

Liontrust Sustainable Investment

# LIONTRUST SUSTAINABLE FUTURE CORPORATE BOND FUND

Fund sustainability and impact report: Q2, 2021



**LIONTRUST**  
COURAGE · POWER · PRIDE



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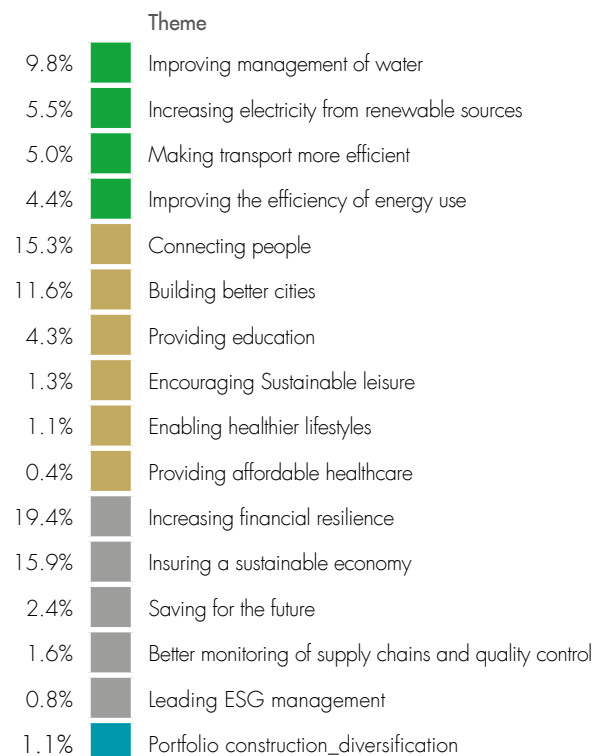
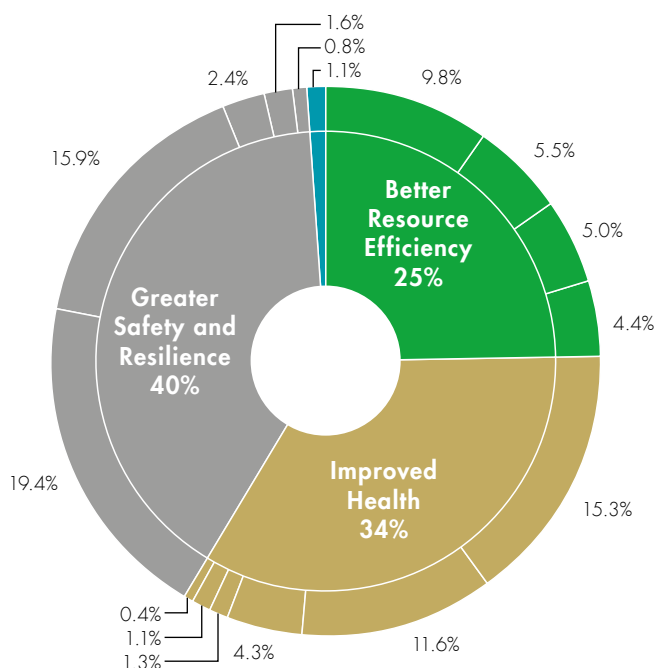
# Exposure to positive sustainability investment trends

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 both 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 small and medium-sized enterprises (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 the 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



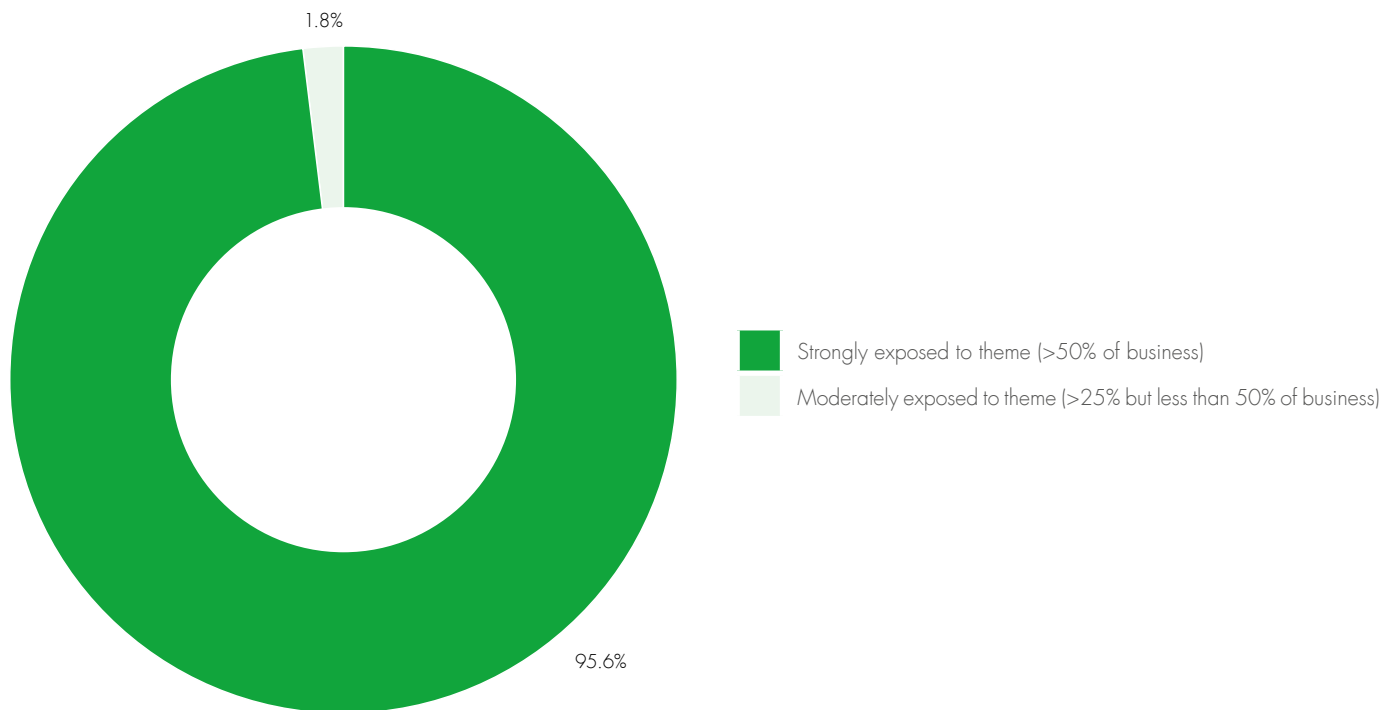
Data as at 30 June 2021. Chart is thematic exposure to corporate bonds only, Government bonds and cash excluded

# 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: 95.6% of the fund is invested in companies that are strongly exposed to our themes

(which means more than 50% of the business's revenues); 1.8% 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 (SDGs)

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.

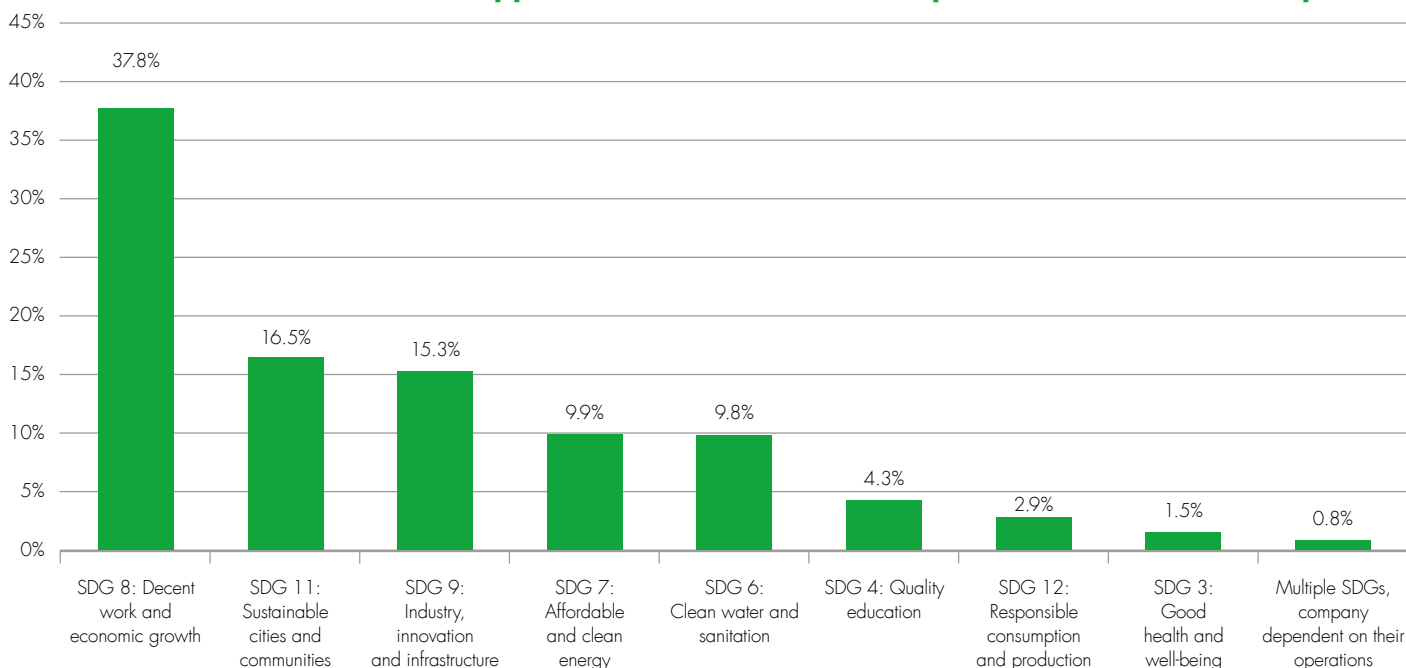
The fund has most exposure to SDG 8: Decent work & economic growth (37.8%); SDG 11: Sustainable cities and communities (16.5%); SDG 9: Industry, innovation & infrastructure (15.3%) and SDG 7: Affordable & clean energy (9.9%).

Whilst our methodology is to assign what we believe to be the most prevalent SDG or the SDG that the company has the most impact on, 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 therefore 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)

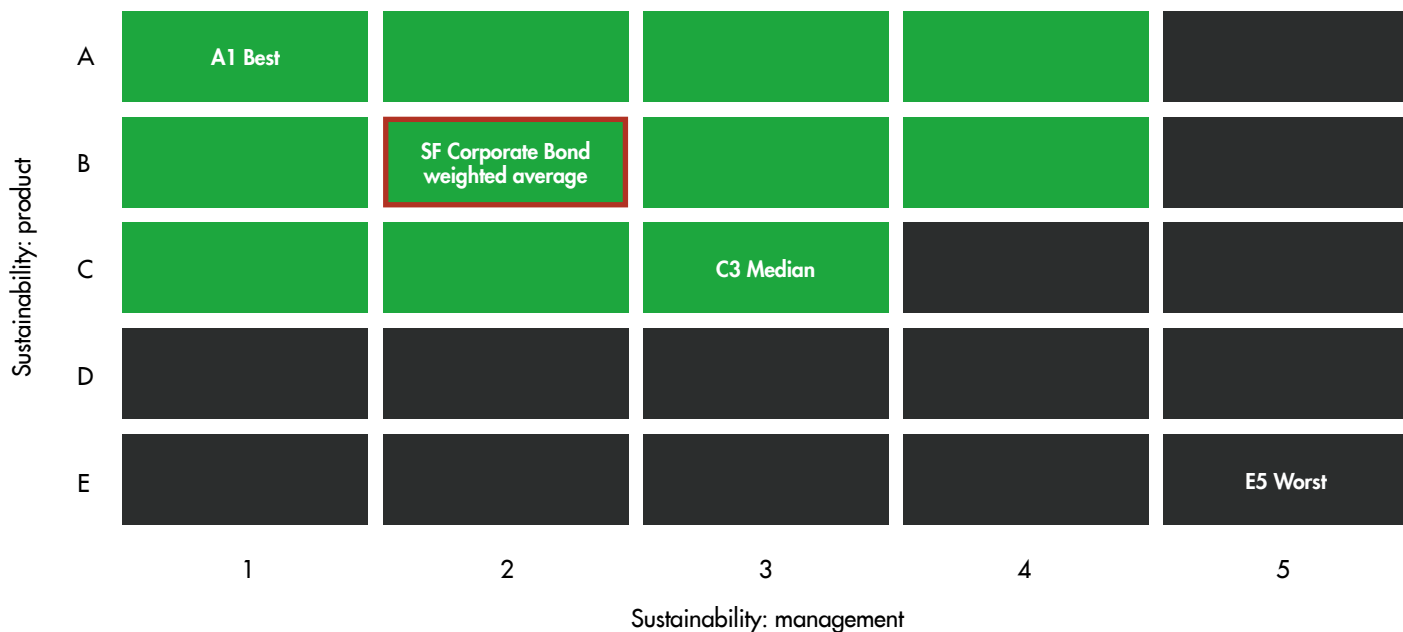


Source: Liontrust / Facstet as at 30 June 2021. Data is representative of corporate bonds only and excludes government bonds and cash

# Assessment of how sustainable companies are: Sustainability Matrix Rating

We assess every company using our proprietary Sustainability Matrix Rating, which measures how sustainable its 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.

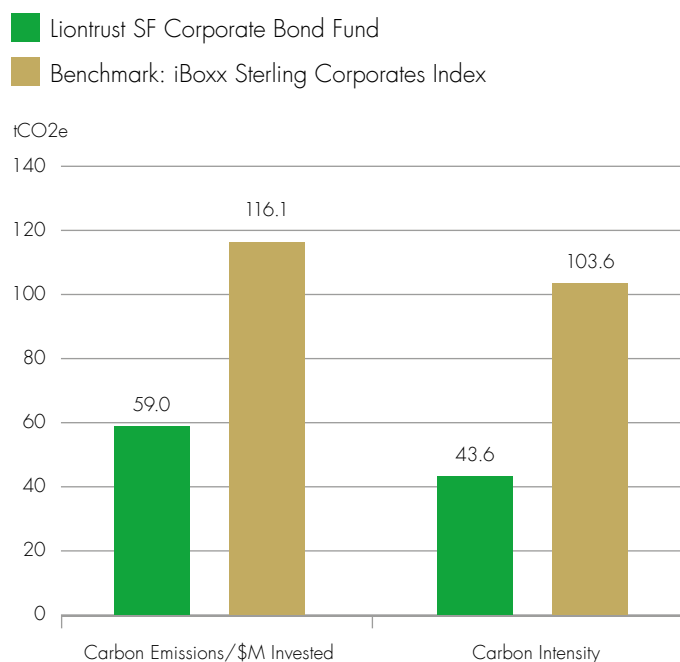


Source: Liontrust / Factset, 30 June 2021

# 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 49.2% less carbon (tCO<sub>2</sub>e) than the market it invests in. This independent analysis includes direct emissions forming scope 1 and scope 2 emissions only\*.

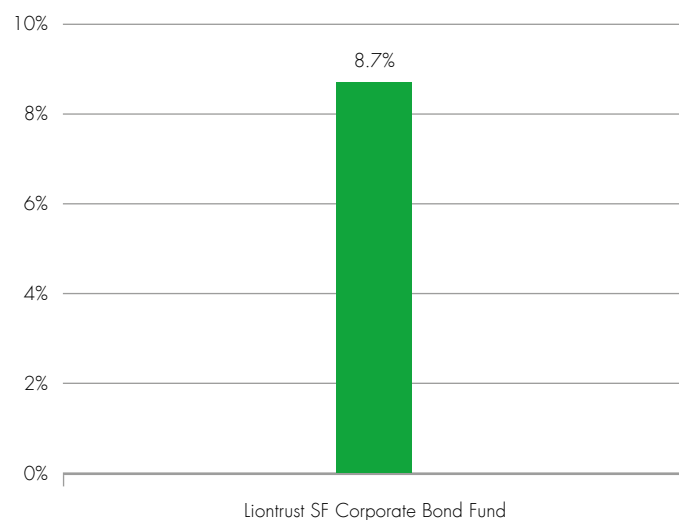


Source: MSCI Carbon Analytics and Liontrust 30 June 2021. The iBoxx Sterling Corporates Index is one of two comparator benchmarks for this fund. \*Scope 1 emissions are direct greenhouse (GHG) emissions that occur from sources controlled or owned by an organisation (associated with fuel combustion in 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 8.7% of companies that MSCI has determined are providing clean technology solutions. Although their methodology is different to ours, it does broadly correspond to 23% 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. Usually our exposure to cleantech solutions will be as a result of investment within a larger more developed utility.



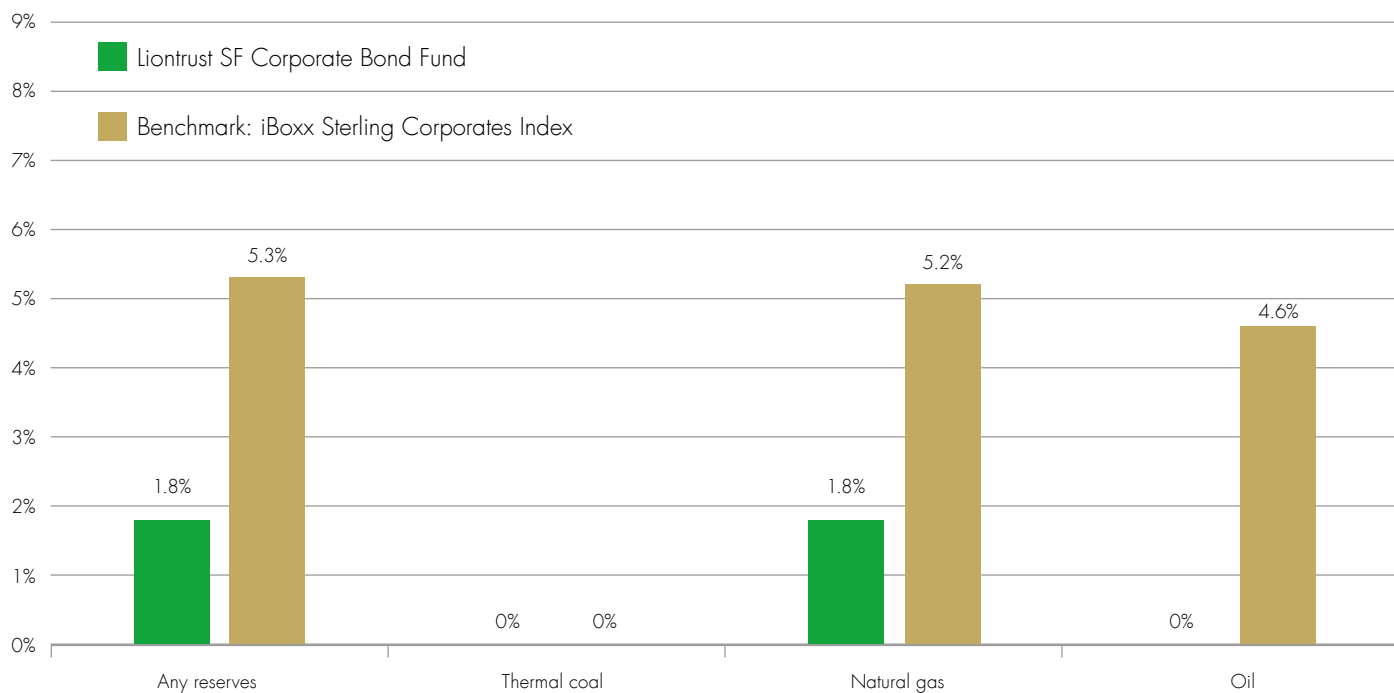
Source: MSCI Carbon Analytics and Liontrust 30 June 2021

# 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 0.11% (1.9% holding x less than 5% of sales) of sales exposure to fossil fuel reserves. SSE is looking to dispose of these assets.

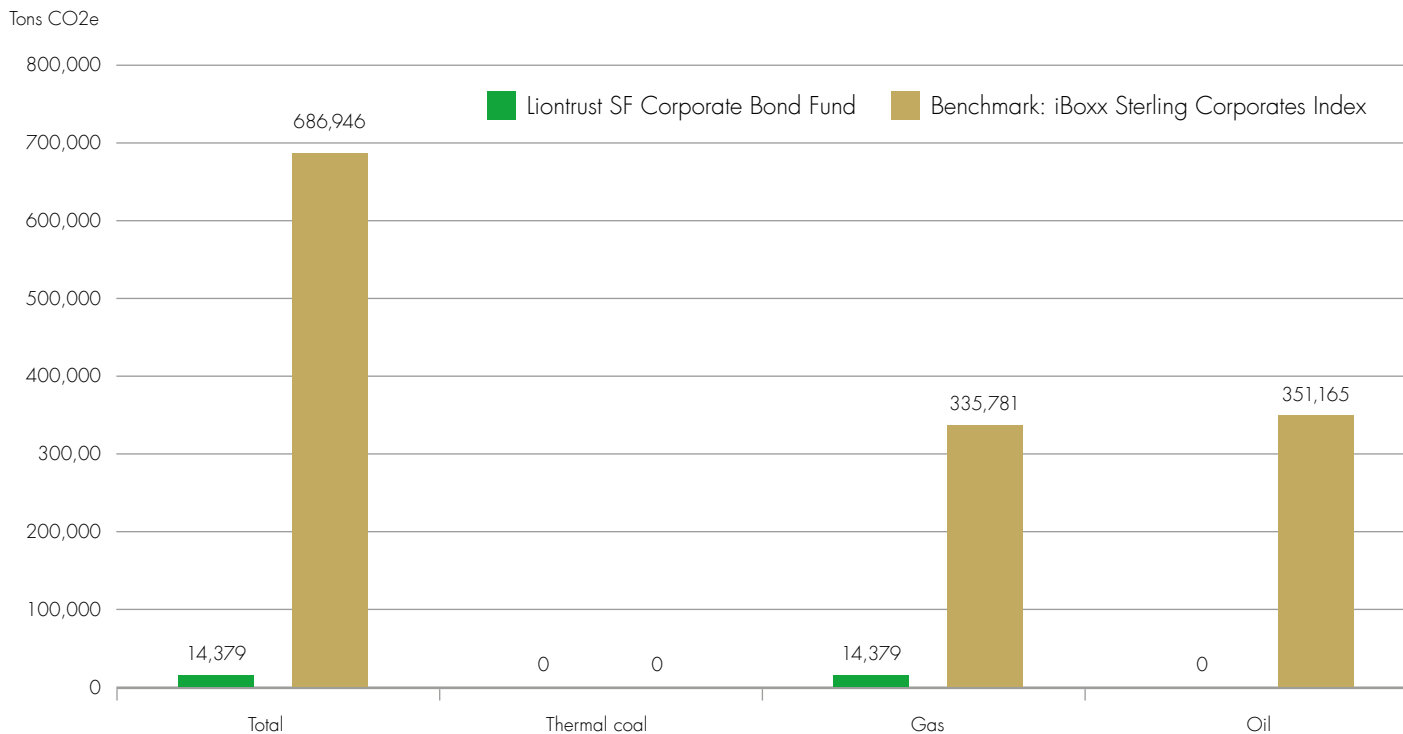


Source: MSCI Carbon Analytics and Liontrust 30 June 2021. The iBoxx Sterling Corporates Index is one of two comparator benchmarks for this fund



The chart below puts things in context: SSE is 2.1% 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



Source: MSCI Carbon Analytics and Liontrust 30 June 2021. The iBoxx Sterling Corporates Index is one of two comparator benchmarks 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 71 companies.

Company name	Sector	Sustainability Matrix	Sustainable investment theme
3I GROUP PLC	Financial Services	C1	Increasing financial resilience
ANGLIAN WATER GROUP LTD	Utilities	A2	Improving management of water
ANNINGTON FUNDING PLC	Real Estate	A3	Building better cities
AROUNDTOWN 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
BNP PARIBAS	Banks	B2	Increasing financial resilience
BRITISH TELECOM PLC	Telecommunications	B2	Connecting people
BUNZL PLC	Industrial Goods & Services	C3	Portfolio construction/diversification
CANARY WHARF FINANCE PLC	Real Estate	C2	Building better cities
CARDIFF UNIVERSITY	Retail	A3	Providing education
CELLINEX TELECOM SAU	Telecommunications	B3	Connecting people
CENTRE PARCS	Whole Business Securitized	B1	Encouraging sustainable leisure
CLARION HOUSING GROUP LTD	Housing Associations	A1	Building better cities
COVENTRY BLDG SOCIETY	Banks	B1	Building better cities
DEUTSCHE TELEKOM AG	Telecommunications	B2	Connecting people
DIRECT LINE INSURANCE GROUP PLC	Insurance	B3	Insuring a sustainable economy
EVERSHOLT FUNDING PLC	ABS	A4	Making transport more efficient
GLAXO SMITHKLINE CORP	Health Care	A2	Providing affordable healthcare

Source: Liontrust / Factset, 30 June 2021

# All Fund holdings

Company name	Sector	Sustainability Matrix	Sustainable investment theme
GREATER GABBARD OFTO PLC	Other Collateralized	A2	Increasing electricity from renewable sources
HSBC HOLDINGS PLC	Banks	C1	Increasing financial resilience
IBERDROLA	Utilities	C2	Increasing electricity from renewable sources
INFRASTRUTTURA WIRELESS ITALIANE SPA	Telecommunications	B3	Connecting people
INTERCONTINENTAL HOTELS	Travel & Leisure	C1	Leading ESG management
LEGAL & GENERAL GRP PLC	Insurance	B1	Insuring a sustainable economy
LLOYDS BANKING GROUP PLC	Banks	B1	Increasing financial resilience
LONDON & QUADRANT HOUSING TRUST	Housing Associations	A3	Building better cities
LONDON STOCK EXCHANGE GROUP PLC	Financial Services	B2	Increasing financial resilience
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
NEXT PLC	Retail	C3	Better monitoring of supply chains and quality control
ORSTED A/S	Utilities	B1	Increasing electricity from renewable sources
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
PORTERBROOK RAIL FINANCE LTD	ABS	A3	Making transport more efficient

Continues on the next three pages

Source: Liontrust / Factset, 30 June 2021

# All Fund holdings

Company name	Sector	Sustainability Matrix	Sustainable investment theme
QUADGAS HOLDINGS TOPCO LTD	Utilities	C3	Improving the efficiency of energy use
RABOBANK NEDERLAND	Banks	B1	Increasing financial resilience
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
SOUTHERN GAS NETWORKS PLC	Utilities	C2	Improving the efficiency of energy use
STAGECOACH HOLDINGS PLC	Travel & Leisure	A2	Making transport more efficient
STANDARD CHARTERED PLC	Banks	C2	Increasing financial resilience
STUDENT FINANCE PLC	Financial Services	A4	Providing education
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
TRANSPORT FOR LONDON	Non-Financials	A2	Making transport more efficient
TRAVIS PERKINS PLC	Construction & Materials	C2	Building better cities
UNITE GROUP PLC	Real Estate	A2	Providing education
UNITED KINGDOM	Gilts	C3	Portfolio construction/diversification
UNITED UTILITIES WATER PLC	Utilities	A2	Improving management of water
UNIVERSITY OF LIVERPOOL	Retail	A2	Providing education
VERIZON COMMUNICATIONS INC	Telecommunications	B2	Connecting people
VODAFONE PLC	Telecommunications	B3	Connecting people
WELSH WATER	Utilities	A2	Improving management of water
WHITBREAD PLC	Travel & Leisure	C2	Encouraging sustainable leisure

Source: Liontrust / Factset, 30 June 2021

# All Fund holdings

<b>Company name</b>	<b>Sector</b>	<b>Sustainability Matrix</b>	<b>Sustainable investment theme</b>
YORKSHIRE BLDNG SOCIETY	Banks	B2	Building better cities
YORKSHIRE WATER FINANCE PLC	Utilities	A2	Improving management of water
ZURICH FINANCE (IRELAND) DAC	Insurance	B1	Insuring a sustainable economy

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 matches the iBoxx Sterling Corporates benchmark with an AA rating but when we decompose the portfolio score into its constituent E, S and G scores, the fund outperforms on all fronts.

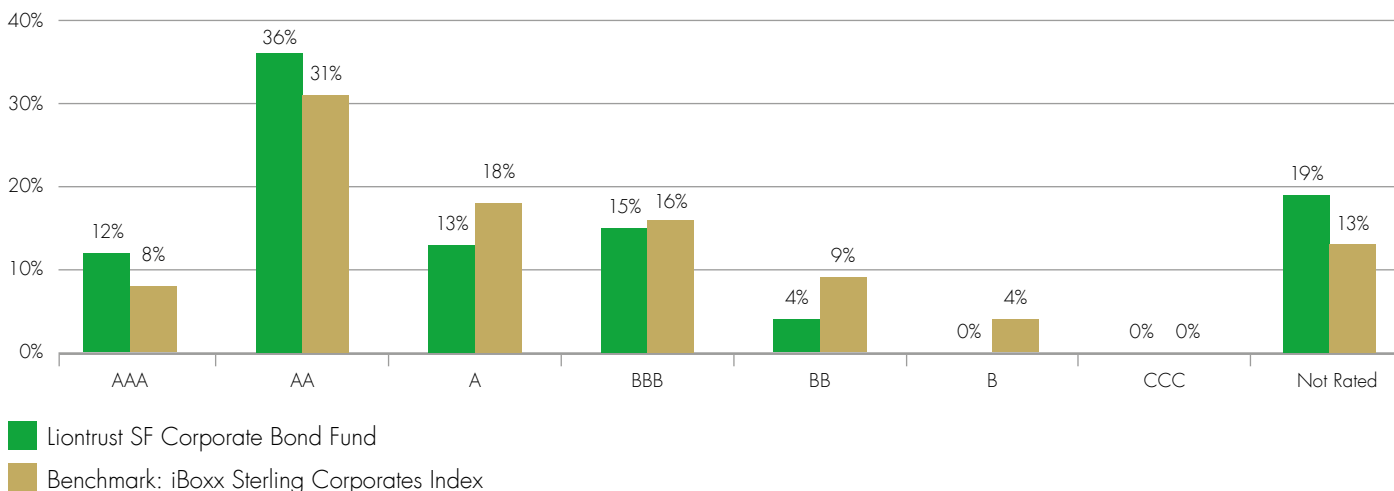
## ESG risk exposure

### ESG quality scorecard

	Portfolio	Benchmark	Active
ESG Quality Score (0–10)	8.5	7.5	12.8%
Environmental Score	7.0	7.1	-1.5%
Social Score	5.3	4.8	10.0%
Governance Score	6.1	5.2	17.3%

## MSCI rating distribution

Below is the rating breakout of the fund. 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 Index is one of two comparator benchmarks for this fund. This additional ESG data is updated annually and will be next reviewed and updated for the period ending Q4-2021

## 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)	107	170	<b>-37.0%</b>
Fossil fuel reserves (%)	1.8%	10.3%	<b>-8.5%</b>
High impact fossil fuel reserves (%)	0.0%	3.9%	<b>-3.9%</b>
Exposure to high water risk (%)	2.8%	4.7%	<b>-1.9%</b>

### Reputational risk

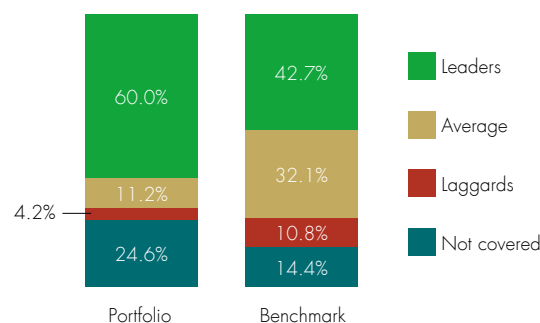
#### Very severe controversy exposure

	Portfolio	Benchmark	Active
Overall reputation risk	0.0%	3.8%	<b>-3.8%</b>
Environmental (%)	0.0%	1.3%	<b>-1.3%</b>
Customer (%)	0.0%	0.0%	
Human rights (%)	0.0%	0.6%	<b>-0.6%</b>
Labor (%)	0.0%	0.0%	<b>-0.9%</b>
Governance (%)	0.0%	1.6%	<b>-1.6%</b>

### Governance risk

	Portfolio	Benchmark	Active
Governance leaders (%)	60.0%	42.7%	<b>17.3%</b>
Governance laggards (%)	4.2%	10.8%	<b>-6.6%</b>
Board flag (%)	5.2%	10.0%	<b>-4.8%</b>
Lack of independent board (%)	2.8%	3.8%	<b>-1.0%</b>
No female directors (%)	0.0%	1.8%	<b>-1.8%</b>
Female rep. 30% of directors (%)	60.4%	62.6%	<b>-2.2%</b>
Accounting flag (%)	8.2%	25.5%	<b>-17.3%</b>
Pay flag (%)	0.0%	2.9%	<b>-2.9%</b>
Ownership and control flag (%)	1.4%	11.1%	<b>-9.7%</b>

### Governance risk: global percentile



Laggards: 6.6% less than the benchmark  
Leaders: 17.3% greater than the benchmark

Source: Liontrust / Factset, 30 June 2021. The iBoxx Sterling Corporates Index is one of two comparator benchmarks 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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