Aligning profit with principles
An introduction to sustainable investing for charities

Craig Bonthron, Co-manager, Kames Global Sustainable Equity Fund
Ryan Smith, Head of ESG Research

21-22 February 2018
Introducing our ethical and sustainable investing credentials

► We launched our first ethical fund in 1989
► Today we manage £2.5 billion in specialist ethical and sustainable funds for UK and international investors

<table>
<thead>
<tr>
<th>Fund</th>
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<tbody>
<tr>
<td>Kames Ethical Equity Fund</td>
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<tr>
<td>Kames Ethical Cautious Managed Fund</td>
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<tr>
<td>Kames Ethical Corporate Bond Fund</td>
</tr>
<tr>
<td>Kames Global Sustainable Equity Fund</td>
</tr>
</tbody>
</table>

► Deeper commitment to responsible investment
  - A leader in corporate governance and engagement
  - Highly-rated by independent organisations
  - A passionate advocate of sustainable investing

All data as at 31 December 2017. Note: Neither simulated nor actual past performance is a guide to future returns.
Why invest sustainably?

“Hello sir, I’m calling about some recent climate change you may have suffered…”

Climate change litigation: like PPI…….but with > 7 billion plaintiffs

Source: Anthony Robson http://anthonyrobson.biz/CartoonsIndex.html
Aligning profit with principles

- The myth = Profits vs Principles
- The reality = Profits + Principles
- True in both developed and emerging markets
- True across individual ESG factors
- No need for charity investors to compromise their principles or risk alienating their donor-bases

Research shows positive associations between ESG factors and corporate financial performance*

* Friede, Busch, Bassen via (ESG & Corporate Financial Performance: Mapping the global landscape). September 2016
Despite the evidence, not everyone is thinking this way

A recent conference of 100 leading investment advisers asked:

1. Do you currently have an ESG policy?

2. Where has your interest in ESG come?

- 4% Worries about adverse publicity
- 6% Regulatory pressure
- 11% Pressure to improve investment returns
- 79% Client demand

Source: Expert Investor Conference, December 2017
So is there a magic green button?

Source: Anthony Robson http://anthonyrobson.biz/CartoonsIndex.html
### Three common ESG strategies for charities

<table>
<thead>
<tr>
<th>Description</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Negative screening</strong></td>
<td>Excluding companies in specific sectors e.g. tobacco, alcohol, gambling, weapons, animal welfare</td>
<td>✓ Relatively simple to apply ‘hard-coding’ to bespoke portfolios</td>
</tr>
<tr>
<td><strong>2. Positive screening</strong></td>
<td>Typically focusing on companies with ‘best-in-class’ ESG credentials</td>
<td>✓ Explicitly rewards industry leaders</td>
</tr>
<tr>
<td><strong>3. Impact investing</strong></td>
<td>Designed to help solve environmental and social challenges</td>
<td>✓ Focused and tangible, as provides capital for specific projects</td>
</tr>
</tbody>
</table>
How we think about sustainable investing
We care about the sustainability of…

Products

Source: Anthony Robson http://anthonyrobson.biz/CartoonsIndex.html
We care about the sustainability of…

Practices

Source: Anthony Robson http://anthonyrobson.biz/CartoonsIndex.html
We care about the sustainability of...
We care about the sustainability of...

**Products**

**Practices**

**Improvement**

By focusing on all three factors we maximise potential performance.

Source: Anthony Robson http://anthonyrobson.biz/CartoonsIndex.html
Sustainability has three dimensions

- **Exclusion 10%**
- **Likely laggards 20 - 25%**
- **Improvers**
- **Leaders**

Sustainable practices range from worst to best, with sustainable improvement indicated.
Real impact investing: Healthcare

Insulet Corporation

Fewer Injections

80% of the Market Opportunity (Current Target)

Omnipod: 1
Injections Required Per Pod
(Average of 4.5/day)

VS.

MDI: 14+

Fewer Components

20% of the Market Opportunity

Omnipod System

VS.

Conventional Insulin Pump

Source: Insulet Corporation
Real impact investing: Electric vehicles

Electric vehicle vs Internal Combustion Engine (ICE) 3-year total cost of ownership (US$)

Electric vehicles becoming cheaper
- Economies of scale
- Waste reduction
- Closer supply chain
- Vertical integration
- Process optimisation

Combustion vehicles becoming more expensive
- Taxes
- Emissions regulations
- Residual values
- Maintenance costs
- Insurance
Real impact investing: Electric vehicles

Electric vehicle vs Internal Combustion Engine (ICE)
3-year total cost of ownership (US$)

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Kames’ estimates and opinions
Real impact investing: Electric vehicles

Electric vehicle vs Internal Combustion Engine (ICE)
3-year total cost of ownership (US$)

Future EV cost curve
Future ICE cost curve

Kames' estimates and opinions
Plastic was initially hailed for being light, cheap to manufacture and non-decaying.

We are now heavily reliant on plastic.

Eight million tonnes of plastic a day is being dumped in the sea.

By 2050 there will be more plastic in the sea than fish (by weight).
Mohawk is one of the largest recyclers of plastic bottles in the US

The company recycles over 5.5 billion bottles every year to make its EverStrand carpet

Mohawk’s activities are particularly admirable given the poor levels of recycling generally achieved in the US

Source: Mohawk
Mobileye is the global leader in Advanced Driver Assistance Systems (ADAS) and autonomous vehicle (AV) technologies

15 million cars across 313 models have Mobileye technology installed

Research study forecasted that a 50% adoption of AV technology in the US would lead to:

- 1.7 billion fewer hours of travel time each year
- 1.9 million fewer crashes each year
- 9,600 lives saved each year
- Annual economic cost savings of US$102 billion
- Total annual societal cost saving of US$210 billion

Source: Mobileye. Research study by Eno Center for Transportation (Preparing a nation for Autonomous Vehicles, October 2013)
Sustainability is highly disruptive: Six big themes to profit from

Green buildings
Follow the advertising money
Knowledge is pricing power

Robots and co-bots
Over the top, under the radar
Healthy healthcare
Profiting from principles
A sustainable approach to investing is no barrier to outperformance of mainstream funds

<table>
<thead>
<tr>
<th>Cumulative returns to 31 December 2017</th>
<th>Fund size</th>
<th>Screening approach</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kames Ethical Equity Fund*</td>
<td>£628m</td>
<td>Negative</td>
<td>13.5%</td>
<td>28.6%</td>
<td>80.9%</td>
</tr>
<tr>
<td>UK All Companies sector median</td>
<td></td>
<td></td>
<td>12.5%</td>
<td>29.8%</td>
<td>63.3%</td>
</tr>
<tr>
<td>Kames Ethical Corporate Bond Fund*</td>
<td>£465m</td>
<td>Negative</td>
<td>4.5%</td>
<td>14.4%</td>
<td>26.8%</td>
</tr>
<tr>
<td>Sterling Corporate Bond sector median</td>
<td></td>
<td></td>
<td>4.8%</td>
<td>14.2%</td>
<td>26.1%</td>
</tr>
<tr>
<td>Kames Ethical Cautious Managed Fund*</td>
<td>£581m</td>
<td>Negative</td>
<td>8.5%</td>
<td>19.9%</td>
<td>53.2%</td>
</tr>
<tr>
<td>Mixed Investment (20-60% shares) sector median</td>
<td></td>
<td></td>
<td>6.5%</td>
<td>19.4%</td>
<td>36.5%</td>
</tr>
<tr>
<td>Kames Global Sustainable Equity Fund**</td>
<td>£60m</td>
<td>Positive</td>
<td>20.2%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>MSCI AC World Index (GBP)</td>
<td></td>
<td></td>
<td>9.5%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: Lipper, NAV to NAV, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges GBP, as at 31 December 2017. For the Kames Ethical Corporate Bond Fund returns are net of 20% income tax in periods before 06/04/2017. The primary share class for Kames Ethical Equity Fund, Kames Ethical Corporate Bond Fund and Kames Ethical Cautious Managed Fund has changed from A to B with effect from 31 December 2013. In order to provide performance data from inception, performance for Kames Ethical Cautious Managed Fund is based on track record extensions on this fund’s B share class where launched more recently than the A share class. Performance prior to the launch of the B (Acc) GBP share class on 14 May 2013 is simulated using an existing share class. Neither simulated or actual past performance is a guide to future returns.

**Source: Lipper, NAV to NAV, noon prices, GBP B Acc, as at 31 December 2017. Figures are ‘percentage growth’ (%), total return excluding initial charges, net of ongoing charges. The Fund launch date is 21 April 2016. The performance benchmark is the MSCI All Countries World Index (GBP).

Note: Neither simulated nor actual past performance is a guide to future returns.
Maximising our influence on behalf of clients
Appendices
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Ethical investing</td>
<td>Guided by moral values or ethical codes - generally associated with <strong>negative screening</strong>.</td>
</tr>
<tr>
<td>ESG</td>
<td>The incorporation of <strong>environmental</strong>, <strong>social</strong> and <strong>governance</strong> factors into investment decision-making.</td>
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<td>SRI</td>
<td><strong>Socially Responsible Investment</strong> is the process of integrating societal concerns, personal values or an organisational mission into investment decision-making.</td>
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<tr>
<td>Green investing</td>
<td>Considering the <strong>environmental impact</strong> of investments.</td>
</tr>
<tr>
<td>Impact investing</td>
<td>Supporting companies which are <strong>working to provide societal or environmental benefits</strong>, in addition to generating positive financial returns.</td>
</tr>
<tr>
<td>Sustainable investing</td>
<td>A <strong>long-term focus</strong> on investments that make a positive contribution to the environment, economy or society.</td>
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</table>
Growth in popularity of socially-responsible investing

SRI funds attracting record net inflows across Europe (€ billion)

Past performance, simulated or actual, is not a guide to future performance. The value of investments and the income from them may go down as well as up and is not guaranteed. Outcomes, including the payment of income, are not guaranteed.

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The funds referenced are medium to long-term investments and your capital is at risk. Any investment objective, performance benchmark and yield information should not be considered as an assurance or guarantee of the performance of the fund or any part of it.

An initial charge reduces the amount available for investment. Investors should be aware that funds denominated in a currency other than investors’ home state currency are subject to currency fluctuations which may decrease returns.

Please be aware that each fund presents its own risk profile.

Material risks for:

- Kames Ethical Corporate Bond Fund are: credit; concentration, interest rate and liquidity.
- Kames Ethical Equity Fund are: Liquidity.
- Kames Ethical Cautious Managed Fund are: credit; liquidity and interest rate.
- Kames Global Sustainable Equity Fund are: Liquidity; Other markets; Concentration risk and foreign exchange risk

Please read the relevant KIID for an explanation and refer to the prospectus for information about all relevant risks.

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