

# LIONTRUST MONTHLY INCOME BOND FUND

Fund sustainability and impact report: Q2, 2021





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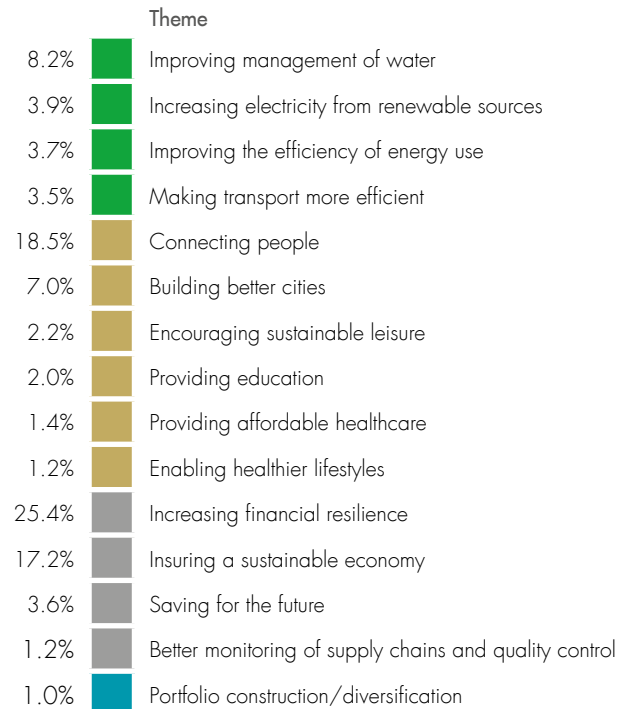
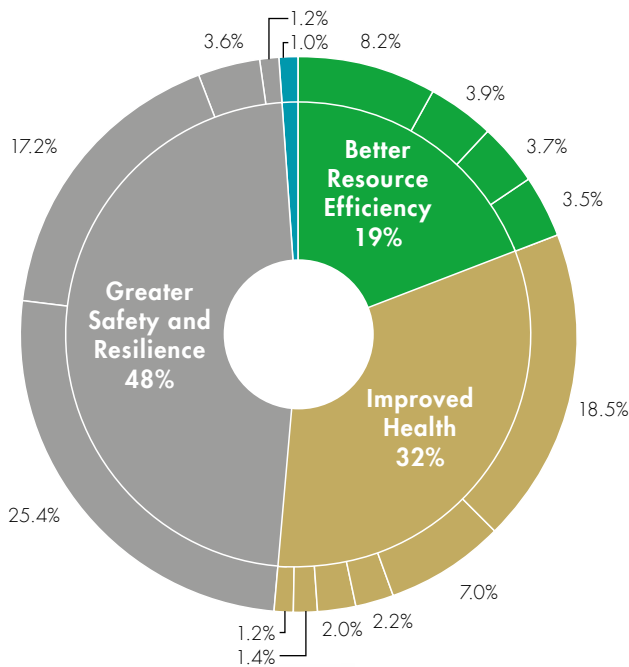
# Exposure to positive sustainability investment trends

Consistent with the available opportunities in investment grade corporate bonds and our approach that seeks to invest in resilient companies, our fixed income funds typically have a high allocation to the Greater safety and resilience mega trend.

Within this trend, the two sub themes with the greatest exposure are *Increasing financial resilience* and *Insuring a sustainable economy*. The fund's exposure to Banks and Insurance generally sits within these themes and is a significant component. Typically, the exposure within the *Increasing financial resilience* theme is to banks that are well

capitalised and have a focus on retail and SME lending coupled with resilient and prudent lending practices. We believe that high quality lending and banking activities is important to a resilient economy. Typically, the exposure within the *Insuring a sustainable economy* theme is to insurance companies. Insurance facilitates economic growth by giving people the confidence to invest in themselves, their lives or their businesses. The leading insurance companies expend time and resources researching issues such as climate change in order to make them more efficient when it comes to pricing risk. Through this research they become better underwriters with a greater ability to advise their clients on potential risks, while also fully integrating their analysis in order to make better investments. We believe that these leading companies again create more resilient, sustainable economies.

## Exposure to sustainable themes



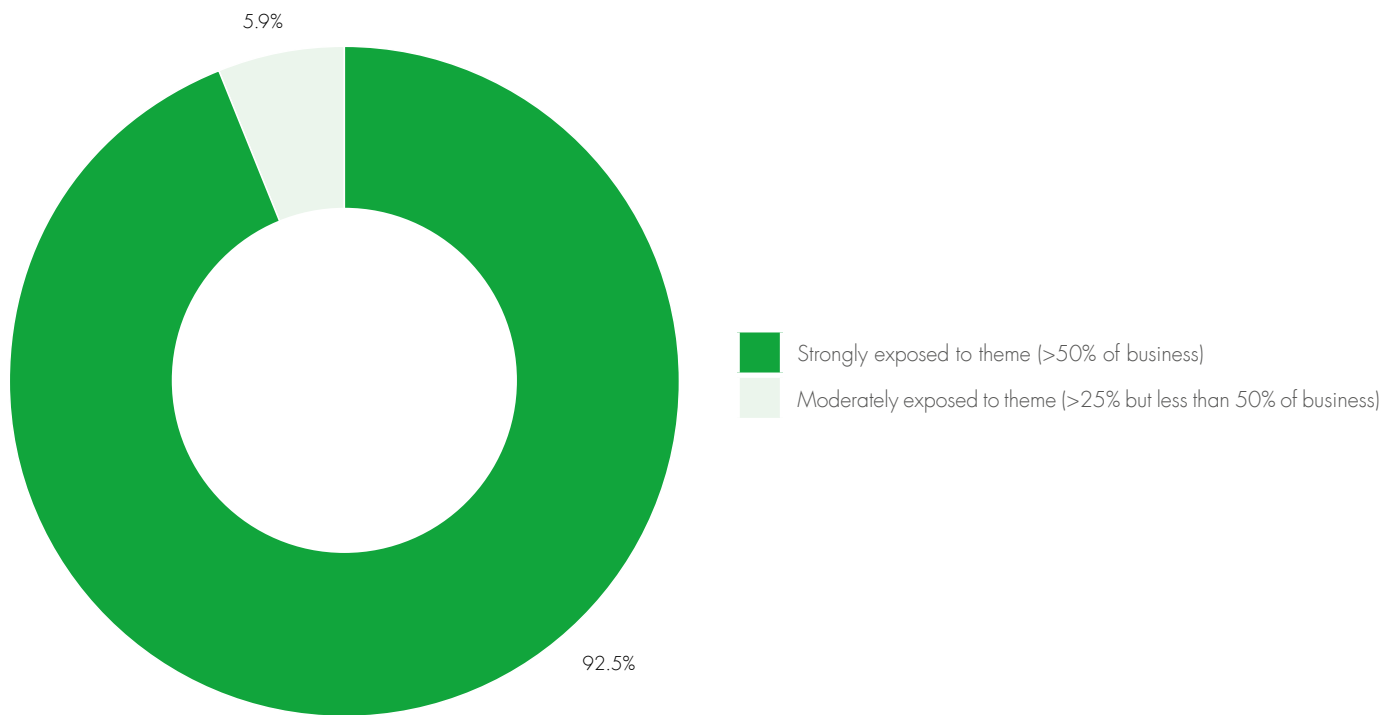
Data as at 30 June 2021. Chart is thematic exposure to corporate bonds only, Government bonds and cash excluded

# Exposure to positive sustainability investment trends

## Sustainable investment themes: how much of business is exposed

This analysis shows what proportion of companies held in the fund is exposed to the Sustainable investment themes: 92.5% of the fund is invested in companies that are strongly exposed to our themes (which

means more than 50% of the business's revenues); a further 5.9% of the fund is invested in companies that are moderately exposed to our themes, which means between 25% and 50% of revenues.



Source: Liontrust / Facstet as at 30 June 2021. Data is representative of corporate bonds only and excludes government bonds and cash

# Alignment with UN Sustainable Development Goals

All of the Sustainable investment themes are linked to SDGs and the underlying Key Performance Indicator they relate to have been identified in the SDG text.

A more detailed discussion on impact and how the Sustainable investment themes are aligned with the SDGs is available in the SF Annual Review 2020 on pages 27-33: [www.liontrust.co.uk/sustainable](http://www.liontrust.co.uk/sustainable)

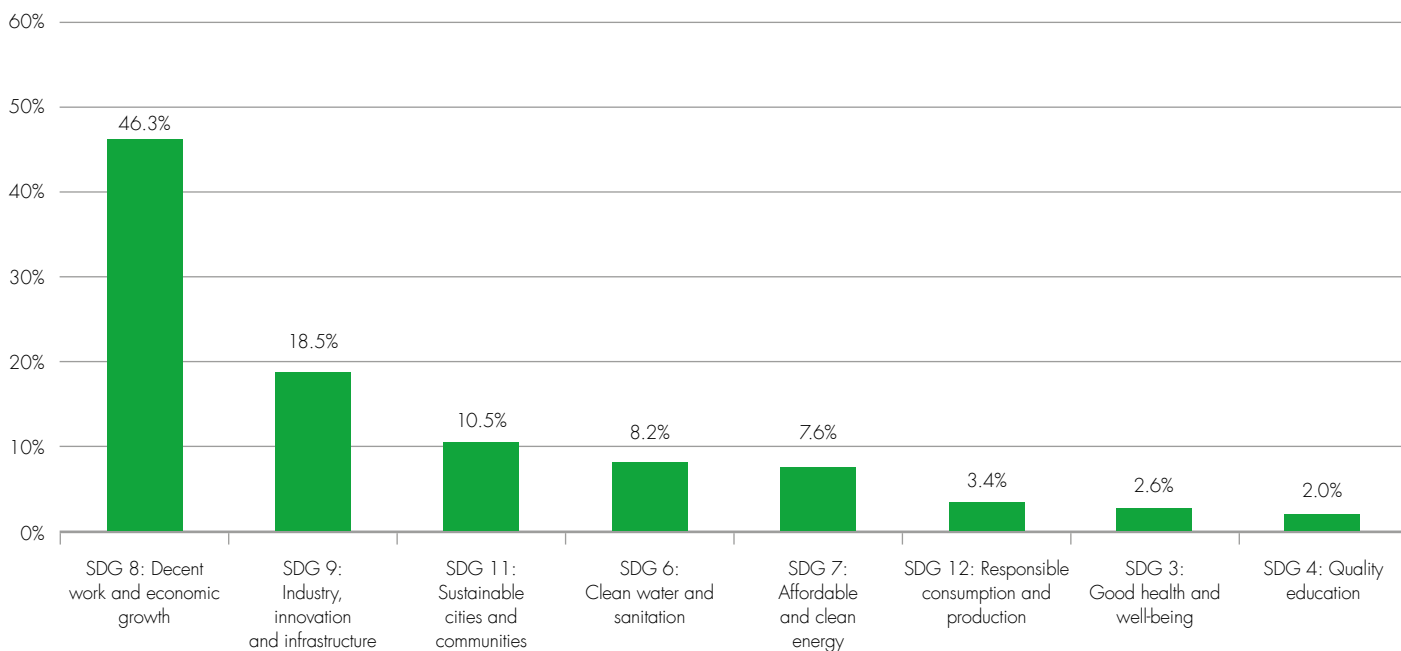
The fund has most exposure to SDG 8: Decent work & economic growth (46.3%); SDG 9: Industry, innovation & infrastructure (18.5%); SDG 11: Sustainable cities and communities (10.5%) and SDG 6: Clean water and sanitation (8.2%).

While our methodology is to assign what we believe to be the most prevalent SDG or the one on which the company has the most impact, we believe that the companies we have exposure to can have an impact on multiple SDGs.

For example, many holdings in the Banking industry come under SDG 8: Decent work and economic growth as we believe that through the banks' lending practices they facilitate economic growth. However, given several of the banks we own have exposure to retail (mortgage), they could also be classified or have positive impact on SDG 11: Sustainable cities and communities.

The fund has exposure to eight of the 17 UN SDGs.

## Sustainable investment themes mapped to UN Sustainable Development Goals (% of fund exposure)

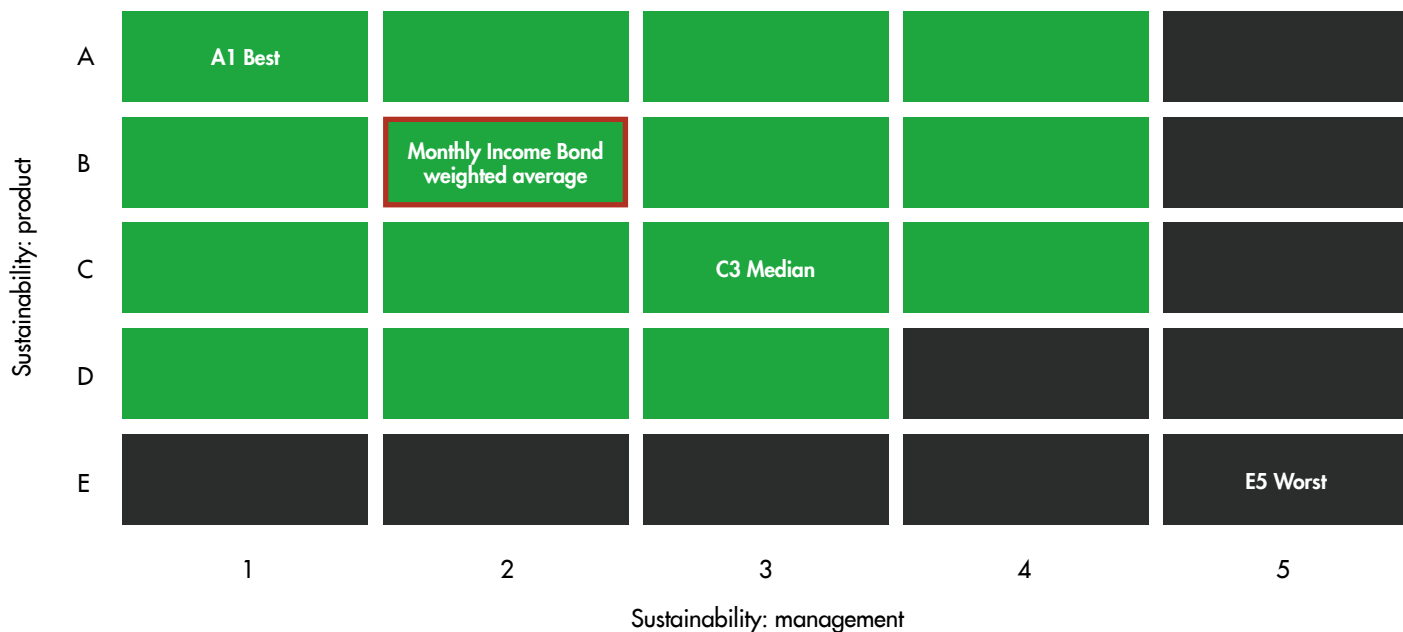


Source: Liontrust / Facstet as at 30 June 2021. Data is representative of corporate bonds only and excludes government bonds and cash

# Assessment of how sustainable companies are: Sustainability Matrix Rating

We assess every company using our proprietary Sustainability Matrix Rating, which measures how sustainable it's products and services are as well as how well they manage the material environmental, social and governance (ESG) matters related to their business.

The weighted average Sustainability Matrix rating for the fund is B2 (marked in red in the figure below). This shows the fund is invested in companies whose products and services are more sustainable and whose management of ESG aspects of their business is better than the market it invests in. There are no companies in the fund which are rated in the ineligible grey area of the Sustainability matrix.

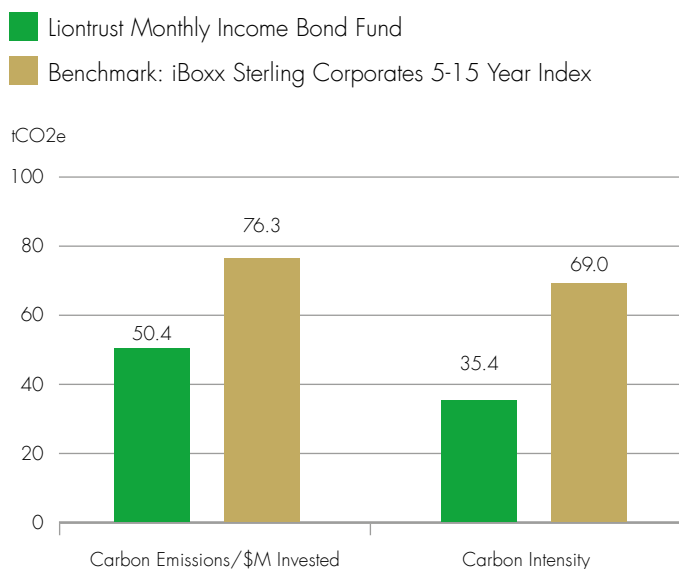


Source: Liontrust / factset 30 June 2021

# Climate change: portfolio data on carbon, solutions and fossil fuels

## Carbon emissions of fund compared to conventional benchmark

We can see from the chart below that the investments in the fund emit 33.9% less carbon (tCO<sub>2</sub>e) than the market it invests in. When looking at the carbon intensity of the investments, the fund has a carbon intensity (tCO<sub>2</sub>e / \$M sales) that is 48.7% lower than the benchmark. This independent analysis includes direct emissions forming scope 1 and scope 2 emissions only\*.

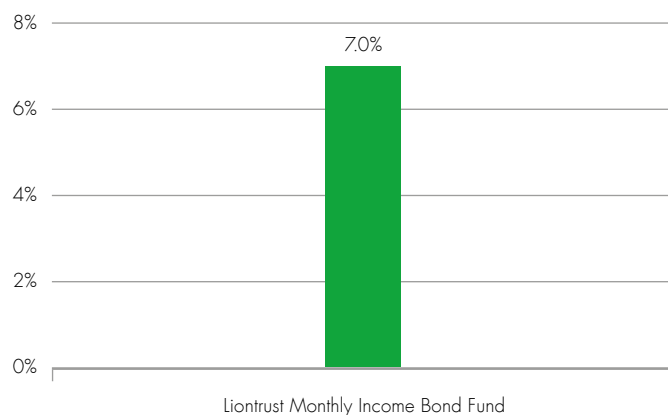


Source: MSCI Carbon Analytics and Liontrust 30 June 2021. The iBoxx Sterling Corporates 5-15 Year Index is the target benchmark for this fund. Carbon emissions data available for 54.7% of the fund and 59.0% of the benchmark. \*Scope 1 emissions are direct greenhouse (GHG) emissions that occur from sources controlled or owned by an organisation (associated with fuel combustion in boilers, furnaces, vehicles and so on). Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling. Scope 3 (all indirect emissions, not included in scope 2, that occur in the value chain of the reporting company) is important but not currently available in a consistent data set with enough coverage to be included in this independent analysis.

## Companies offering clean technology solutions

This analysis shows that the fund holds 7.0% of companies that MSCI has determined are providing clean technology solutions. Although their methodology is different to ours, it does broadly correspond to 18% of the fund being invested in companies with significantly more than 25% of sales related to better resource efficiency which reduces emissions.

Owing to the nature of the fixed income asset class, many investments are to more developed stable companies. Therefore, it is difficult to obtain material exposure to companies overly exposed to cleantech solutions. Usually our exposure to cleantech will be as a result of investment within a larger more developed utility.



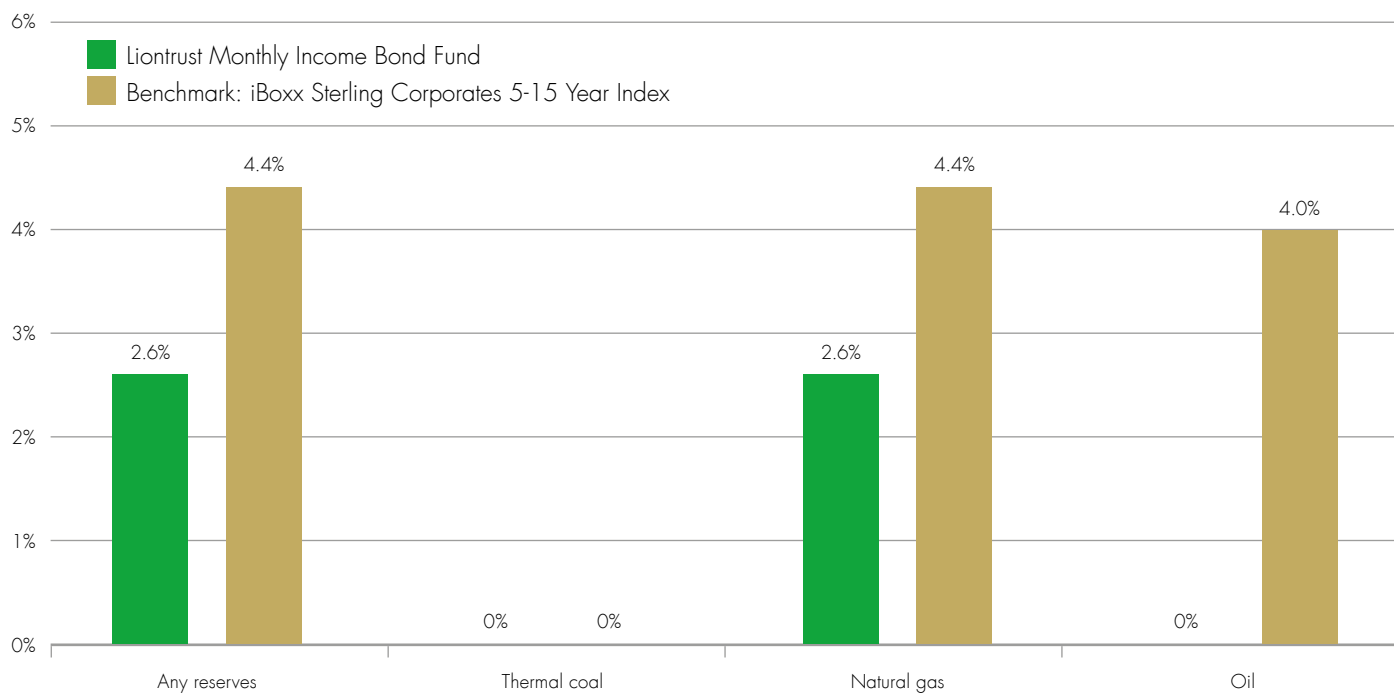
Source: MSCI Carbon Analytics and Liontrust 30 June 2021

# Weight of holdings owning fossil fuels

## Weight of companies owning fossil fuel reserves

This analysis shows the fund holds one company, SSE Plc, that has some natural gas reserves. The fund holds no companies with thermal coal or oil reserves. SSE is a big investor in renewable energy, and also has a very small legacy oil and gas business. The latter is well below the threshold we deem significant enough

(5% of group sales) to exclude a company because it extracts or produces fossil fuels (natural gas, coal or oil). This means the fund is exposed to much less than 0.155% (3.2% holding x less than 5% of sales) of sales exposure to fossil fuel reserves. SSE is planning to dispose of these assets.



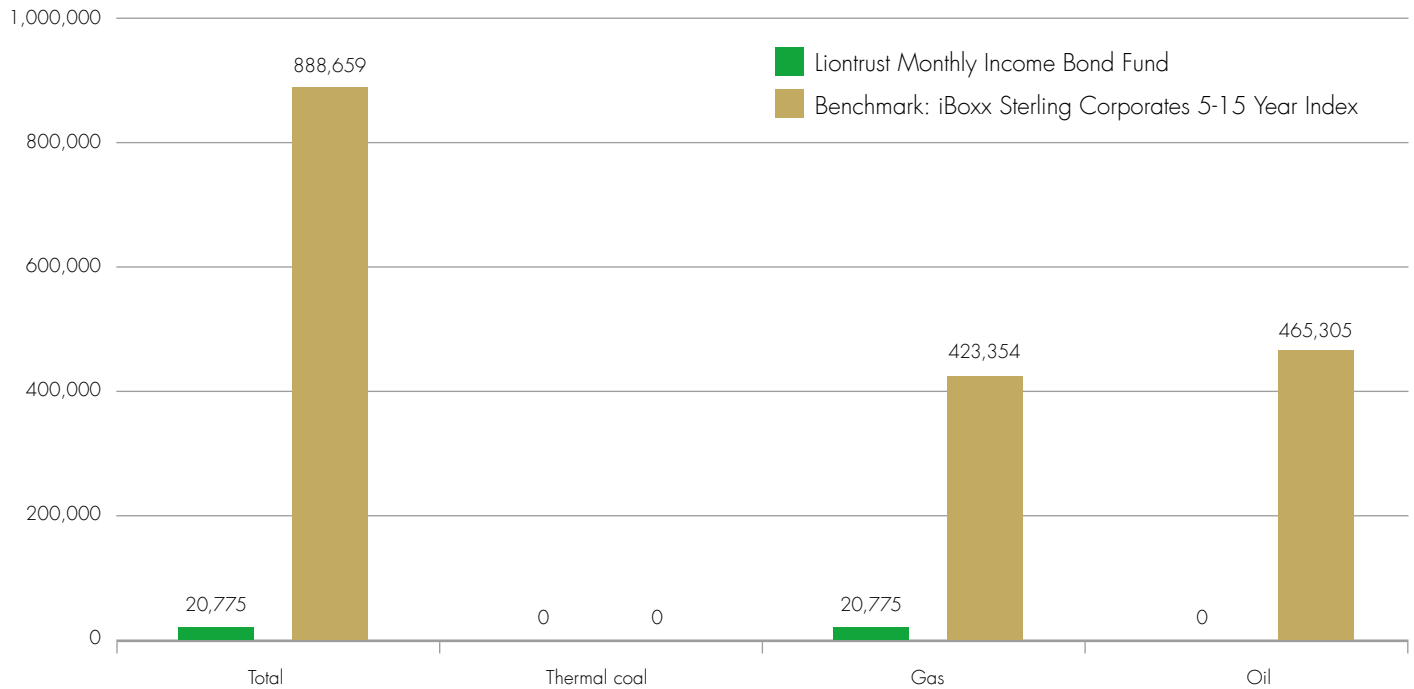
Source: MSCI Carbon Analytics and Liontrust 30 June 2021. The iBoxx Sterling Corporates 5-15 Year Index is the target benchmark for this fund. Carbon emissions data available for 54.7% of the fund and 59.0% of the benchmark



The chart below puts things in context: SSE is 3% of the portfolio and reserves are materially less than 3% of its business. It is also in the process of selling down the part of the business with exposure to the fossil fuel reserves.

## Potential emissions from fossil fuel reserves

Tons CO<sub>2</sub>e



Source: MSCI Carbon Analytics and Liontrust 30 June 2021. The iBoxx Sterling Corporates 5-1.5 Year Index is the target benchmark for this fund.

## All Fund holdings

Alphabetical list showing all holdings in the fund along with their sector, our Sustainability Matrix Rating and Sustainable investment theme. The fund is invested in 52 companies.

| Company name                    | Sector                      | Sustainability Matrix | Sustainable investment theme                  |
|---------------------------------|-----------------------------|-----------------------|---|
| 3I GROUP PLC                    | Financial Services          | C1                    | Increasing financial resilience               |
| ANNINGTON FUNDING PLC           | Real Estate                 | A3                    | Building better cities                        |
| AROWNTOWN PROPERTY HOLDINGS PLC | Real Estate                 | C3                    | Building better cities                        |
| ASSICURAZIONI GENERALI SPA      | Insurance                   | B3                    | Insuring a sustainable economy                |
| AT&T INC                        | Telecommunications          | B3                    | Connecting people                             |
| AVIVA PLC                       | Insurance                   | B2                    | Insuring a sustainable economy                |
| AXA SA PARIS                    | Insurance                   | B1                    | Insuring a sustainable economy                |
| BARCLAYS BANK PLC               | Banks                       | C3                    | Increasing financial resilience               |
| BNP PARIBAS                     | Banks                       | B2                    | Increasing financial resilience               |
| BRITISH TELECOM PLC             | Telecommunications          | B2                    | Connecting people                             |
| CANARY WHARF FINANCE PLC        | Real Estate                 | C2                    | Building better cities                        |
| CELLNEX TELECOM SAU             | Telecommunications          | B3                    | Connecting people                             |
| CENTRE PARCS                    | Whole Business Securitized  | B1                    | Encouraging sustainable leisure               |
| COVENTRY BLDG SOCIETY           | Banks                       | B1                    | Building better cities                        |
| DEUTSCHE TELEKOM AG             | Telecommunications          | B2                    | Connecting people                             |
| GLAXO SMITHKLINE CORP           | Health Care                 | A2                    | Providing affordable healthcare               |
| HEATHROW AIRPORT HOLDINGS LTD   | Industrial Goods & Services | D2                    | Portfolio construction/diversification        |
| HSBC HOLDINGS PLC               | Banks                       | C1                    | Increasing financial resilience               |
| IBERDROLA                       | Utilities                   | C2                    | Increasing electricity from renewable sources |
| LEGAL & GENERAL GRP PLC         | Insurance                   | B1                    | Insuring a sustainable economy                |
| LLOYDS BANKING GROUP PLC        | Banks                       | B1                    | Increasing financial resilience               |

Source: Liontrust / Factset, 30 June 2021

# All Fund holdings

| Company name                     | Sector                     | Sustainability Matrix | Sustainable investment theme                           |
|----------------------------------|----------------------------|-----------------------|--|
| M&G                              | Financial Services         | C3                    | Insuring a sustainable economy                         |
| MORRISON(WM)SUPERMARKETS         | Retail                     | C3                    | Better monitoring of supply chains and quality control |
| MOTABILITY OPERATIONS GROUP PLC  | Financial Services         | B2                    | Enabling healthier lifestyles                          |
| NATIONAL EXPRESS GROUP PLC       | Travel & Leisure           | A1                    | Making transport more efficient                        |
| NATIONAL GRID PLC                | Utilities                  | B2                    | Improving the efficiency of energy use                 |
| NATIONAL WESTMINSTER BANK PLC    | Banks                      | B2                    | Increasing financial resilience                        |
| NATIONWIDE BUILDING SOC          | Banks                      | B1                    | Building better cities                                 |
| ORANGE SA                        | Telecommunications         | B3                    | Connecting people                                      |
| PENSION INSURANCE CORP PLC       | Insurance                  | B3                    | Insuring a sustainable economy                         |
| PHOENIX GROUP HOLDINGS PLC       | Insurance                  | B4                    | Saving for the future                                  |
| PLACES FOR PEOPLE HOMES LTD      | Housing Associations       | A2                    | Building better cities                                 |
| RABOBANK NEDERLAND               | Banks                      | B1                    | Increasing financial resilience                        |
| RAC GROUP HOLDINGS LTD           | Whole Business Securitized | B3                    | Making transport more efficient                        |
| ROTHESAY LIFE LTD                | Insurance                  | B2                    | Saving for the future                                  |
| SCOTTISH & SOUTHERN ENERGY PLC   | Utilities                  | B2                    | Increasing electricity from renewable sources          |
| SEVERN TRENT PLC                 | Utilities                  | A1                    | Improving management of water                          |
| SOUTH EASTERN POWER NETWORKS PLC | Utilities                  | B3                    | Improving the efficiency of energy use                 |
| STANDARD CHARTERED PLC           | Banks                      | C2                    | Increasing financial resilience                        |
| SWISS REINSURANCE CO LTD         | Insurance                  | B1                    | Insuring a sustainable economy                         |
| TELECOM ITALIA SPA               | Telecommunications         | B3                    | Connecting people                                      |
| TELEFONICA SA                    | Telecommunications         | B2                    | Connecting people                                      |
| THAMES WATER LTD                 | Utilities                  | A2                    | Improving management of water                          |
| UNITE GROUP PLC                  | Real Estate                | A2                    | Providing education                                    |

Source: Liontrust / Factset, 30 June 2021

Continues on the next page

# All Fund holdings

| Company name                | Sector             | Sustainability Matrix | Sustainable investment theme           |
|-----------------------------|--------------------|-----------------------|--|
| UNITED KINGDOM              | Gilts              | C3                    | Portfolio construction/diversification |
| VERIZON COMMUNICATIONS INC  | Telecommunications | B2                    | Connecting people                      |
| VODAFONE PLC                | Telecommunications | B3                    | Connecting people                      |
| WELSH WATER                 | Utilities          | A2                    | Improving management of water          |
| WESTERN POWER DISTRIBUTION  | Utilities          | B2                    | Improving the efficiency of energy use |
| WHITBREAD PLC               | Travel & Leisure   | C2                    | Encouraging Sustainable leisure        |
| YORKSHIRE WATER FINANCE PLC | Utilities          | A2                    | Improving management of water          |
| ZURICH                      | Insurance          | B1                    | Insuring a sustainable economy         |
| VERIZON COMMUNICATIONS INC  | Telecommunications | B2                    | Connecting people                      |
| VODAFONE PLC                | Telecommunications | B3                    | Connecting people                      |

Source: Liontrust / Factset, 30 June 2021

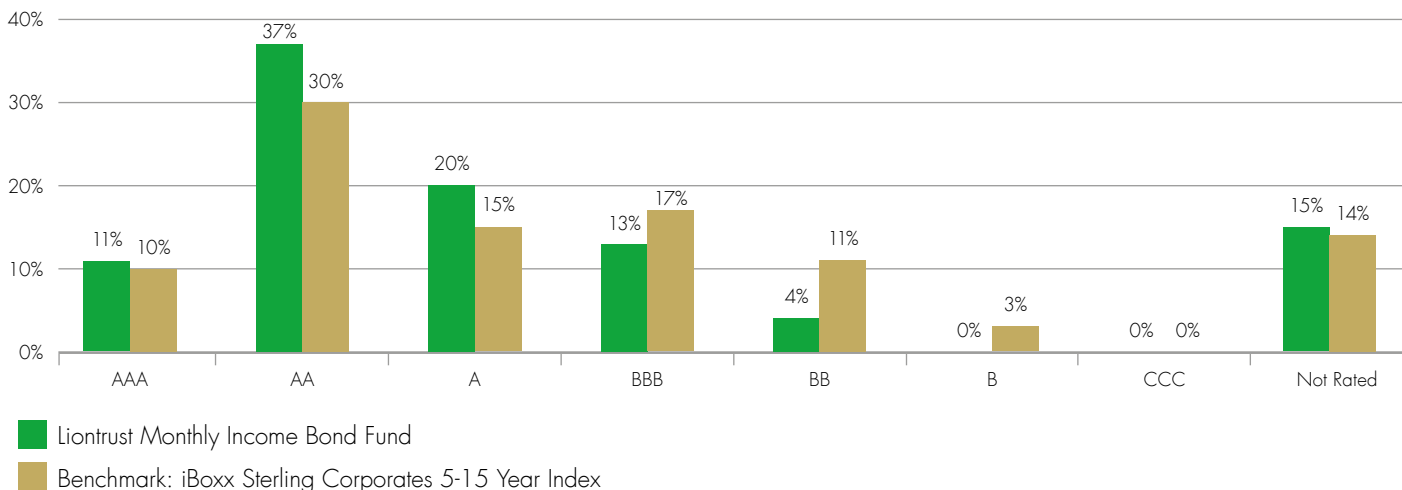
## Other third party ESG measures

We are often asked to provide data on how our Sustainable Future funds are ranked by third party ESG data providers.

When the portfolio is independently analysed by MSCI, we can see the ESG scoring is strong and better than the benchmark, achieving a rating of AAA versus the iBoxx Sterling Corporates 5-15 Year Index's average of AA. When we decompose the portfolio score into its constituent E, S and G parts, we can see that the fund outperforms on all fronts.

### MSCI rating distribution

Below is the rating breakout. We can see that the fund has a significantly higher weight towards higher-rated companies and is underweight the lower-rated companies.



Source: Liontrust / Factset, 30 June 2021. The iBoxx Sterling Corporates 5-15 Year Index is the target benchmark for this fund. This additional ESG data is updated annually and will be next reviewed and updated for the period ending Q4-2021

## ESG risk exposure

### ESG quality scorecard

|                          | Portfolio | Benchmark | Active       |
|--------------------------|-----------|-----------|--------------|
| ESG Quality Score (0-10) | 8.8       | 7.4       | <b>18.6%</b> |
| Environmental Score      | 7.1       | 7.1       | <b>-0.3%</b> |
| Social Score             | 5.3       | 4.8       | <b>9.3%</b>  |
| Governance Score         | 6.0       | 5.3       | <b>13.9%</b> |

## Other third party ESG measures

As can be seen from the data below, the fund scores very well across a broad range of criteria:

### Environmental risk

|                                      | Portfolio | Benchmark | Active        |
|--------------------------------------|-----------|-----------|---------------|
| Carbon risk (T CO2E/\$M SALES)       | 112       | 194       | <b>-42.4%</b> |
| Fossil fuel reserves (%)             | 2.6%      | 8.3%      | <b>-5.7%</b>  |
| High impact fossil fuel reserves (%) | 0.0%      | 3.7%      | <b>-3.7%</b>  |
| Exposure to high water risk (%)      | 0.0%      | 4.3%      | <b>-4.3%</b>  |

### Reputational risk

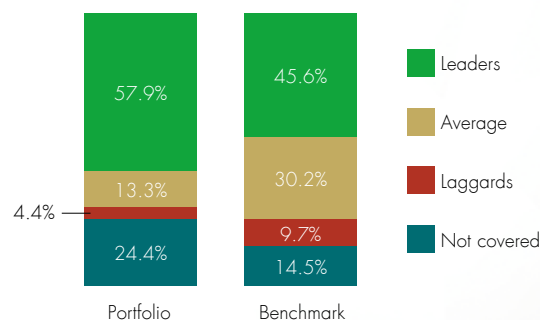
#### Very severe controversy exposure

|                         | Portfolio | Benchmark | Active       |
|-------------------------|-----------|-----------|--------------|
| Overall reputation risk | 0.0%      | 3.9%      | <b>-3.9%</b> |
| Environmental (%)       | 0.0%      | 0.2%      | <b>-0.2%</b> |
| Customer (%)            | 0.0%      | 0.0%      |              |
| Human rights (%)        | 0.0%      | 0.0%      |              |
| Labor (%)               | 0.0%      | 1.7%      | <b>-1.7%</b> |
| Governance (%)          | 0.0%      | 1.9%      | <b>-1.9%</b> |

### Governance risk

|                                  | Portfolio | Benchmark | Active        |
|----------------------------------|-----------|-----------|---------------|
| Governance leaders (%)           | 57.9%     | 45.6%     | <b>12.3%</b>  |
| Governance laggards (%)          | 4.4%      | 9.7%      | <b>-5.3%</b>  |
| Board flag (%)                   | 4.4%      | 9.4%      | <b>-5.0%</b>  |
| Lack of independent board (%)    | 2.0%      | 4.5%      | <b>-2.5%</b>  |
| No female directors (%)          | 0.0%      | 1.1%      | <b>-1.1%</b>  |
| Female rep. 30% of directors (%) | 60.6%     | 59.9%     | <b>0.7%</b>   |
| Accounting flag (%)              | 7.1%      | 22.8%     | <b>-15.7%</b> |
| Pay flag (%)                     | 0.0%      | 3.1%      | <b>-3.1%</b>  |
| Ownership and control flag (%)   | 0.8%      | 10.2%     | <b>-9.4%</b>  |

### Governance risk: global percentile



Laggards: 5.3% less than the benchmark  
Leaders: 12.3% greater than the benchmark

Source: Liontrust / Factset, 30 June 2021. The iBoxx Sterling Corporates 5-15 Year Index is the target benchmark for this fund. This additional ESG data is updated annually and will be next reviewed and updated for the period ending Q4-2021



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## Key risks

**Past performance is not a guide to future performance. Do remember that the value of an investment and the income generated from them can fall as well as rise and is not guaranteed, therefore, you may not get back the amount originally invested and potentially risk total loss of capital.**

## Disclaimer

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