead in renewable energy sources such as solar cells, as a "bellwether" for the industry and a "force for good", as other oil producers have followed suit.

"The fund's managers actively engage company management and are principled in how they vote in order to protect and grow clients' capital. They engage with businesses on corporate governance, appropriate environmental and employment practices, fair treatment of customers and suppliers, conscientiousness with regard to human rights and sensitivity towards the communities in which they operate. If they believe a company is not acting in the best interests of long-term shareholders, they do all they can as investors to drive positive change," he adds.

So this fund might arguably suit investors who want to hold the shares of polluters and banks in order to see an element of positive engagement and pressure on them to reform. But at present there is little detail available on Schroder's website as to what form such engagement is taking, or what has been achieved.

The manager does acknowledge that "the world has moved on over the past three or four years", and that ethical investors do not expect to see BHP in their portfolios, no matter how rigorously the screening process is enforced. It will be interesting to see whether the team takes steps to beef up the fund's ESG criteria in response.

But the bottom line is that there is no shortage of well-established SRI funds that have never held controversial stocks; Castlefield takes the view that in this particular arena Schroder Responsible Value UK Equity is somewhat behind the curve, driven more by concerns around identifying value stocks than by its ESG remit.

VALUE FOCUS IS PROVING CHALLENGING

	1m	3m	6m	1yr	3yr	5yr	10yr
FTSE All-Share ex Ethically-screened stocks (custom) TR	-1.7	-2.9	-19.9	-16.6	-9.3	18.6	63.9
Schroder Responsible Value UK Equity X in GB	-4.4	-7.7	-30	-26.4	-19.9	9.0	66.8

(Source: Schroders, as at 30/09/2020)

3. INVESCO S&P 500 ESG UCITS ETF

Although there are far fewer offerings in this arena, the number of passive funds and exchange-traded funds (ETFs) boasting an SRI focus has risen by 37% over the last 10 years, with 20 new launches between January 2019 and the end of September 2020 alone.[28]

This Invesco offering was launched in March 2020. It tracks the S&P 500 ESG index, which has been designed, according to the fund factsheet, "to provide a risk and return profile similar to that of the parent (S&P 500) index, while improving ESG characteristics".[29]

> "The fund's portfolio reveals some constituents that many ESG-focused investors would be surprised to find there."

To that end, the S&P 500 ESG index screens out companies involved in tobacco, thermal coal and controversial weapons; those that have a low score against the UN Global Compact principles;[30] and those that score in the bottom 25% in ESG terms[31] against their industry group.

However, closer inspection of the fund's portfolio reveals some constituents that many ESG-focused investors would be surprised to find there.

Most notably, the third largest holding at 14/10/2020, accounting for more than 5% of the fund, is US oil and gas behemoth Exxon Mobil Corp. Other arguably controversial holdings for an ESG fund include Las Vegas Sands (gambling), SSR Mining (mining), Cimarex Energy (shale oil and gas drilling), Suncore Energy (oil sands drilling), Schlumberger (oilfield services) and Curtiss-Wright (military, nuclear power and aerospace equipment). Between them they comprise a further 6% of the fund as at 14/10/20.

TOP 10 HOLDINGS

NAME	%
PINDUODUO INC-ADR	9.20
SOLAREDGE TECHNOLOGIES INC	9.13
UNION PACIFIC CORP	5.44
EXXON MOBIL CORP	5.39
AMERICAN WATER WORKS CO INC	4.26
MEDPACE HOLDING INC	3.53
CODEXIS INC	3.44
THERMO FISHER SCIENTIFIC INC	2.86
RESTAURANT BRANDS INTERN	2.29
RITCHI BROS AUCTIONEERS	2.27

(Source: Invesco, as at 14/10/2020)

28. Morningstar data, open-ended funds and ETFs with ethical/green focus to 29 September 2020
29. https://etf.invesco.com/gb/private/en/product/invesco-sp-500-esg-ucits-etf-acc/trading-information
30. https://www.unglobalcompact.org/what-is-gc/mission/principles
31. S&P Dow Jones Index ESG Score https://www.spglobal.com/spdji/en/landing/investment-themes/esg-scores/

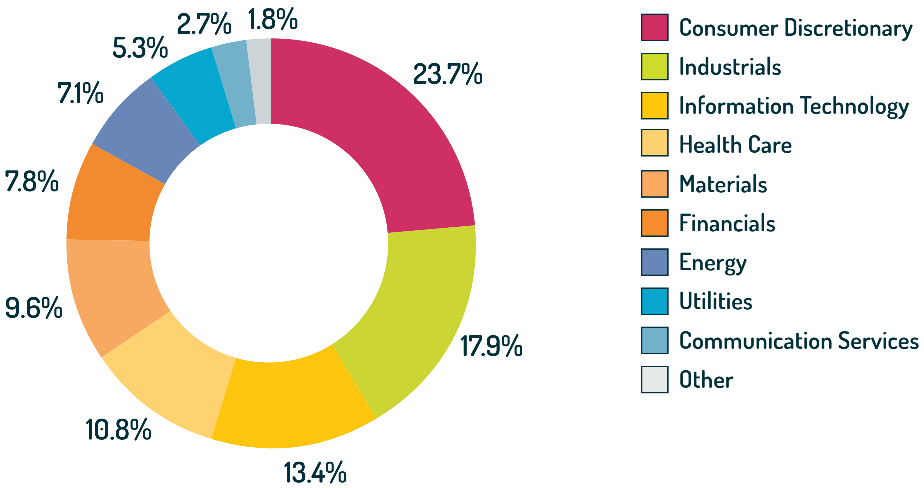
Gary Buxton, Head of EMEA ETFs at Invesco, said at the fund's launch: "The more we speak with different investors about ESG, the more we appreciate the extent to which their objectives may vary. As ESG becomes more mainstream, we believe that finding appropriate solutions is going to be increasingly relevant, for example for trustees and other investors who have a fiduciary responsibility for delivering performance."[32]

Although Invesco makes no claims for the fund's ESG credentials beyond the fact that it has a better profile than the S&P500 – and indeed indicates that it is designed primarily with investment professionals in mind – there is a risk that unwary private investors might see the fund's ESG label and assume a much more robust approach to screening out questionable businesses.

Olivia Bowen points out that ETFs and tracker funds can provide a low-cost solution for investors who are content with a 'cleaned-up' version of a major index.

But, she warns: "As this example illustrates, it is important to look under the bonnet at the constituents: labels such as ESG in a passive fund's name can cover a multitude of sins."

WHAT'S IN THE PORTFOLIO?



(Source: Invesco, as at 05/10/2020)

CUMULATIVE PERFORMANCE

As this fund was only launched in March 2020 comparative performance data is not available.

32. https://etf.invesco.com/sites/default/files/Invesco%20S%26P%20500%20ESG%20UCITS%20ETF%20Launch%20Press%20Release.pdf

NEXT STEPS

This round-up of Winners and Spinners is of course not exhaustive. There are many other funds that have successfully embraced a socially responsible focus, and similarly others that talk up their green credentials but fail to live up to them.

The hope, however, is that by highlighting a range of examples in both camps, we have provided some pointers and factors to consider when you assess other funds.

First, as the report shows, ESG and SRI funds can take many different forms, so it's useful to have a clear idea of what you're looking for from an investment. For example, do you want simply to avoid 'baddies'? Are you keen for your fund manager to engage actively with underlying companies? Is your focus on a specific issue such as climate change? Your preference will narrow the choice of potentially suitable funds.

Secondly, transparency is key. You should be able to see the full portfolio of any fund with an SRI focus, and ideally the rationale for each holding. But some go much further down this road, WHEB being a good example.

In addition, check the fund's approach in regard to active engagement with companies to try and improve their behaviour. Shareholder pressure from professional investors can be a powerful driver for corporate change. But it's important to know that the fund manager has a disciplined approach and will sell a holding if there's no sign of improvement.

It's also worth looking at the ESG track record of the underlying fund management business. Some, including Royal London and Stewart Investors but also firms such as Liontrust and EdenTree, have a well-established ethical or sustainability mandate percolating through the way the whole business is run. Others have more recently climbed on that bandwagon, and the risk may be greater that the green reality falls well short of the marketing hype.

Investing for good is a complex business, because you're trying to assess not just a fund's performance but also its ESG track record and commitment. The bottom line is that research is crucial if you want to be confident that you've put your money into enterprises that will help make the world a better place.

You may be happy making your own selection, in which case hopefully this report has helped to highlight some of the good practice and misleading behaviour in the market. But if you'd like some help from the specialist team at Castlefield, take a look at our website, sign up here for regular updates or give us a call.

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APPENDICES

APPENDIX A: FP WHEB SUSTAINABILITY FUND

TOP TEN HOLDINGS (AS AT 31/09/2020)

STOCK	THEME	DESCRIPTION	%
Royal DSM	Environmental Services	DSM is a science based company that is active in the fields of health, nutrition and materials. The company provides innovative solutions to improve the efficiency of global food supply chains and help minimise environmental impacts.	2.90%
Intertek Group	Safety	Offers quality, safety, performance and regulatory testing services to renewable energy companies in over 100 countries and is developing greenhouse gas, environmental and health and safety consulting businesses.	2.82%
Daifuku	Resource Efficiency	Daifuku makes material handling systems such as storage systems, conveyors and automatic sorters. These products help to reduce energy and resource use in manufacturing and enable warehouse automation.	2.81%
Cerner	Health	Cerner Corporation provide solutions for health and care globally. Their services are used across the healthcare spectrum enabling doctors to hospitals to be more efficient in their delivery of healthcare solutions.	2.79%
Ecolab	Water Management	A global provider of hygiene products to restaurants, hotels and hospitals eg detergent. The products need much less water to be effective.	2.77%
Ansys	Resource Efficiency	Sells simulation software for product design and optimisation. The software improves quality and safety in products like fuel efficient cars and planes, wind turbines, medical technology and consumer goods.	2.77%
MSA Safety	Safety	Global provider of safety products including self-contained respirators, gas masks and detectors, helmets and thermal imaging cameras. Markets include fire fighting, industrial, construction and the consumer sector.	2.77%
Keyence	Resource Efficiency	Keyence manufactures sensors and measuring instruments for factory automation. These components help achieve efficiency, energy savings, reduced wastage and quality management.	2.76%
Steris	Health	Steris provides sterilisation and anti microbial treatment services to hospitals, medical device manufacturers, pharmaceutical and biotechnology businesses as well as for food safety and industrial markets.	2.76%
Thermo Fisher	Health	A leading provider of analytical instruments, equipment, software and services for research and diagnostics in healthcare industries.	2.74%

CUMULATIVE PERFORMANCE (TO 31/08/2020)

	1m	3m	6m	1yr	3yr	5yr	10yr
FB WHEB Sustainability C Acc in GB	2.04	4.24	15.32	11.12	24.90	80.95	138.75
Sector: IA Global TR in GB	3.67	6.21	11.32	6.72	24.33	75.94	166.15

(Source: WHEB, as at 30/09/2020)

Past performance is not a guide to future performance. The value of an investment can fall as well as rise and returns are not guaranteed. With investment your capital is at risk.

APPENDIX B: ROYAL LONDON ETHICAL BOND

TOP 10 HOLDINGS

NAME	%
THAMES WATER UTILITIES CAYMAN FIN 7.738% BDS 09/04/58 GBP100000	1.0
UK MUNICIPAL BONDS AGENCY FINANCE FRN 12/03/2025	0.9
ELECTRICITE DE FRANCE 6% 23/01/2114	0.9
AVIVA 6.875%/ FRN 20/05/58 GBP50000	0.9
PRUDENTIAL PLC 6.125% SUB NTS 19/12/31 GBP(VAR)	0.9
PREMIERTEL CLS`B`6.175% BDS 8/5/32 GBP1000	0.8
NBHA 3.625% 11/22/28	0.8
GLAXOSMITHKLINE CAPITAL 1.25% NTS 12/10/28 GBP100000	0.8
DERBY HEALTHCARE 5.564% NTS 30/6/41 GBP1000	0.7
MGNLN 6 1/4 10/20/68	0.7
Total	8.4
No of Holdings	**410**

(Source: Royal London Asset Management, as at 31/08/2020)

APPENDIX C: STEWART WORLDWIDE SUSTAINABILITY FUND

TEN LARGEST HOLDINGS

STOCK NAME	%	STOCK NAME	%
UNILEVER PLC	4.4	COLOPLAST A/S CLASS B	3.1
DIASORIN SPA	4.3	VITASOY INTERNATIONAL HOLDINGS	2.8
VARIAN MEDICAL SYSTEMS, INC.	3.9	HALMA PLC	2.7
AIN HOLDINGS	3.6	CSL	2.7
HOYA CORP.	3.6	UNICHARM CORPORATION	2.7

(Source: Stewart WorldWide Sustainability, as at 31/08/2020)

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