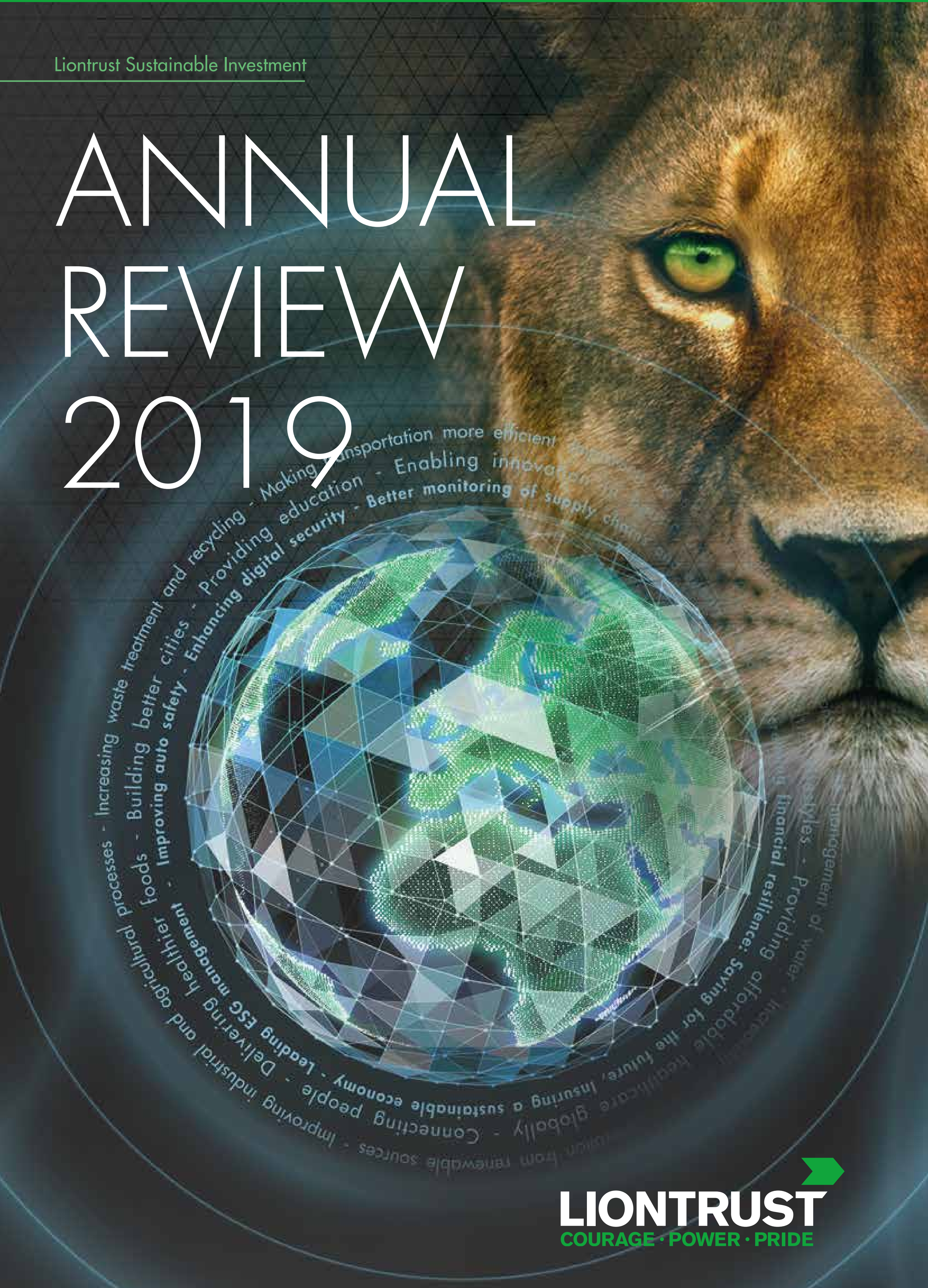
Liontrust Sustainable Investment

ANNUAL REVIEW 2019



LIONTRUST
COURAGE · POWER · PRIDE


Increasing waste treatment and recycling -
Building better cities - Providing
safety - Enhancing digital

Contents

Introduction

Welcome to our third Sustainable Investment Annual Review, in which we cover the highlights of a busy and successful 2019 for Liontrust's Sustainable Investment team.

I write this in the midst of the Coronavirus outbreak, for which – as things stand – there remain a wide range of outcomes. Since we have no way of predicting the likelihood of these extremes, we do not take a bet on such scenarios.

Instead, we concentrate on where we do have expertise and confidence in our predictions, namely the 20 sustainable themes that identify companies we believe are set to benefit from decades-long growth and will make our world cleaner, healthier and safer. These are the macro trends that will persist over the longer term – and they have informed our thinking and investing since we launched the Sustainable Future (SF) funds in 2001.

Of these, the most significant has to be the reaction to the climate emergency and the need to wean our societies off fossil fuels. The rule of thumb is for a 50% reduction in emissions every decade; a huge challenge but one we believe can be met.

For our part, we will continue to invest in companies innovating in energy efficiency, renewable energy and electrification of transport. But we also need all the companies in our economy to reduce emissions and this is behind the One a Half Degree Transition Challenge that we launched in early 2020. I look forward to the results from this engagement being available before the end of the year.

The One and a Half Degree Transition Challenge

We are stepping up our engagement with companies to ensure they reduce their absolute carbon emissions to zero. In our view, businesses that are proactive in reducing carbon emissions, and are able and willing to articulate this in their business strategy, will gain a competitive advantage and generate better investment returns. Those that do not will face increasing risks to their businesses.

The One and a Half Degree Transition Challenge is calling for all companies held within our equity and bond funds to explain how they plan to decarbonise their businesses to limit global warming to 1.5 degrees. Over 200 companies held across the funds have until the end of 2020 to provide a plan for how they are going to reach zero carbon emissions and over what time period this will be achieved. Our fund managers will use all measures at their disposal, including voting and ultimately divesting over time, to persuade companies to reduce their emissions.

There should also be interesting developments in 2020 in our theme of *Enabling innovation in healthcare*, with the prospect of positive developments in the field of DNA sequencing and gene therapies. These offer step-changes in the way we treat cancers and inherited diseases.

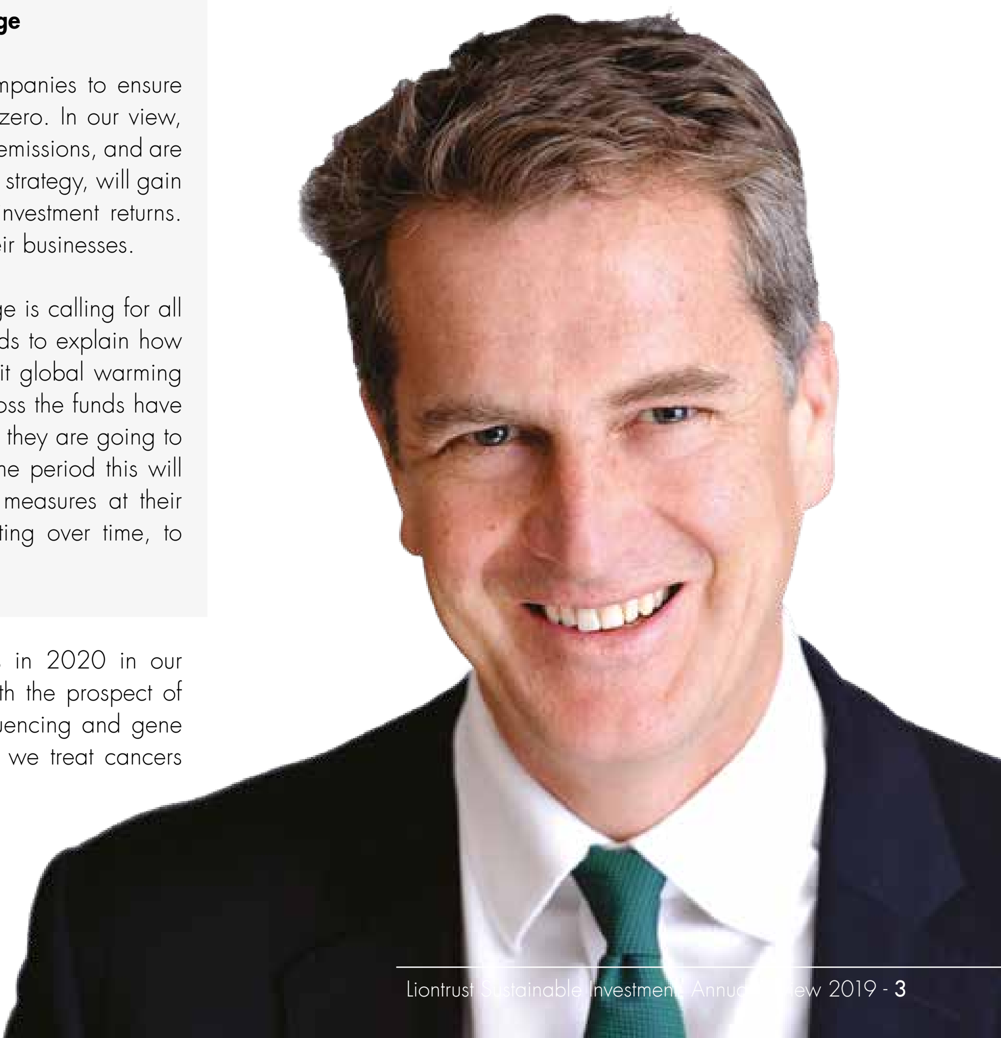
We look forward to greater progress on making our use of materials more circular, with companies that design packaging for re-use and recycling prospering at the expense of single-use plastic, as the bold targets of governments and food companies are looming into view. On food, the revolution in diets will continue as it becomes more evident that our health and that of the planet, as well as the welfare of animals, depends on what we choose to have on our plates.

In our own industry, we expect the rise in demand for sustainable investment to continue as people realise they can control the type of assets in their savings and pensions. We hope the financial services industry maintains high standards in meeting this demand and is clear and transparent to investors about the sustainable products they offer. Greenwashing is a troubling trend and we outline our tips to avoid this on page six.

As the SF funds approach their 20th anniversary in 2021, we would like to thank our investors for their continued loyalty and support. Our own hopes for 2020 and beyond are to continue delivering strong returns by investing in sustainable companies that are able to evidence the positive impacts they have on all our lives.

Peter Michaelis, Head of Sustainable Investment at Liontrust

For more information on Sustainable Investment plus our funds and team, go to **www.liontrust.co.uk/sustainable**



HOW WE INVEST:
OUR SUSTAINABLE VISION

Identifying superior stocks

01

Thematic analysis
– identifies companies with strong and dependable growth prospects due to alignment with our themes

02

Sustainability analysis
– focuses on those companies with excellent management and core products or services that contribute to society or the environment

03

Analysis of business fundamentals
– selects only those companies positioned to deliver high returns on equity

04

Valuation analysis
– determining that the shares of the company will be worth significantly more in the future

01 **Identifying emerging trends and long-term themes is the cornerstone of our process.** From the development of personalised medicine to the transition to lower carbon fossil fuels, we are fascinated by the wide-ranging trends that are changing the world and the opportunities they create. Thirty years ago, the IBM PC XT was the pinnacle of technology for example; today, we have the iPhone, which is not only much more powerful but can also fit into your pocket and is half a million times more energy efficient.

We can also point to advances in healthcare that have led to dramatic improvements in life expectancy. For instance, if a man was diagnosed with prostate cancer 30 years ago, he had a less than 50% chance of living more than five years; today, the odds are around 90%.

Why is this relevant to investors? Many of these outcomes have been delivered by the power of capitalism and the creativity of businesses generating strong profit growth and investment returns.

It is these innovative businesses in which our SF funds have invested for two decades, and we feel most investors underestimate the speed, scale and persistency of such trends within our economy.

We therefore look at the world through the prism of three mega trends – *Better resource efficiency* (cleaner), *Improved health* (healthier) and *Greater safety and resilience* (safer) – and 20 themes within these.

Cleaner: Using our resources more efficiently (water, increasing recycling of waste, lower carbon energy sources and energy efficiency)

Healthier: Improving our quality of life through better education, healthier lifestyles and diet or better healthcare

Safer: Making the systems we rely on safer or more resilient. This includes car safety, keeping our online data safe with cyber-security and spreading risk through appropriate insurance mechanisms

Themes – strong and dependable growth prospects

Better resource efficiency

- Improving the efficiency of energy use
- Improving the management of water
- Increasing electricity generation from renewable sources
- Improving industrial and agricultural processes
- Increasing waste treatment and recycling
- Making transportation more efficient

Improved health

- Providing affordable healthcare
- Connecting people
- Delivering healthier foods
- Building better cities
- Providing education
- Enabling innovation in healthcare
- Enabling healthier lifestyles

Greater safety and resilience

- Increasing financial resilience
- Saving for the future
- Insuring a sustainable economy
- Leading ESG management
- Improving auto safety
- Enhancing digital security
- Better monitoring of supply chains and quality control

While these themes are at the heart of our idea generation, there are three further criteria all companies have to satisfy.

02 **ESG management quality:** While a company might have significant exposure to a theme, we also have to check how sustainable the rest of its activities are. For each company, we determine the key environmental, social and governance (ESG) factors that are important indicators of future success and assess how well these are managed via our proprietary sustainability matrix.

Every company held in our portfolios is given a Sustainability Matrix rating, which analyses the following aspects:

- Product sustainability (rated from A to E): Assesses the extent to which a company's core business helps or harms society and/or the environment. An A rating indicates a company whose products or services contribute to sustainable development (such as renewable energy); an E rating indicates a company whose core business is in a conflict with sustainable development (such as tobacco).
- Management quality (rated from 1 to 5): Assesses whether a company has appropriate structures, policies and practices in place for managing its ESG risks and impacts. Management quality in relation to the risks and opportunities represented by potentially material ESG issues are graded from 1 (excellent) to 5 (very poor).

Companies must score C3 or higher to be considered for inclusion in our funds.

03 04 **Business fundamentals and valuation:** Companies in which we invest have robust business fundamentals with a proven ability to deliver high returns on equity (RoE) through sustaining margins and asset turnover. Typically, these companies have a maintainable competitive advantage through scale, technology or business model.

We predict the likely sales, earnings and other financial returns we expect to see from these companies over the next three to five years, integrating our view of their quality into these.

Applying the relevant valuation multiple to these allows us to derive a price target achievable in the next three years. When this shows significant upside, the investment is recommended as a buy and available to be included in our funds.

Our belief, therefore, is that identifying these powerful themes and investing in exposed companies can make for attractive and sustainable investments. Well-run companies whose products and operations capitalise on these transformative changes can benefit financially.

Avoiding greenwash

We believe interest in sustainable investment can only grow as consumers and governments expect companies to adopt more socially responsible behaviour.

With popularity comes proliferation, and as we continue to see more and more asset management companies launching into this market, it is important to identify 'greenwashing' in practice. Greenwashing is when asset managers say they take a sustainable or ESG approach to investing when they do not.

Here are five attributes that will show you whether funds, and the teams behind them, are capable of meeting investors' sustainable expectations.

1. Transparency. Genuinely sustainable fund managers should be transparent about how they invest, as well as being open to be challenged. This should include clear and simple information explaining how the team manages funds: what companies they look for under the sustainable approach and what they avoid. It should not be generic greenwash, with little more than meaningless 'brochure' comments like "sustainability is in our DNA".

2. Experience and resource. We believe the experience and depth of a team is important when it comes to sustainable investing. There is nothing to say a new fund will not be a good investment and there are interesting products coming to market. But to use a simple analogy, if you need a plumber, you are likely to choose one with experience over a novice.

3. Knowledge and ongoing training. Sustainable investing is a specialist area and subjects like climate change are fast moving so investors need to be confident that their chosen managers have the required knowledge to run money in this way. This can be anything from members of the team having specialist qualifications to a general focus on training to ensure people understand the latest sustainability trends. Again, if managers cannot display this, that represents a red flag.

4. Activism. We believe managers should be able to highlight a track record of holding companies to account and encouraging them to improve. Fund managers should be able to talk in detail about their engagement priorities – whether diversity, tax transparency or plastic pollution – rather than just making sweeping statements. It is also worth looking at managers' AGM voting records: do they just vote with company management or actually challenge the businesses in which they invest to improve?

5. Evidence. Ultimately, you are looking for all this knowledge and experience in sustainability being applied to investment decisions – giving meaningfully different exposure compared to more conventional funds. Are fund managers able to show how their sustainability views are reflected in their decisions: is it simply ESG data and reporting for the sake of it or is it actually making a difference to investments? Can they provide concrete examples of where, if you removed the sustainability aspects from a business, they would not have invested in it?

Meet the team

We have a 14-strong Sustainable Investment team (plus a specialist governance and stewardship manager) that has been managing funds in this way for nearly 20 years. The team comprises experienced investors and younger talent who have joined more recently.

A key differentiator for us is the fact that all the sustainable elements are integrated within a single team. We do not have separate fund management and ESG divisions, for example. Instead, every team member is responsible for all aspects of financial and ESG relating to an investment decision. Because of this approach, our team engages with companies across a broad range of issues relating to stages in our process, including screening criteria, sustainable investment themes and company-specific ESG issues.

We also have a five-strong external Advisory Committee to provide another layer of expertise in key areas of social and environmental impact: Jonathon Porritt, Sophia Tickell, Tony Greenham, Tim Jackson and Valborg Lie.

Equities

Theme and other responsibility | Academic background | Industry tenure / Team tenure

Peter Michaelis
Head of Sustainable Investment team

- *Improving the efficiency of energy use*
- *Enhancing digital security*

- MA in physics from Oxford University
- MSc in Energy & Environmental Engineering from Sussex University
- PhD in Environmental Economics from the University of Surrey

- 20 years / 19 years

Simon Clements
Investment Manager

- *Improving the management of water*
- *Improving industrial and agricultural processes*
- *Building better cities*

- BSc in Economics from the University of Newcastle, Australia
- Graduate Diploma in Applied Finance & Investment from Securities Institute of Australia
- CFA Charterholder

- 24 years / 11 years

Neil Brown
Investment Manager

- *Making transportation more efficient*
- *Improving auto safety*

- BA in Economics from Manchester University
- MSc in Development Economics from SOAS London

- 18 years / 12 years

Mike Appleby
Investment Manager

- *Increasing waste treatment and recycling*
- *Increasing electricity generation from renewable sources*
- Business development

- BSc (Hons) in Biological Sciences from the University of Edinburgh
- MSc in Environmental Management from Imperial College London

- 20 years / 16 years

Harriet Parker
Investment Manager

- *Connecting people*
- Leading engagement activities

- BSc in Economics & Management from the University of Bristol

- 16 years / 16 years

Laurie Don
Investment Manager

- *Providing affordable healthcare globally*
- *Enabling innovation in healthcare*

- BSc (Hons) in Computer Science from Durham University
- CFA Charterholder

- 12 years / 5 years

Equities (continued)

Martyn Jones
Investment Manager

- *Delivering healthier foods*
- *Enabling healthier lifestyles*
- *Providing education*

- MA in Management from The University of Glasgow
- CFA Charterholder

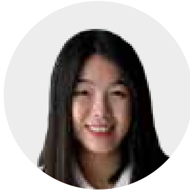
- 8 years / 6 years

Chris Foster
Investment Manager

- *Increasing financial resilience*
- *Insuring a sustainable economy*
- *Saving for the future*

- MA in Economics and Mathematics from the University of Edinburgh
- CFA Charterholder

- 7 years / 5 years



Mingming Huang
Portfolio Manager Assistant

- Analytical support for thematic analysis and engagement

- BSc Mathematics with Business Management from Queen Mary University of London

- Joined June 2019

Fixed Income

Stuart Steven
Head of Fixed Income

- Portfolio construction
- Banks

- BA in Accountancy from Stirling University
- MSc in Investment Analysis

- 26 years / 10 years

Kenny Watson
Investment Manager

- Credit positioning and high yield
- Utilities, retail, household goods, travel and leisure

- BA in Accounting and Economics from the University of Strathclyde
- Chartered Accountant

- 23 years / 6 years

Aitken Ross
Investment Manager

- Interest rates
- Insurance and financial services

- BSc in Accountancy and Finance from Dundee University
- MA in International Financial Analysis from Newcastle University
- CFA Charterholder

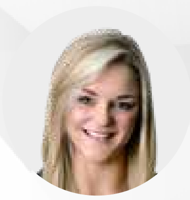
- 10 years / 8 years

Jack Willis
Assistant Investment Manager

- Credit positioning
- Telecoms, property, healthcare, industrials, chemicals

- BSc in Mathematics with Finance from the University of Leeds
- MSc in Finance and Investment from the University of Leeds
- CFA Charterholder

- 6 years / 4 years



Hannah Jones
Portfolio Manager Assistant

- Sustainability analysis and portfolio administration

- Studying for the IMC

- 5 years / 3 years

Theme and other responsibility | Academic background | Industry tenure / Team tenure

Governance and Stewardship

Sinead Lennon*
Governance & Stewardship Manager

- AGM voting and policy
- PRI reporting

- BA (Hons) in Business Studies Dublin Business School and IMC

- 7 years / 7 years

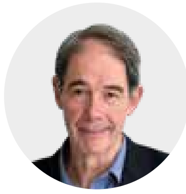
*Sinead works closely with the Sustainable Team but supports other Liontrust teams on governance & stewardship issues

Advisory committee

Our sustainable investment team employs the services of an Advisory Committee which provides guidance and expertise in key areas of social and environmental impact.

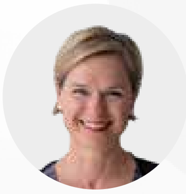
Sophia Tickell is Co-founder and Director of Meteos, a non-profit company, which runs senior dialogues, focused on finance, health and the environment. She is the author of 'Banking on Trust', 'Vital Connections: Science, Society and Sustaining Health', the EnergyFutures report, and the PharmaFutures (www.pharmafutures.org) series. Sophia was previously Chair of the Board at SustainAbility Ltd and led Oxfam's policy work on the private sector. Sophia is also Non-Executive Director of Liontrust Asset Management.

Tony Greenham is Director of Economy, Enterprise and Manufacturing at the RSA (Royal Society of Arts, Manufactures and Commerce), where he leads a programme of policy research into the future of work, social impacts of technology, green industrial strategy and economic democracy. He is a former corporate stockbroker and has written extensively on financial sector reform including the undergraduate economics textbook 'Where Does Money Come From?'



Jonathon Porritt is Founder Director of Forum for the Future, the UK's leading sustainable development charity. His book, 'The World We Made', seeks to inspire people about the prospects of a sustainable world in 2050. He is also Chancellor of Keele University and President of The Conservation Volunteers and former Chair of the UK Sustainable Development Commission.

Tim Jackson is Professor of Sustainable Development at the University of Surrey and Director of the Centre for the Understanding of Sustainable Prosperity (CUSP). From 2004 to 2011, he was Economics Commissioner on the UK Sustainable Development Commission, where his work culminated in the publication of the controversial bestseller 'Prosperity without Growth' – economics for a finite planet.



Valborg Lie is Stewardship Manager at LGPS Central, responsible for bespoke engagement and voting services to support investment objectives. She has a wealth of experience, working on responsible investment (RI) issues over the last 15 years. From 2005 to 2013, she worked as Head of RI within the Norwegian Ministry of Finance, overseeing the management of the Norwegian Government Pension Fund Global (GPFG), one of the biggest sovereign wealth funds globally. Valborg leverages an extensive network of institutional investors and SWFs globally to help promote and build RI best practices.

Performance of our funds - IA quartile rankings to 31.12.19

	Sector	1 year	3 years	5 years	7 years	10 years
Liontrust Sustainable Future UK Growth	IA UK All Companies	1	1	1	1	1
Liontrust UK Ethical	IA UK All Companies	1	1	1	1	1
Liontrust Sustainable Future Global Growth	IA Global	1	1	1	1	2
Liontrust Sustainable Future European Growth	IA Europe ex UK	1	1	1	2	2
Liontrust Sustainable Future Corporate Bond*	IA Sterling Corporate Bond	1	1	1	1	N/A
Liontrust Monthly Income Bond	IA Sterling Corporate Bond	3	1	1	2	N/A
Liontrust Sustainable Future Managed	IA Mixed 40% - 85% Shares	1	1	1	1	1
Liontrust Sustainable Future Cautious Managed	IA Mixed 40% - 85% Shares	1	1	1	N/A	N/A
Liontrust Sustainable Future Defensive Managed	IA Mixed 20% - 60% Shares	1	1	1	N/A	N/A
Liontrust Sustainable Future Managed Growth**	IA Flexible Investment	1	1	1	1	1
Liontrust GF SF Pan-European Growth***^	FE Offshore regulated peer group	1	2	2	2	2
Liontrust GF SF European Corporate Bond***	FE Offshore regulated peer group	1	N/A	N/A	N/A	N/A
Liontrust GF SF Global Growth+	FE Offshore regulated peer group	N/A	N/A	N/A	N/A	N/A

Source: FE Analytics, as at 31.12.19, total return (net of fees, income/interest reinvested), primary share class, in GBP apart from where stated. Quartiles correct as at 13.01.20 *Manager inception date 20.08.12. **From 10.02.20, the Sustainable Future Absolute Growth Fund changed its name to Sustainable Future Managed Growth. ***In Euros. ^The Luxcellence – Liontrust SF Pan-European Equity Fund, which had launched on 14.03.01, merged into the Liontrust GF Sustainable Future Pan-European Growth Fund, which launched on 19.10.18. +The GF SF Global Growth Fund launched on 12.11.19.

Past performance is not a guide to future performance, investments can result in total loss of capital.

Discrete returns (%) - To previous quarter 12 months ending

	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15
Liontrust Sustainable Future UK Growth 2 Acc	30.2	-6.7	20.7	8.0	9.8
MSCI UK Index	16.4	-8.8	11.7	19.2	-2.2
IA UK All Companies	22.3	-11.2	14.0	10.8	4.9
Liontrust UK Ethical 2 Acc	37.8	-7.3	22.5	4.5	10.6
MSCI UK Index	16.4	-8.8	11.7	19.2	-2.2
IA UK All Companies	22.3	-11.2	14.0	10.8	4.9
Liontrust Sustainable Future Global Growth 2 Acc	29.4	1.3	18.8	17.3	6.5
MSCI World Index	22.7	-3.0	11.8	28.2	4.9
IA Global	21.9	-5.7	14.0	23.3	2.8
Liontrust Sustainable Future European Growth 2 Acc	25.9	-14.8	19.8	16.0	12.4
MSCI Europe ex UK Index	20.0	-9.9	15.8	18.6	5.1
IA Europe Excluding UK	20.3	-12.2	17.3	16.4	9.3
Liontrust Sustainable Future Corporate Bond 2 Inc	11.8	-3.6	7.2	10.5	0.5
iBoxx Sterling Corporate All Maturities Index	11.0	-2.2	5.0	11.8	0.6
IA Sterling Corporate Bond	9.5	-2.2	5.1	9.1	-0.3
Liontrust Monthly Income Bond B Gr Inc	9.4	-3.0	8.9	9.4	1.4
iBoxx Sterling Corporates 5-15 years Index	10.7	-1.7	5.7	10.8	1.2
IA Sterling Corporate Bond	9.5	-2.2	5.1	9.1	-0.3
Liontrust Sustainable Future Managed 2 Inc	24.7	-0.5	16.1	11.8	6.1
IA Mixed Investment 40-85% Shares	15.8	-6.1	10.0	12.9	2.7
Liontrust Sustainable Future Cautious Managed 2 Inc	19.5	-2.2	13.4	9.7	4.9
IA Mixed Investment 40-85% Shares	15.8	-6.1	10.0	12.9	2.7
Liontrust Sustainable Future Defensive Managed 2 Inc	16.8	-2.2	11.9	9.3	3.7
IA Mixed Investment 20-60% Shares	11.8	-5.1	7.2	10.3	1.2
Liontrust Sustainable Future Managed Growth 2 Acc	26.4	1.1	18.1	15.0	5.4
IA Flexible Investment	15.7	-6.7	11.2	13.8	2.0
Liontrust GF Sustainable Future Pan-European Growth A1 Acc++	32.4	-17.0	13.6	-4.5	17.0
MSCI Europe Index	26.0	-10.6	10.2	2.6	8.2
Liontrust GF Sustainable Future European Corporate Bond A5 Acc++>	7.3	N/A	N/A	N/A	N/A
iBoxx Euro Corporates All Maturities Index	6.3	N/A	N/A	N/A	N/A

Source: FE Analytics, as at 31.12.19, total return (net of fees, income/interest reinvested), primary share class, in GBP apart from where stated. Funds versus comparator benchmarks. ++In euros. >Discrete data is not available for five full 12 month periods due to the launch date of the portfolio.

Please refer to the Key Risks section for more information.

As the previous two pages show, we continued to generate strong performance last year, with all but one of our UK-domiciled funds in the top quartile in their respective IA peer groups over 12 months and all 10 in the first quartile over three and five years to the end of 2019.

Our funds are built to outperform over the longer term and the Liontrust SF Managed Fund is now in the top quartile in its sector over one, three, five, seven and 10 years to the end of 2019. Looking at the 10-year period, the SF Managed Fund has generated a return of 161.1% versus 94.0% by the average fund in the IA Mixed Investment 40-85% Shares sector* and this represents significant outperformance for a managed portfolio.

The Bond angle

Three pillars of the process

Maximise Sustainability **1**

Sustainability analysis
Positive screening
Negative screening
Best In Class

Maximise Quality **2**

Credit analysis
High-quality issuers
Macro analysis

Maximise Value **3**

Finding value
Dynamic approach
Focused portfolio

We believe there are considerable benefits in applying a sustainable investment approach to fixed income funds, potentially enhancing performance and reducing volatility. Like all fund managers, however, we face the ongoing challenge that direct causation between ESG credentials and performance remains difficult to prove and this is especially true for fixed income.

Nevertheless, there are correlations, and we believe focusing on more sustainable parts of the market and avoiding companies and sectors challenged by environmental and societal considerations can drive performance. Not only do sustainable companies typically have better growth potential, they are also more resilient than the market thinks. As exhibit one, we present our SF Corporate Bond Fund, which has generated first quartile returns over one, three and five years, and since the current team has been at the helm from August 2012**.

Our fixed income investment process seeks to invest in businesses providing solutions to the world's problems and coupling this with strong credit fundamentals and, most importantly, attractive valuations. Combining all three elements — sustainability, value and fundamentals — has helped to steer us through volatile markets and deliver returns to clients.

Industries and sectors that damage society and the environment are susceptible to either enforced regulatory change and/or evolving consumer habits, both of which can be detrimental to long-term returns. In the SF Corporate Bond portfolio, we have never had exposure to oil, coal, mining, autos (internal combustion engine), nuclear or tobacco, to name a few – and these sectors have not only underperformed on the whole but have done so with considerable volatility.

Moving to sectors where we do find opportunities: within banks, for example, our process leads us to favour companies that predominately generate revenues from retail and commercial banking operations as opposed to investment banking.

In the electricity sector, we focus on companies that major in renewable energy and/or specialise in the transmission (National Grid) or distribution of energy (Western Power Networks) as we believe these segments immunise our portfolios from energy transition risk.

Another is the telecommunications sector, which contributes towards raising standards in health, education, employment and empowerment of local communities, providing the infrastructure of the knowledge economy, dematerialisation and enabling other sectors of the economy to move towards sustainability.

*Source: Financial Express, as at 31.12.19, primary share class, total return, net of fees and income/interest reinvested. **Source: Financial Express, as at 31.12.19, primary share class, total return, net of fees and income/interest reinvested. The current fund management team took over responsibility for the SF Corporate Bond Fund on 20.08.12.


on and access to clean water – Le
– Increasing financial resilience
Improving industrial processes – Increasing elec
Prov

KEY THEMES

Themes over two decades

Key to our Sustainable Investment process at Liontrust is looking ahead, often years into the future, and making decisions based on how we believe things will develop. We focus on the biggest issues of our time, seek companies that can make money from solving them and invest in the opportunities of maximum impact for maximum returns – and this means getting ahead of the curve by identifying major transition points across sectors is vital.

We have seen this in an area like energy, for example, where the climate change crisis continues to drive a changing agenda or in fashion where companies around the world have had to address serious deficiencies in labour standards. One of the most interesting areas since we launched the SF range in 2001 has been the changing face of transport and the next two pages show our own journey with the autos sector.

Autos

Few would argue with the fact that the car defined the 20th century in many parts of the world. But as we approach the third decade of the 21st, we are at a tipping point in terms of humanity's relationship with the automobile. Once seen by teenagers the world over as the ultimate passport to freedom, many now have serious issues with the emissions profile of the car industry, and growing congestion in cities has also put a major dent in the 'fun and convenient' image of driving.

Highlighting how our thinking on autos has changed over the years, we removed *Improving the fuel efficiency of cars* during a review of our themes back in 2018. This has long been a key tenet of our investing but we are now keen not to distinguish cars from other forms of transportation, especially with the advent of autonomous vehicle fleets. As a result, we moved the theme into *Making transport more efficient*. *Improving auto safety* remains a theme across our portfolios but as stated, looking into the future, we feel our affiliation with the car may be on the edge of fundamental change.

Here is how our thinking and investing in this area has evolved over the past two decades:

Sustainable Future funds launched

We started our funds with a refusal to invest in companies exposed to petrol or diesel engines, believing the economics of a sector that emits poison into the air we all breathe were no longer viable. We finally saw regulation shift in this direction in 2009, with the EU introducing a 130g/km C02 target for new passenger cars, dropping to 95g/km by 2021.

Tyre safety

Beyond the emissions picture, the autos industry has also had to face the problem that cars are fundamentally dangerous: while the number of deaths caused by road accidents in the UK has been on an improving trend since the 1960s, thousands of people still die every year. This has required more and more safety measures, and we identified an opportunity in French company Michelin, a world leader in the development of energy-efficient and safer tyres, in 2009.

Again, we were ahead of the curve, and, in 2012, the EU Commission required tyre manufacturers to comply with labelling regulations to unify and clarify security requirements and efficiency. These labels provide accurate features based on seven parameters, such as tread resistance or break efficiency, as well as precise specifications about noise level tread, and are mandatory for all manufacturers supplying or selling tyres in the EU.

Autonomous emergency braking (AEB)

Better tyres was one of a raft of measures to improve vehicle safety but the initial focus remained very much on the people within the car – and data on accidents show that half of those dying in accidents are either pedestrians or cyclists. We saw this as a clear problem that needed solving and identified several companies innovating in areas such as smart sensors and features for automated driving, including autonomous emergency braking (AEB). We invested in several companies making the kit to improve safety including Continental and semiconductor names Infineon and ASML, and these have proved to be among our most successful investments in recent years.

Once more, we saw regulations embrace these necessary changes, with Europe's New Car Assessment Programme (NCAP) including AEB as part of the requirements for its highest rankings from 2016.

GLOBAL EVENTS

Emissions limited to 130kg/km EU

Mandatory tyre labelling announced

Looking beyond 'peak car'

Looking to the future, we are again seeking ways to get ahead of the regulatory and societal curves in this area, with driverless cars no longer the stuff of science fiction. Short-term problems in our auto industry are well known but we look beyond the profit warnings of 2018 and trade war tweets of 2019 to the underlying drivers of change. Emissions controls have been an issue for decades but we believe something more fundamental is at work: the problem is not should we buy a diesel, petrol, hybrid or full electric car but rather whether to own one at all.

The congestion so many of us face in modern cities is not only unsustainable from a human tolerance perspective, it is also an economic waste. A 2013 study from the Centre for Economics and Business Research estimated the fuel costs, unnecessary expense and lost time from city congestion cost the US, UK, France and Germany 0.8% of GDP a year.

Where, then, is the opportunity? If driving is too energy and time intensive and dangerous, what is the solution? This is driving the notion of 'peak car', and we feel analysts are missing what the public is increasingly realising: driving is no longer fun or convenient. We have gone from half of Americans obtaining their driving licenses as soon as they were able to in the 1990s to just over a quarter doing so in 2017. We are moving beyond car ownership to new mobility solutions.

To capture this opportunity, we are investing in a wide range of solutions. We see battery manufacturing as one such area, where declining prices are key to future growth. We believe transport options will proliferate, from electric buses to microscooters, and favour companies such as Umicore, which works across materials and surface technology and is investing now to close the loop with recycling in the future.

Another growth area is trains, and we have added companies including Trainline and Knorr-Bremse to our portfolios. Convenience and ticketing are hurdles to greater train use and Trainline has significant impact on these. Another way trains can take market share from aviation lies in high speed rail, and Knorr-Bremse's braking systems can have a key impact on safety, which unlocks speed.

Overall, we see the transport sector shifting focus from traditional internal combustion engine and powertrain cars to auto safety, multi-modal transport and trains. For our own welfare and to reduce the pollution and heat of the planet, we need to get out of the model of single ownership cars in clogged city streets, and this continues to create opportunities for companies in the electric transport space.

2014 2015 **2016** 2017 2018 **2019**

Euro NCAP includes autonomous emergency braking

EURO NCAP FOR SAFER CARS

Fashion

Fashion, by definition, is among the fastest-moving industries and one that has presented many challenges for sustainable investors over the years. Our work since 2001 on the industry also highlights how our thinking on themes can change and, in this instance, shines a light on our substantial engagement efforts as an active owner of companies. Clothing supply chains have lengthened under relentless pressure on costs over recent decades as emerging economies offered lower wages, weaker labour laws and tax breaks to win valuable contracts from major brands.

2006: Labour standards

Since the earliest days of the SF funds, labour standards in supply chains has been one of our most important engagement areas and we have seen several major projects designed to improve this, from Oxfam launching Better Returns in a Better World in 2006 to Fashion Revolution, formed in the wake of 2013's Rana Plaza disaster.

2009: Supply chains

We assessed the fashion industry's supply chains and the working conditions within them in 2009. We concluded that conditions were unacceptable in a significant number of supply chains, that change was coming, and there were opportunities available to companies which could drive improvements. We focused on the need for decent work and wages throughout the chain and positively identified Inditex, the owner of the Zara brand, as we believed its proximity sourcing model allowed for a more sustainable form of manufacturing.

2013: Accords established

This issue of unsafe working conditions came into sharp focus with the 2013 collapse of the Rana Plaza complex in Bangladesh, a disaster that resulted in the loss of more than 1,100 lives. Many of those killed were employed in the garment industry and change was urgently required.

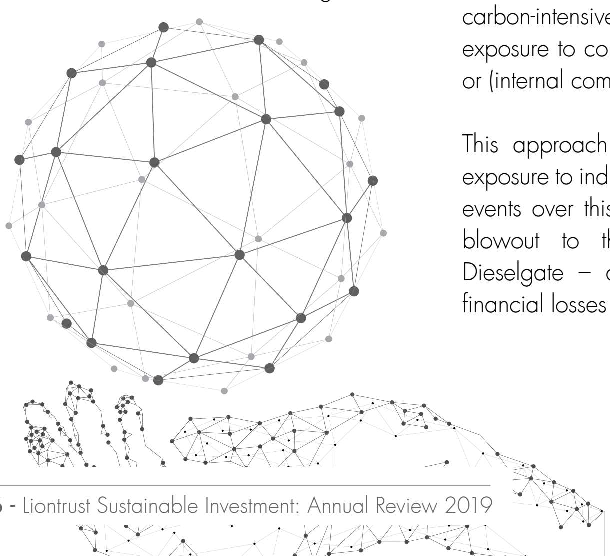
We saw the Accord on Fire and Building Safety in Bangladesh and Alliance for Bangladesh Worker Safety quickly established, notable wins for an industry that had previously been slow to respond to these issues. The Liontrust Sustainable Investment team was part of a coalition of shareholders representing around US$1 trillion in AuM that engaged with companies following the disaster, with Adidas signing the Fire & Safety Accord in 2013 being particularly important.

We also visited Bangladesh on a fact-finding tour in 2014, and legislation such as the Modern Slavery Act continues to improve working conditions around the word.

2001 2002 2003 2004 2005 **2006** 2007 2008 **2009** 2010

Climate change

The natural disasters and climate strikes over the past year have served to highlight the growing urgency of the climate crisis. It feels like a step change that will translate into real action worldwide but how did we get here?



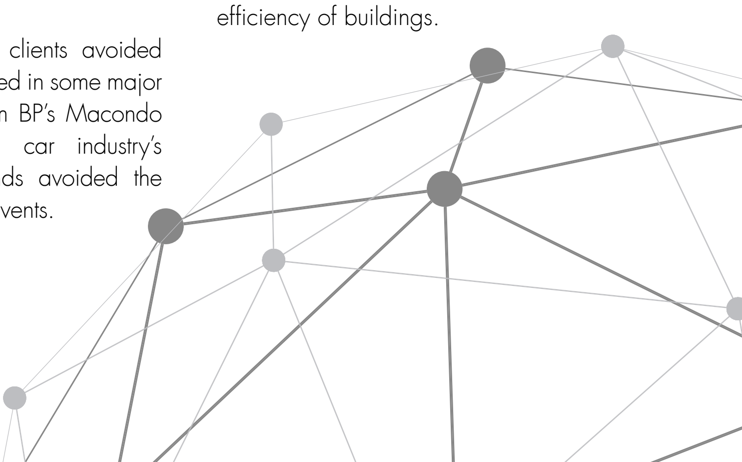
2001: Exposure

In November 2001, the third major report on climate change (from the Intergovernmental panel) stated clearly that "global warming was very likely with highly damaging future impacts". We had launched our funds earlier that year with a clear focus on avoiding carbon-intensive industries, which meant no exposure to companies involved in coal, oil or (internal combustion engine) autos.

This approach meant our clients avoided exposure to industries involved in some major events over this time – from BP's Macondo blowout to the German car industry's Dieselgate – and our funds avoided the financial losses from these events.

2006: Efficiency and economic sense

The Stern Review came out in 2006, telling us the cost of reducing emissions would be far less than the cost of the damage these emissions would cause. This backed up our original thinking that investing in companies helping to cut emissions makes economic sense. By then, we had already started investing in companies like Kingspan, whose products improve the energy efficiency of buildings.



2016: Risk vs opportunities

After many years of analysis, we concluded retailers have been unable to show sufficient improvements in the supply chain and the image of 'Fast Fashion' has become irrevocably damaged as a result. The theme exposed more risks than opportunities for the large retailers and we sold out of names including H&M and, ultimately, Inditex in 2018.

2018: Safety

This is not to say we no longer find opportunities within this theme but we now focus on companies that assess supply chains on behalf of retailers.

The Testing, Inspection and Certification (TIC) industry is vital for sustainable development, ensuring the safety of our products both for the users and the people making them. With more complex supply chains, product innovation, stringent regulations and ever-increasing consumer demands around sustainability, this sector enjoys a long-term structural growth rate that should continue to rise ahead of global GDP.

We identified Intertek as a positively exposed company benefiting from structural growth in increasing safety standards, outsourcing, regulations and sustainability, adding it to funds in 2018. It also has the sustainability profile, business fundamentals and valuation that we need to invest with confidence.

2019: Circular economy

We continue to look for clothing businesses focused on closing the loop and moving towards a circular economy, buying innovative Italian textile manufacturer Aquafil.

Plastic pollution has quickly become a mainstream issue and urgent action is needed from consumers, companies and governments. One solution to this problem is to recover and re-use the plastic waste that litters our oceans. 'Regenerated' plastics are made from recycled plastic waste, avoiding the creation of new virgin material from oil-based petrochemicals and helping to 'close the loop' in the plastic lifecycle.

Aquafil's main product is nylon, which has a number of valuable characteristics including toughness and durability, as well as being lightweight, quick-drying, shrink and fire resistant. As a crude oil derivative, however, nylon clearly has a number of sustainability challenges. Recognising this around 20 years ago, Aquafil decided to tackle this issue by trying to improve the sustainability of nylon production.

After years of trial and error and investment, CEO Giulio Bonazzi's vision was realised as Aquafil successfully developed a commercially viable process to recycle used nylon. Aquafil branded this innovative recycled product Econyl, with the tagline: No waste. No new resources. Just endless possibilities.

We believe this will enable Aquafil to capture more of the end product margin, and its central role in Vogue's recent sustainable issue shows how it is winning over the fashion world.

We continue to believe unsafe and degrading working practices make no business, common or investment sense and will continue to play our role in bringing them to an end. We do this to generate investment returns for our clients but it is also clearly the right thing to do.

2011 **2012** **2013** 2014 2015 **2016** 2017 **2018** **2019**

2012: Footprint

We began monitoring the carbon footprint of our funds, allowing us to better understand where portfolio emissions were coming from.

2016: Gas and coal

We further strengthened our approach. The investment team and our Advisory Committee agreed that natural gas should no longer be considered a primary transition fuel so, in addition to coal and oil screens, we decided to exclude companies exploring for or producing natural gas from our funds.

This timeline is designed to show how the Liontrust Sustainable Investment team has been at the forefront of recognising when times are changing. Being early to adapt means we avoid risks and capture investment opportunities along the way.

Currently, our funds continue to be positioned progressively because we believe the shift to decarbonise will be bigger and happen more quickly than the market anticipates. The Paris Agreement in 2016 was a major step forward but we expect further tightening of global regulations as well as shifts in consumer behaviour – and our efforts as part of the One and a Half Degree Transition Challenge are testament to this.

Developing themes

Looking beyond meat *(Delivering healthier foods, Enabling healthier lifestyles)*

MARTYN JONES

Until recently, obesity and health concerns were the main drivers behind moving better diets up the global agenda but we are now seeing growing awareness of the environmental damage caused by meat production. Food and farming are responsible for 25% of total global emissions, and the livestock industry, primarily meat and dairy, makes up a significant share of this.

Given these factors, a recent report from independent think tank RethinkX has claimed we are on the cusp of the deepest, fastest and most consequential disruption of food and agricultural production since the first domestication of plants and animals 10,000 years ago – and the driving force behind this is what is known as protein disruption.

Alternatives to meat-derived protein currently fall into two camps – plant and insect. Figures from Mordor Intelligence predict the global market for these will hit $8.2 billion and $1.1 billion respectively by 2023, so we are clearly in the early days of growth for both.

There is nothing like as much in the news about the impact of meat and dairy production as there is about renewable energy or transport emissions but we feel addressing this situation can have a similar impact on climate change. We expect the same contribution from innovative companies working in livestock, meat and dairy as we have seen in sustainable energy.

While there are hurdles to overcome, the direction of travel on meat production looks as clear today as it is on fossil fuels – and we will continue to invest in companies exposed to such structural trends shaping the economy of the future.

Living in a digital world *(Connecting people, Improving the efficiency of energy use)*

HARRIET PARKER

As more of us adapt our behaviour with climate change in mind, most activity has understandably been around how we heat and power our homes and travel around the world. But it is becoming increasingly clear that we also need to take a hard look at how we communicate and consume media.

New figures from think tank The Shift Project reveal digital technologies now account for 4% of greenhouse gas (GHG) emissions, which is more than civil aviation, and this could double by 2025 as the energy required is increasing by 9% a year.

As people cannot see the pollution from selfies and videos streams, there is a perception these services are boundless. In reality, however, they suggest we need to move towards greater 'data sobriety' and the fear is that this means greater regulation.

This issue of rising data usage, and the amount of energy it requires, is one we have been tracking for several years. Traditionally, companies tended to have on-site server rooms, often in regular offices, and while these have evolved over time, they were not purpose built, so cooling and ancillary power requirements make them highly inefficient.

We therefore see considerable resource benefits coming from the trend towards outsourced storage and processing, focusing on data centre operators that have low power usage effectiveness (PUE) and also use electricity from renewable sources. We believe these co-location centres are vital for the digital economy and will increasingly underpin the infrastructure necessary for a more sustainable world.

The technology industry in the US now emits more carbon than ever before, so more efficient data centres are vital.
For the centres themselves, power is their biggest cost, giving further incentives to design and run them more efficiently.

Will a cashless society pay off? *(Increasing financial resilience)*

CHRIS FOSTER

Anyone who has suffered bemused looks when trying to pay with cash in a shop or pub will be aware how rapidly we are moving towards a cashless society. *Increasing financial resilience* remains a key theme across our portfolios and, as part of this, we believe the shift from cash to digital payments provides overall net benefits to society. Technology has transformed the use of money over recent years, with the rise of online shopping and the often discussed 'death of the high street' highlighting a growing shift from physical to digital payments.

There are numerous benefits to this shift: digital payments are more convenient as people no longer need to carry cash and contactless transactions are quicker, easier and more hygienic.

Beyond that, we would also highlight the potential to reduce or resolve the tax gap and expose the so-called shadow economy. There have been many efforts to quantify the cost of such illegal activity globally: in the UK, for example, the Bank of England revealed in 2015 that no more than 50% of notes in circulation are used for domestic transactions and hoarding, with the balance either overseas or used in the shadow economy.

A cashless society remains an emotive issue that elicits strong reactions: in 2016, Deutsche Bank CEO John Cryan said cash was both costly and inefficient and would no longer exist in 10 years and yet the amount of cash in circulation has actually grown rather than shrunk. However people feel about these underlying questions, we would point out one simple fact: despite the rapid digital shift in the developed world, 85% of payments globally are still made in cash, which creates a huge growth opportunity as technology continues to improve and any lingering aversion to it erodes.

In the wake of recent events, we have added to two of our holdings held under this theme, PayPal And Visa. In our view, one of the outcomes of the Coronavirus pandemic will be that people who have rarely engaged with e-commerce before will be encouraged to do so. While 2020 will prove difficult for all businesses, we believe PayPal will continue to grow earnings in excess of 20% for the 2021 to 2024 period. We added to Visa for similar reasons, expecting use of cards to accelerate during this time of crisis.

Insuring the future *(Insuring a sustainable economy)*

AITKEN ROSS

In our bond funds, we favour insurance companies for several reasons – they have robust balance sheets, strong credit ratings and are highly cash generative (in the main). Capital positions are also strong and have generally been improving over time.

We see a two-fold positive impact from these companies. First, they allow people and businesses to insure their assets, making them more secure and facilitating economic development and investment, which in turn benefits society through job creation and growth. Second, they give people the ability to secure their future, through savings, pensions and life insurance products.

From a sustainability perspective, we believe insurance companies to be among the market leaders. It is the role of an insurance company to understand, analyse and price risk, and many of the leading global insurance companies have their own research funds looking specifically into areas such as climate change.

By researching climate change, they can understand its effects and price it more efficiently, thereby reducing exposure to downside risks through improved underwriting. These companies then use the output of this research in other areas: feeding this knowledge into their investment portfolios for example and advising their clients on these growing risks.

Insurance companies have been among the first movers in trying to understand the impact their businesses and investment portfolios are having in relation to climate change. Many have analysed carbon emissions for example and devised strategies to mitigate these.

Unbottling the gene genie *(Enabling innovation within healthcare)*

LAURIE DON

No longer the preserve of science fiction, gene therapy is set to become an increasingly important part of medical treatment. This therapy involves the introduction of normal genes into cells in place of missing or defective ones to correct a genetic disorder. With between 4,000 and 6,000 diagnosed genetic disorders in existence, we see an approaching tipping point where gene therapy becomes commonplace, just as happened with antibody drugs in the early 1980s.

Pure-play gene therapy companies had sales of around $3 billion in 2018 and consensus has this increasing to $6 billion by next year. And yet this would still only make up 1% of the overall prescription drugs market.

A range of pharma and biotechnology companies continue to make progress in the mainstream space, with several trials started and products launched. From our perspective, the concept of a one-and-done treatment paradigm goes well with our focus on sustainable areas within healthcare, in terms of both innovation and affordability. The premise of gene therapy is that it works at the source and provides a one-time cure, with patient and payment providers both benefiting from clear and hopefully definitive results.

As gene therapies can cure diseases, they can potentially be approved on a specially designated pathway – much faster than traditional treatments. This means the company involved will potentially have to jump straight from small-scale production to large-scale manufacture, suggesting that when outsourcing, it is sensible to link up early with a partner who can be trusted to work at scale.

Given these dynamics, we are looking to find companies that can fill an essential part of the supply chain, on the assumption such stocks will grow with the industry regardless of which specific therapies are most successful.


IMPACTS
transition to lower carbon fuels – Making transportation
the healthcare system – Delivering
of supply chains and quality control

Impact measurement

We continue to work on better ways to measure and disclose the environmental and social performance of our investments.

This extra-financial investment performance has been called 'impact' and has grown in importance as people want to understand the contribution their money makes to the development of a more sustainable economy. It is a challenge as there is no standard framework currently and measuring impact is therefore a rapidly moving discipline.

In our 2018 Annual Review, we outlined the difference between the strict 'classical' definition of impact investing – designed to generate positive, measurable and typically pre-determined social and environmental impacts alongside a financial return – and the broader definition of impact measurement. We adopt the latter due to the difficulty in attributing 'additionality' to the companies in which we invest.

We mentioned how impact is also used to describe making positive changes in investee companies through engagement. We continue to engage with companies to improve how they are managed, as well as finding ways for them to disclose the impacts, both good and bad, that their business has.

But we believe the terminology used to describe environmental and social performance is not actually that important; call it impact or not as it continues to change. What is important is how we communicate it and how it guides our investment process.

Over the course of 2019, we assessed a number of different frameworks for disclosing and communicating the impacts of the investments in our SF funds. While there are many initiatives emerging, our conclusion was that none of the frameworks we tried was useful – yet.

For the frameworks we reviewed, they were a useful starting point but too blunt a tool for our funds. They missed the nuances due to mapping entire industries to the United Nations' Sustainable Development Goals (SDGs), which fails to capture the divergence between companies within industries. It is exactly this divergence that helps us to make investment decisions and find those companies on the right side of investment themes that are quality, profitable businesses which we believe are undervalued.

We appreciate these impact reporting frameworks are still being developed and refined and look forward to seeing them improve and become increasingly useful in the future.

In the meantime, our funds continue to contribute to sustainable development and we want to quantify this and communicate it to our clients and stakeholders. We believe the best way to communicate the impacts from the SF funds is to:

- Clearly articulate our 20 sustainable investment themes.
- Clearly show how these themes directly contribute to the SDGs at the specific performance indicator level of the goal for those who want to use this vocabulary.
- Engage with companies in which we are invested to measure and communicate the primary impacts of the products or services the business provides as well as how it is managing the main impacts from operations.
- Be transparent and disclose this information to investors in the Liontrust SF funds.

Going through these in turn, we already disclose thematic weights and how these are exposed to the SDGs. Our engagement to get better impact data from individual companies is ongoing but we have yet to disclose these results so we are not there yet.

Engagement to gain company-specific impact data is resource intensive and takes time but we believe we will be able to provide much more meaningful data that will be more informative than we get from the aggregated portfolio frameworks in their current form.

We plan to start disclosing more of these company-specific impacts as they become available in the latter half of 2020.

Other impact measurements
We will continue to disclose information on environmental and social impacts such as:

- Independent analysis of carbon and how the Liontrust SF funds compare to the markets in which they are invested, in terms of carbon emitted, investments in solution providers and information on exposure to fossil fuels (which is zero). This is in line with our commitment to do so in 2012.
- We are assessing a more sophisticated portfolio carbon tool that looks at climate goals and different average global temperature rise scenarios, which we hope will augment the simple carbon foot-printing.
- The investment ideas in our equity portfolios are driven by finding companies exposed to our 20 themes. We will continue to engage with companies to disclose the impacts of these positive themes and share these as we progress.
- We will continue to disclose how we are engaging with companies and where we are affecting positive change in how companies are managed (see pages 30-35).
- Measuring impact is a challenging and evolving area but we are committed to developing this and to meeting the increasing demand from clients who want to know what impact their investments are having on the real world.

Climate change: how we think about it and how this influences our investments

How we generate and consume energy is undergoing huge change and this is affecting many parts of our economy; and the science is telling us to act ever faster to reduce greenhouse gas emissions. We believe this transition from high to ultra-low carbon energy sources and how we can use energy more efficiently to reduce emissions represents a huge structural shift and has a major impact on our investment decisions.

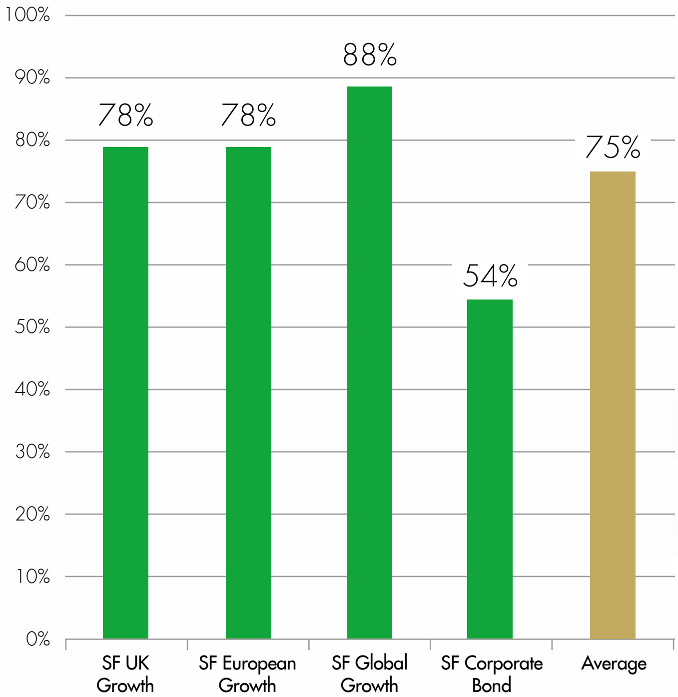
First, companies helping to reduce emissions will experience significant growth across industries as diverse as power and heat generation, transport and heating and cooling buildings.

Second, we want to ensure the companies we own understand the magnitude of the energy transition and are managing their businesses in a proactive way that protects them from inevitable tightening regulations. We engage with companies to encourage them to manage this (and other key) material impacts on their business.

Finally, there are some industries, no matter how proactively managed, on the wrong side of this transition and these will experience secular decline in demand for their carbon-intensive products or services. We choose to avoid areas such as fossil fuel extraction and production, internal combustion engine car manufacturers, airlines and energy-intensive businesses that are not positioning themselves for a lower carbon world.

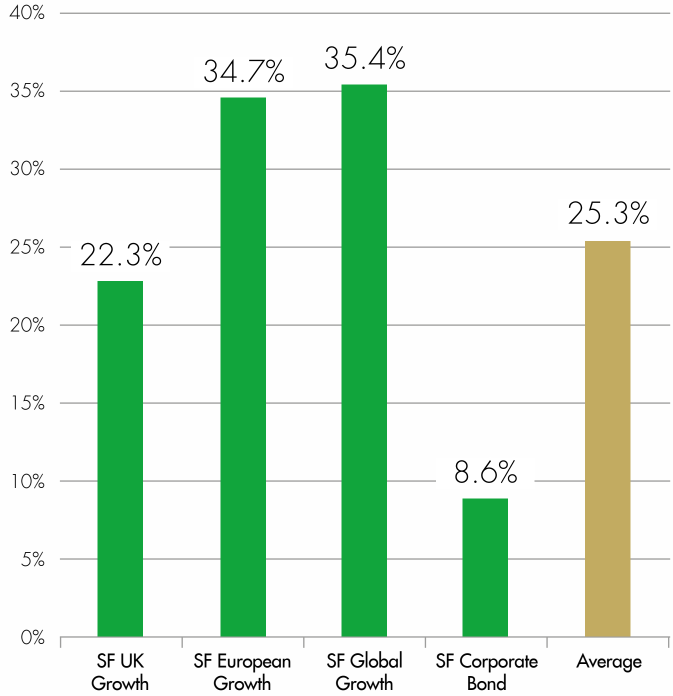
We disclose the aggregated carbon emissions for our single strategy funds, which we started doing in 2012. This work is carried out independently and, on average, the Liontrust SF funds emit 75% less carbon dioxide than the markets in which they are invested, have 25% exposure to companies whose products help to reduce emissions and hold 0% in companies exposed to the extraction and production of fossil fuels (such as coal miners and oil and natural gas exploration and production).

Average carbon exposure reduction of SF funds compared with mainstream benchmarks



Source: Liontrust, MSCI Carbon Analytics Report for funds and mainstream benchmarks as at 31.12.19

Average exposure of SF funds to companies offering cleantech solutions



Source: Liontrust, MSCI Carbon Analytics Report for funds as at 31.12.19

In addition to Liontrust SF funds emitting less carbon, there are other important positive attributes of these low-carbon portfolios. In the event of a tax on carbon, companies that can pass this cost on to their customers will not face a negative impact on their margins (and profitability). In contrast, companies unable to pass these costs through to clients will have to bear it themselves.

The very low carbon emissions coming from the businesses in our funds mean these portfolios will have more resilient margins as carbon-related regulations tighten.

While there have been big advances in reducing carbon in some sectors, global emissions remain stubbornly high, and we are concerned the current pace of change is not fast enough. We are engaging with companies we own to encourage them to dial up their ambition to reduce their greenhouse gas emissions this decade. As stated earlier, we launched our One and a Half Degree Transition Challenge in January 2020 and will be reporting on our findings in the last quarter of the year.

Alignment of the SF funds with the UN's SDGs

Our clients have also asked us to show how the companies in which we invest are aligned with the UN's SDGs. The SDGs are an internationally recognised set of goals to aim for by 2030, which will help the world develop in a more sustainable way. They replaced the UN's Millennium Goals and have captured many investors' interest as a more comprehensive way of thinking about and reporting on sustainable investing.

Each of our themes is limited to one main SDG, although, in reality, there are overlaps and most companies are exposed to more than one goal.

Investment themes mapped to primary SDGs

Our investment theme	Sustainable Development Goal
Better monitoring of supply chains and quality control	12 Responsible consumption and production
Building better cities	11 Sustainable cities and communities
Connecting people	9 Industry, innovation and infrastructure
Delivering healthier foods	3 Good health and well-being
Enabling healthier lifestyles	3 Good health and well-being
Enabling innovation in healthcare	3 Good health and well-being
Enhancing digital security	9 Industry, innovation and infrastructure
Improving auto safety	3 Good health and well-being
Improving industrial and agricultural processes	9 Industry, innovation and infrastructure
	2 Zero hunger
Improving the management of water	6 Clean water and sanitation
Improving the efficiency of energy use	7 Affordable and clean energy
Increasing electricity generation from renewable sources	7 Affordable and clean energy
Increasing financial resilience	8 Decent work and economic growth
Saving for the future	8 Decent work and economic growth
Insuring a sustainable economy	8 Decent work and economic growth
Increasing waste treatment and recycling	12 Responsible consumption and production
Leading ESG management	20 Multiple SDGs, dependent on company operations
Making transportation more efficient	11 Sustainable cities and communities
Providing affordable healthcare globally	3 Good health and well-being
Providing education	4 Quality education

Sustainable Future funds' exposure to primary SDGs

SDG: 3
Good health and wellbeing

SDG: 4
Quality education

SDG: 6
Clean water and sanitation

SDG: 7
Affordable and clean energy

SDG: 8
Decent work and economic growth

SDG: 9
Industry, innovation and infrastructure

SDG: 11
Sustainable cities and communities

SDG: 12
Responsible growth and consumption

Source: Liontrust, average weight of SDGs as mapped to our themes for SF UK Growth, SF European Growth (ex UK), SF Global Growth and SF Corporate Bond funds as at 31.12.19 (unweighted simple average).

How our themes are aligned to the SDGs where we have most exposure

Good health and well-being (SDG #3)

We have five investment themes aligned with this SDG to ensure healthy lives and promote well-being for all at all ages.

Improving auto safety: We have identified companies whose products improve the safety of travel and reduce road traffic accidents, principally through active safety, which involves collision avoidance, active breaking and semi-autonomous driving. We concentrate on the specialist companies making the kit to improve safety (or reduce emissions) rather than the car manufacturers we believe are challenged to meet tightening regulations to improve safety as well as reducing emissions.

LED headlights are a low energy and safer option for cars and German company **Hella** is the market leader. Data show 50% of accidents happen at night and this lighting provides superior illumination of the road for drivers and faster signalling of braking for other cars. This is a high growth and high and expanding margin company with good cash conversion, a strong balance sheet and growing returns on invested capital.

Delivering healthier foods: There is a trend in the food industry of consumers changing their preferences and demanding healthier options. We have identified companies that provide reformulation services to change the recipe of foods to make them healthier (less fat, sugar and salt) while maintaining the taste. These companies are a beneficiary of this demand for healthier food as their customers (many of which are the big incumbent food producers) respond to changing consumer preferences and use their reformulation services.

This improved diet has positive health impacts, helping to reduce non-communicable diseases such as obesity and cardiovascular disease for example. This contributes to the Key Performance Indicator 3.4 of the SDGs, which is to reduce by one third premature mortality from non-communicable diseases through prevention and treatment.

Irish firm **Kerry** was established in 1972 as a dairy co-operative and has evolved to become one of the largest and most technologically advanced ingredients and flavours companies. Kerry enables food manufacturers, restaurants and supermarkets to improve the nutritional characteristics of their meals to be tasty, natural and appealing while reducing salt, sugar, fat and calories.

Enabling healthier lifestyles: Companies that promote healthier lifestyles, principally through increasing activity, taking exercise and sport, help meet the same Key Performance Indicator 3.4 of this SDG.

Gym Group is the UK's second largest and lowest-cost gym group with more than 170 sites across the UK. Gym Group promotes physical activity through the provision of exercise classes, weights and cardio equipment at less than half of the price of traditional gyms. This makes membership more affordable for the broader population and helps to improve public health.

Providing affordable healthcare globally: Companies that help to deliver affordable, positive patient outcomes in managing disease also help to achieve this SDG.

IQVIA is a US company that uses data to design and run trials for new drugs before they get approved for general use. Designing these trials is complicated but IQVIA's innovation means drugs can be used quicker and cost less to test.

Enabling innovation in healthcare: Companies whose products or services promote innovation within healthcare are helping to achieve this goal. They do this by either coming up with new, more effective ways to treat diseases (creating a significant step change in the mechanism used to treat a given disease), through providing essential equipment or services for biotechnology research (such as specialist measuring equipment, genetic sequencing equipment or high-quality consumables for research), or through software to help make treatments more effective.

PerkinElmer is a US life sciences tools and services company whose portfolio enables innovation across multiple sustainable themes. The company's products enable testing of water, soil and food as well as diagnosis of allergies and identifying autoimmune deficiencies in people. PerkinElmer also has expertise in next generation gene sequencing and the fast-growing area of non-invasive prenatal screening and diagnosis.

Decent work and economic growth (SDG #8)

We have three themes aligned to this development goal to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Increasing financial resilience: We believe a resilient financial services sector is necessary for economic well-being through utility-like provision of banking, lending and effective ways of appropriately saving for the future, as well as mitigating risks through insurance. This does not mean that any company in the financial sector is automatically investable, but we do see positive ways that these companies contribute to society when appropriately and proactively managed. This is aligned with the SDG Key Performance Indicator 8.3 to encourage growth of business through access to financial services.

PayPal

PayPal is a US-based company that makes transacting online easier and safer for consumers and businesses. Identity theft and fraudulent transactions are significantly lower on PayPal than its competitors and the value we see from this business should come from a long runway of growth amplified by the excellent position the company has created for itself.

Insuring a sustainable economy: We believe insurance can spread the risk faced by an individual or corporation and makes a beneficial contribution to society.

PRUDENTIAL

Prudential is predominantly a life and health insurer, listed in the UK and focusing on growth in Asian markets. As such, it is bringing insurance to those who have not had access to it before and to those unlikely to be supported by the state.

Saving for the future: We believe there is a real need for people to be able to get good advice and choose appropriate investments to ensure they have saved up for their retirement. Failing to invest for the future and relying on state-funded pension schemes will result in a significant drop in quality of life as government finances come under increasing pressure, exacerbated by demographic shifts towards a higher proportion of people past working age. Again, not every company involved in financial services is exposed to this theme, but we look for what we consider the best-managed businesses catering for people's needs.

HARGREAVES LANSDOWN

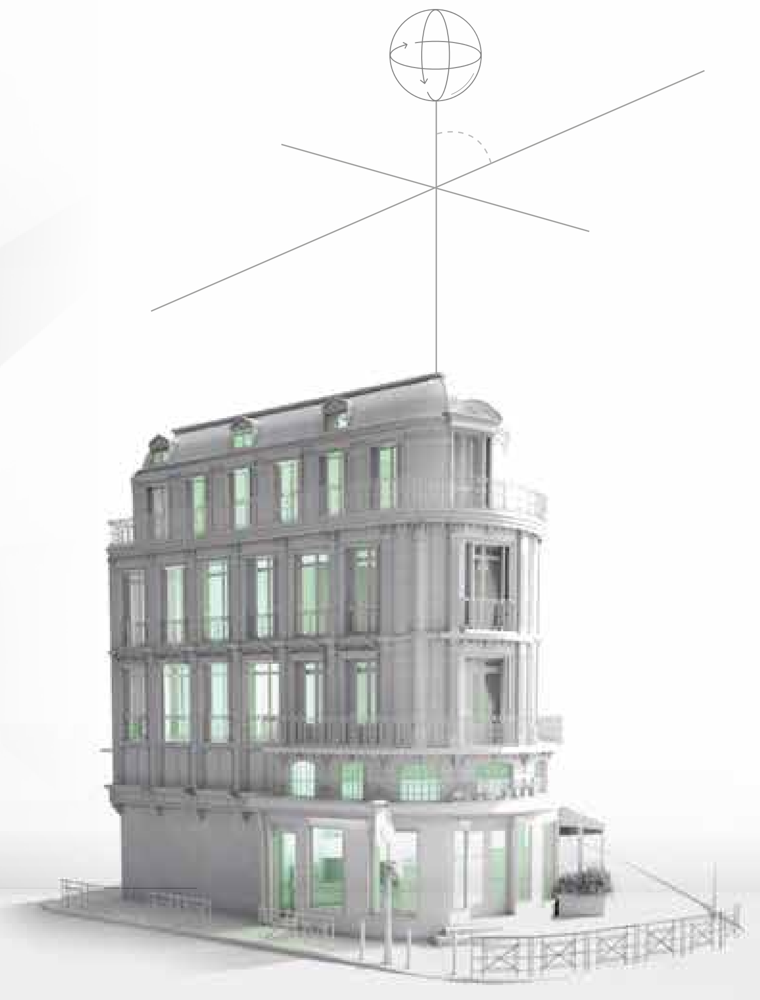
Hargreaves Lansdown is a UK investment platform through which individuals can manage their investments. Our view is that Hargreaves democratises investing and provides a low-cost way for individuals to manage their savings. There is an increasing shift of responsibility of retirement funding to individuals. In this context, we feel that businesses helping individuals to take charge of their own finances, whether it be through structured advice or investment platforms, will help people as well as benefit from this shift.

Industry, innovation and infrastructure (SDG #9)

We have three themes aligned with this SDG to build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

Improving industrial and agricultural processes: We like companies that provide products or services which help to make industrial processes more resource efficient, as well as safer for workers and users. These improved industrial processes help to reduce the negative impacts on people and the environment and are making a positive contribution. We see investment opportunities in software and systems that help to implement life-cycle design (including disposal of products) and manage supply chains, and opportunities in automation of factory processes to remove repetitive or dangerous mechanical tasks. These all help to modernise industry and meet this SDG.

Autodesk is a leading software business, listed in the US, which serves the global construction and manufacturing industries. It is bringing technology to areas of the global economy that have been nascent in terms of adoptions, such as manufacturing design and particularly construction and building sites. The global construction industry is in the midst of an inflection point, as traditional paper architectural designs are replaced by digital designs on devices. This avoids costly construction errors and wasting resources used in the construction process.



Enhancing digital security: As more and more of our lives and critical services are carried out online, we need to protect the data from theft. Digital security helps to make this growing area of the economy secure.

Palo Alto Networks provides technology to protect our digital way of life. Its firewall product is consistently rated the best by Gartner, and the company achieves very high customer satisfaction scores, giving us confidence it will succeed in making online information only available to those permitted to see it.

Connecting people: We believe access to easy communication tools and information, increasing amounts of which are online, is a positive requisite in a more sustainable economy.

Helios Towers is the UK-listed owner and operator of telecom infrastructure assets. The company's assets are in high-growth African markets with its strategy being to grow assets in underserved markets and contribute to providing reliable access to communications in these countries. This will enable telecom operators to make their networks denser to offer the greater capacity necessary to meet increased demand for mobile data services.

Affordable and clean energy (SDG #7)

We have two main themes aligned with achieving this SDG to ensure access to affordable, reliable, sustainable and modern energy for all.

Increasing electricity generation from renewable sources: Substituting coal-intensive fossil fuel electricity generation with renewable power sources reduces carbon emissions as well as providing a cost-effective means in some off-grid situations to connect people to cheaper, more reliable power sources.

Terraform Power is a US-based renewable electricity generation company that operates over 4GW of wind and solar farms. This is a significant amount of renewable generation and is helping bring down emissions in the US. Wind and solar are becoming cheap sources of electricity generation, and solar can now outcompete natural gas derived from fracking – so we see this company having a very positive impact.

Improving the efficiency of energy use: We see many ways of making energy cheaper by reducing wasted energy while also reducing emissions through more efficient use. This cuts across many areas of the economy and includes building insulation, efficient lighting, energy-efficient climate control, travel and industrial processes. Companies that provide services or equipment, particularly in upgrading the power grid network to be able to deal with changing production and consumption patterns of electricity, are an important requirement to achieve affordable clean energy.

Kingspan is domiciled in Ireland and specialises in products and services that improve the efficiency of energy use in buildings. This includes building insulation and smarter controls (for air conditioning and heating), reducing the amount of energy wasted.

Sustainable cities and communities (SDG #11)

We have two themes aligned with achieving this SDG to make cities and human settlements resilient and sustainable.

Making transport more efficient: Urban transport systems are improved by reducing congestion as well as transport emissions (which make the local air quality toxic) as the mode of transport shifts from self-driven cars to public transport systems such as trains, tubes and buses.

Knorr-Bremse is a German company whose products are used around the world to make travel more efficient, safer and quieter. It makes systems used in braking high speed trains, as well as collision avoidance systems for commercial vehicles. Changing modes of transport from driving a car to going on to an efficient modern train network is estimated to be 12 times more efficient than travelling by road and air (per passenger mile) and eight times more efficient for freight in trucks.

Building better cities: Shelter is a basic human requirement, and companies that build quality affordable homes or key infrastructure needed in cities are helping to provide this.

Places for people is an issuer we hold in the SF Corporate Bond Fund. This issuer funds the provision of social housing, which is a long-term positive for society and part of our *Building better cities* investment theme.

Clean water and sanitation (SDG #6)

We have one theme aligned to this development goal, which pledges to ensure the availability and sustainable management of water and sanitation for all.

Improving the management of water: As we all know, water is essential for life. Companies that can manage waste water treatment, or produce products or services that improve the efficiency of water distribution, are vital and in demand. Sanitation is a first line of defence from disease, much of which comes from contaminated water. We like companies that improve sanitation and give affordable access to clean water.

Ecolab, listed in the US, is the global leader in providing customers with technology that allows them to save key resources, particularly water and energy, in the industrial and hospitality sectors. From restaurants to steel mills, Ecolab's products and technologies significantly reduce water usage and save customers money, driving cost savings and efficiencies. The business drives much of its sales through innovations delivered to target specific customer needs so much of these important resource savings are a direct result of Ecolab's efforts.


Improving the effic
Providing digital se
Enhancing
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lity control

ENGAGEMENT

Our approach to engagement and voting

Engagement is integral to how we ensure we invest in high-quality companies. Engaging with companies on key ESG issues gives us greater insight, helps us to identify leading companies and is used as a lever to encourage better business practices.

Our team has been engaging in this way for two decades, and we have found this approach challenges and encourages companies to proactively manage the wider aspects of their business, which, in turn, protects their longer-term prospects.

Engagement is a resource-intensive process and our team conducts sustainability research alongside traditional financial and business fundamental analysis. This approach enables us to better target engagement on material issues and integrate this into our financial assessment of a company, maximising the information advantage that engagement can bring to analysis.

Our team also conducts considered annual voting for companies held in the portfolios, and we are very active owners. Our voting policy is publicly available and our voting decisions and rationale are also disclosed.

In 2019, we met with 185 companies face to face (of 247 holdings across the funds) and raised 245 key ESG issues over the year, either in direct meetings or through other forms of correspondence such as letters and emails.

	Examples include	Number of times issue raised with companies			
		2019	2018	2017	2016
Environmental	Climate crisis, water management	**29** - 12%	**18** - 8%	**24** - 13%	**28** - 21%
Social	Supply chains, employee issues	**74** - 30%	**38** - 17%	**29** - 16%	**50** - 38%
Governance issues	ESG and impact disclosure, corporate tax	**73** - 30%	**84** - 37%	**41** - 22%	**41** - 31%
Corporate Governance	Remuneration, auditors, diversity	**69** - 28%	**86** - 38%	**93** - 50%	**12** - 9%
Number of ESG issues raised		**245**	**226**	**187**	**131**

Priority engagement initiative versus reactive engagement (2019)			
Priority initiatives	Impact/SDG (including climate crisis, sustainable plastics)	**112**	46%
	Anti-bribery & corruption		
	Diversity		
	Workforce well-being		
	Transition to sustainable investment		
Reactive engagement	Controversies, ESG impacts, supply chains, tax	**133**	54%

We met with

185

companies face to face

We raised

245

Key ESG issues

2019 priority engagement initiatives

Priority Initiative	SDG	Our approach
Impact and Sustainable Development Goals	Multiple SDGs including Goal 12: Responsible Consumption and Production	We continue to prioritise our efforts to quantify the main impacts (good and bad) from the companies in which we invest. We will engage with companies to disclose their main impacts so we can report on these. This is an evolving field and we are keen to build on the work we have already done in this area. This includes engaging with companies on the climate crisis to ensure strategy is linked to reducing absolute greenhouse gas (GHG) emissions.
Encouraging sustainable use of plastics	Goal 12: Responsible Consumption and Production	We are looking for companies providing solutions to plastic pollution as potential investments as well as encouraging companies to reduce the amount of single use plastics they introduce to the environment.
Anti-Bribery and corruption	Goal 16: Peace, Justice & Strong Institutions (Target 16.4 and 16.6)	Corruption is bad for people and ultimately bad for business. We want to better understand how companies can reduce the chances of being complicit in corruption and encourage them to manage potential conflicts to the best of their ability as ideas for how best to do this continue to evolve.
Worker Well-being	Goal 8: Decent Work and Economic Growth	How companies manage the human capital of their direct operations, as well as workers further down supply chains, can affect their long-term success. We will engage to encourage companies to offer decent work and pay living wages and to ensure they mitigate risks, protect workers' rights and maximise the opportunities to support employees. We will also encourage companies to use their influence to drive forward best practice further down their supply chains.
Increased corporate diversity	Goal 5: Gender Equality	We believe companies that are more diverse are better able to prosper over the long term so we are engaging to encourage greater diversity, looking at gender balance at a board level and senior positions, and looking at efforts to reduce any gender pay gaps.
Encouraging the transition to sustainable investment	Goal 8: Decent Work and Economic Growth	Individuals are having to take responsibility for their long-term finances, and adequate savings and pension provision is critical. To date, the majority of saving has been into non-sustainable funds but as demand for sustainable investment grows, companies should do all they can to promote it. We will focus on determining which are leading the way and which need to do more.

Target outcome	Highlights	
Collaborate with other investors to look at best practice on corporate disclosure on impact and SDGs.	• Appraised several external research providers for impact metrics and data for the funds. • Engaged with 17 companies on the climate crisis to ensure they have strategies in place to reduce absolute carbon emissions at a rate consistent with limiting global warming to 1.5 degrees.	SUCCESS
Direct engagement with holdings on improving disclosure of impact metrics and what SDG targets the company is aiming to contribute towards.	• We engaged with 44 companies to better understand their approach on impact/SDG disclosure.	SUCCESS
Encourage companies to adopt strategies to reduce plastic pollution.	• We engaged with four companies on their plastic pollution strategies. Although we see general progress in their approach, we do not feel that our engagement has materially contributed to overall plastic pollution reduction and will therefore continue to engage.	PARTIAL SUCCESS
Assess portfolios for companies with weak policies or systems on bribery and corruption and engage to improve.	• We engaged with two companies on the systemic risks of money laundering in the financials sector and are now more confident in their ability to mitigate the risks associated with bribery and corruption. • We are more confident in our holdings' ability to mitigate risks stemming from bribery and corruption.	ONGOING
Collaborate with an NGO on an initiative related to financial services bribery and corruption.	• We were unable to set up a planned collaborative project with a leading NGO. • We will engage with companies where we feel there are either industry-related risks or company-related concerns or controversies.	NOT MET
Engage with companies on how they manage human capital and encourage best practice and worker-related KPIs.	• We engaged directly with 27 companies on supply chains and employee-related issues.	SUCCESS
Maintain relationships with NGOs and keep up to date with initiatives in the sector, including signing up to the Workforce Disclosure Initiative and encouraging companies to disclose data on employees and workers in the supply chain.	• We signed up to the Workforce Disclosure Initiative (WDI) and ensured this was not just our team but Liontrust Asset Management Plc. • We requested that 15 holdings disclose data to the initiative. • One company confirmed it would sign up, and we continue to engage with those that did not sign up in 2019.	SUCCESS
Look at new ways to encourage companies to improve gender and ethnicity profile of boards and senior management. Engage and vote where diversity is lacking.	• Stepped up voting to target the re-election of the Chair of the Nomination Committee where gender diversity on the board is less than 30%. • Gathered data to review the progress over the last four years of targeted voting and engagement on board gender diversity (2016-19). • Over this time, 36 companies in the funds increased board gender diversity. We were able to support 21 companies where board gender diversity was previously less than 30%. These companies had an average of just 22% female boards but now have an average of 38%.	SUCCESS
To better understand the responsible investment policies of insurance and investment companies held in the funds, and ensure they are stepping up efforts to become more responsible with regards to unsustainable activities such as investing in fossil fuel projects.	• We engaged with six insurance companies on their responsible investment policies and have a better understanding of how they implement them.	SUCCESS

2019 engagement highlights

Board gender diversity: Over the last four years, we have seen meaningful progress on board gender diversity for companies in our funds, and although there are other external factors, we believe our voting and engagement with these companies has contributed to improvements.

In 2016, we began withholding support for companies that are not sufficiently gender diverse. Where companies had fewer than 15% women on the board, we voted against the annual report and accounts at the AGM and abstained where this was greater than 15% but fewer than 30%. In 2019, we used the same process but instead focused on the resolution to re-elect the Chair of the Nomination Committee.

Twenty one companies in our funds have increased the proportion of women on the board to over 30%, such that we no longer need to withhold our support. After voting, these companies now have an average of 38% female boards, compared to just 22% before we began voting.

A further 15 companies in our funds have increased the number of women on their boards, and we remain positive that continued efforts through voting and engagement on this issue should result in further progress. After voting, these companies now have an average of 26% female boards, compared to just 17% before we voted on this issue.

There are 13 companies where we have seen less progress on increasing the gender diversity on boards so we will continue to engage and vote in order to effect real change.

Workforce Disclosure Initiative: Liontrust become a signatory to ShareAction's Workforce Disclosure Initiative (WDI) in July 2019, which aims to improve the quality of jobs globally. The WDI is pressing companies around the world to disclose better data on how they manage staff and their supply chain workers. The data cover issues such as health and safety, workers' rights, diversity and wage levels. The fact there are too many poor-quality and precarious jobs around the world is recognised in the UN's Sustainable Development Goal 8, which calls for decent work for all. Through the Initiative, our team will encourage companies held across our funds to disclose data to the WDI. In 2019, we requested that 15 companies disclose data to the Initiative. One company confirmed it would submit data and we are following up with other companies as we continue our efforts to improve public disclosure on worker-related issues during 2020.

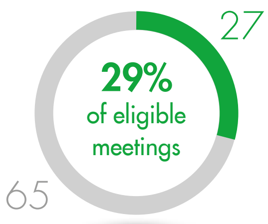
Staff and the gig economy: Treatment of staff continues to be a key engagement issue, particularly in light of growing concerns about the poor employment standards of the so-called 'gig economy'. We met Gym Group several times, for example, to ensure it is treating its trainers fairly. The company must balance the needs of its trainers, ensuring they have the opportunity for full employment with associated rights, while also recognising some wish to remain self-employed. The company trialled a new arrangement in eight gyms and has since rolled this out across the company. Gym Group's commitment to people earned the company a Gold Award from the Investor in People Group and it was also named in the Sunday Times' 100 Best Smaller Companies to Work For', highlighting its commitment to being a first-class employer.

Money laundering: We engaged with a number of our financial holdings on money laundering, investigating how these businesses are ensuring they avoid falling foul of any criminal activity after some high-profile cases over the year.

Voting summary 2019

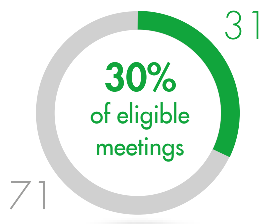
In 2019, we voted at 98% (137 of 140) of votable meetings and voted against management or abstained on proposals in at least one vote in 62% (87 of 144) of votable meetings. In 2019, we voted to abstain or voted against:

Re-election of chair



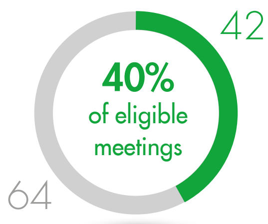
The re-election of the Chair of the Nomination Committee (which related to gender diversity, as per the section above)

Remuneration



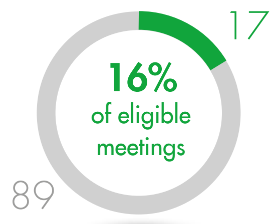
The approval of the company's remuneration report/compensation

Re-election of directors



The re-election of one or more company directors (due to lengthy terms of office, bundled director elections or lack of independence)

Ratification of auditors



The ratification of auditors/ authorisation for the Board to fix remuneration of external auditors

2020 priority initiatives

We prioritise a number of proactive engagement initiatives in collaboration with our Advisory Committee at the beginning of each year. We assess how our holdings are positioned on these issues and, where appropriate, define target companies with which we will engage.

For 2020, we are staying with the same priority initiatives, except for two changes. First, we decided to step back from our focus on anti-bribery and corruption in order to better allocate time and resource to engaging with companies on the climate crisis. Throughout 2019, we engaged on the climate under the Impact and Sustainable Development Goals initiative, but this renewed focus will now be executed through a standalone initiative solely focused on encouraging all portfolio companies to reduce greenhouse gas emissions.

In our experience, continued engagement over a longer time period is more likely to achieve better engagement outcomes than over a one-year reporting cycle, so we continue with five of our previous priority initiatives in 2020.

As well as continuing our efforts to increase corporate disclosure on ESG impacts, mitigation efforts and performance, our team is now also focused on delivering improvements in the following priority initiatives:

- One and a Half Degree Transition Challenge: To ensure companies have strategies to reduce absolute carbon emissions at a rate consistent with limiting global warming to 1.5 degrees.
- Impact and Sustainable Development Goals: We continue to prioritise our efforts to quantify the main impacts (good and bad) from the companies in which we invest. We will engage with companies to disclose their main impacts so we can report on these. This is an evolving field and we are keen to build on the work we have already done in this area.
- Encouraging sustainable use of plastics: We are looking for companies providing solutions to plastic pollution as potential investments as well as encouraging companies to reduce the amount of single use plastics they introduce to the environment.
- Increased corporate diversity: We believe companies that are more diverse are better able to prosper over the long term. We are engaging companies to encourage greater diversity, looking at gender balance at Board level and senior positions, and looking at efforts to reduce any gender pay gaps.
- Worker well-being: How companies manage the human capital of their direct operations, as well as workers further down supply chains, can affect their long-term success. We will engage to encourage companies to offer decent work and pay living wages and to ensure they mitigate risks, protect workers' rights and maximise the opportunities to support employees. We will also encourage companies to use their influence to drive forward best practice further down their supply chains.
- Encouraging the transition to sustainable investment: Individuals are having to take responsibility for their long-term finances and adequate savings and pension provision is critical. To date, the majority of saving has been into non-sustainable funds but as demand for sustainable investment grows, companies should do all they can to promote it. We will focus on determining which are leading the way and which need to do more.

2020 investment outlook

Looking to a new decade (and celebrating the last one)

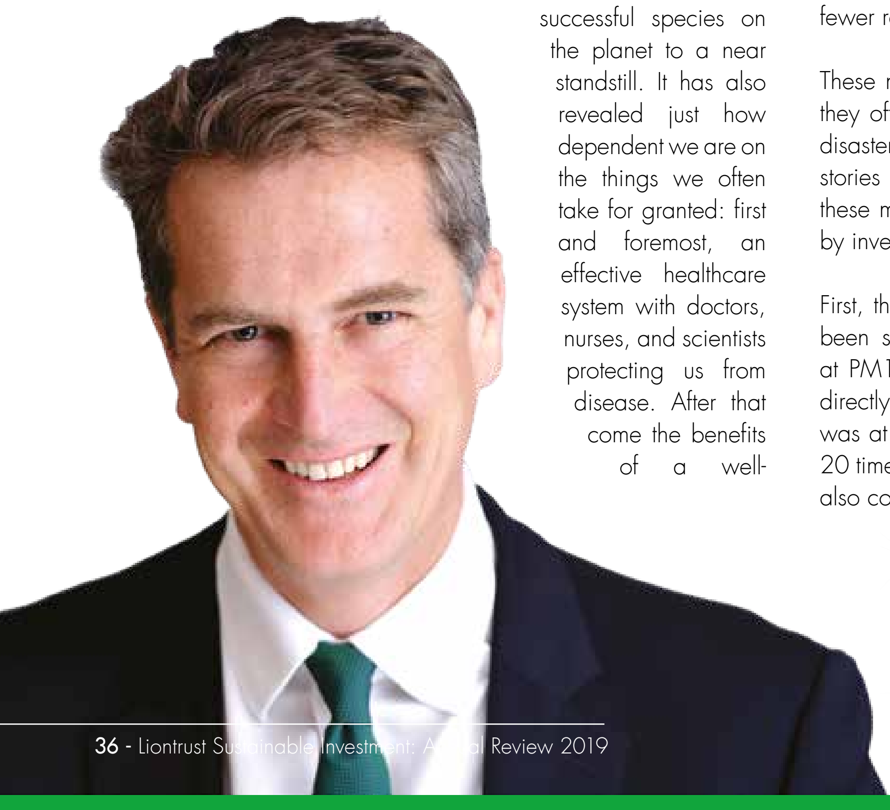
PETER MICHAELIS

My original outlook piece, written in January, held positive predictions of how our societies would develop over the coming years. It explained that the sustainable trends making our environment cleaner, our quality of life better and our societies more resilient would continue, and that companies linked to these positive currents within our economy would prosper.

Updating my outlook in early April in the midst of the Coronavirus crisis, with its dreadful human cost and unprecedented economic impact, this optimism about the future might seem misplaced.

Within the past few weeks, country after country has gone from business as usual to full lockdown. Governments and central banks have had to intervene to support their economies and people, trashing any notion of 'small government'. Hard ethical choices have had to be made: from doctors deciding who gets intensive care and who does not, to world leaders trading off economic damage against lives saved. Deserted streets, closing businesses, mass unemployment and a rising death toll are a very harsh counter to any positive view of 2020 and beyond.

This crisis has revealed both the interconnected nature of our world and also how vulnerable humanity and our way of life is to an external shock. One small strand of replicating protein has brought the activities of the most successful species on the planet to a near standstill. It has also revealed just how dependent we are on the things we often take for granted: first and foremost, an effective healthcare system with doctors, nurses, and scientists protecting us from disease. After that come the benefits of a well-functioning economy, providing the employment, products and services we need; freedom of movement to congregate with family, friends and colleagues for leisure and work; global trade. The list goes on.



And yet on reflection I still believe we should be optimistic about the future. The crisis is terrible but the response shows just how we can overcome this challenge through co-operation, applying ingenuity to positive ends and investing in businesses to deliver a positive impact. There are stark parallels with how we have to deal with the challenges of the climate emergency, loss of biodiversity on land and sea, and sharing prosperity more widely and more fairly. I believe that, after we have suppressed this pandemic, we will intensify our response to these challenges, underpinning the sustainable trends in which our funds invest.

For this reason, we include here my original outlook article, in spite of it not mentioning Coronavirus, because it is, to our minds, still valid.

Before our thoughts turn to what the 2020s will hold, we should pause and celebrate the 2010s: in many ways, they were the best decade humanity has ever had. Judged by improvements in levels of poverty, disease, war, education and democracy across the world, there has never been a decade like it; we found ways to dramatically improve quality of life, increase resilience and do much more with fewer resources.

These macro trends are positive, powerful and predictable. While they often get lost in daily news that seems to need the drama of disaster, destruction and doom to get readers and listeners, the real stories of the past few decades are much more positive. And it is these macro trends that have enabled us to deliver superior returns by investing in sustainable companies.

First, the air we breathe. In UK cities, the air is cleaner than it has been since the beginning of the industrial revolution. If we look at PM10 pollution levels in London – with long exposure leading directly to lung cancer and pulmonary disease – back in 1992, it was at moderate or high levels for 1,500 hours a year. Now, it is 20 times lower, which is still not perfect but much improved. Progress also continues with the move to hybrid and pure electric vehicles.

Second is health. The long-term picture is clear: in the last 100 years, child mortality has fallen from one in four dying before their 5th birthday to fewer than one in 200. Again, this is a 20 to 40 times improvement (in the UK, US and China) and progress continues: even in the last 20 years in the UK, it has improved by 30%.

Finally, the riskiest thing we do every day, which is getting in our cars. Since the 1950s, when mass car ownership took hold, road deaths have fallen 70%; this is in spite of a 10-fold increase in miles driven, so another 30 times improvement per km driven.

What these three dramatic improvements share is the same mechanism of delivery: society demands change and governments act to regulate for clean air, safer cars or better healthcare. Companies then do what they do best: competing and innovating to grow profitably – delivering the catalytic convertors, the vaccines, and the airbags that improve our world.

We do not want to come across as naively optimistic about the state of the world. There is still a huge amount to improve and the challenges of halting climate change, biodiversity collapse, eradicating poverty, and providing fulfilling employment and lives for all are daunting. All of these require huge improvements in the way we do things but, to reiterate, the most likely way of solving them is through the same mechanisms we have used before.

This means these macro themes will continue through the next decade, and the story of businesses delivering strong growth and profits while improving our world has a long way to run.

Let us look at another characteristic of these positive transformations: they do not always happen slowly. Nowhere is this truer than the story of transport in New York. In 1901, the city was full of horses and each of these was producing 10kg of droppings a day. When it rained, the roads were a river of effluent; when dry, there were clouds of dust and a plague of flies. A photo from 1901 shows equine-filled streets and just one odd looking vehicle.

In the space of just under a decade, this outlier became the solution — the cheaper, cleaner and quicker motor car. If you look at a photo of New York streets from just 10 years later, there is barely a horse to be seen. Change can be non-linear.

These are a few examples of powerful trends we should celebrate. In general, our world has got much, much better in the last 20 years. Many of these improvements have been achieved with the help of ingenious, efficient businesses whose profits have grown in line with demand for their solutions.

Importantly, if you judge the future by assuming it will look much like the present, you risk being very wrong. Instead, we believe it is important to look at the weaker signals, the single car-like thing in the 1901 photo, and imagine 'What if…?'

All this leads to our investment philosophy, which is that most investors underestimate the power and predictability of positive trends and the growth prospects of sustainable companies aligned with them.

As we said at the outset, the Sustainable Future fund range launched in February 2001 with the primary aim of delivering strong returns to our clients by investing in sustainable companies and we continue to have a strong track record of doing so.

Our clients know they are providing capital to these sustainable companies, accelerating the improvements they deliver – and doing their part in making the 2020s another best decade ever for humankind.

The world we made

JONATHON PORRITT

Jonathon Porritt is founder director of Forum for the Future, the UK's leading sustainable development charity. He is one of five members of the external Advisory Committee that works with Liontrust's Sustainable Investment team. The following is an extract from his speech at Liontrust's 2019 Sustainable Investment Conference.

Net zero carbon has become firmly entrenched as a concept across much of the world in recent years and despite a range of target dates, what is clear from an investment perspective is that a huge suite of technology is required to make the project a reality.

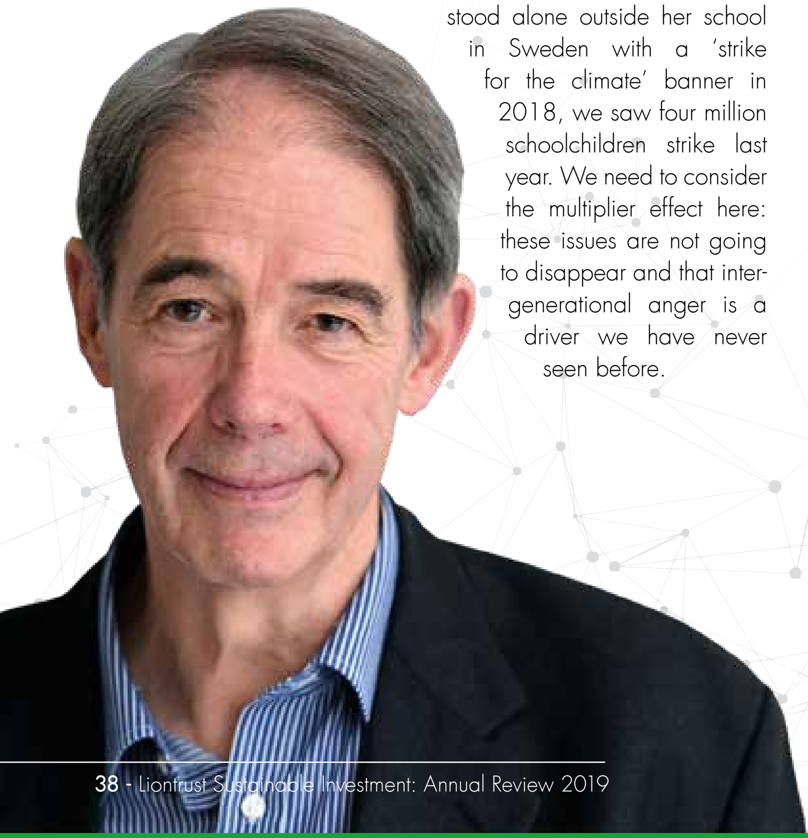
In contrast to 10 or 15 years ago when many investors saw these as marginal concerns, there is a clear risk in dismissing these opportunities today.

While it is always difficult to call an inflection point, there are three key drivers behind this step change.

First, the planet is increasingly telling us, in incontrovertible terms, that if we continue on the current path, we will face massive dislocation and trauma, with the cost of fixing this running into the trillions of dollars annually.

Second was a report last year from the Intergovernmental Panel on Climate Change examining the difference between a 1.5 degree average rise in temperatures by the end of the century and a two-degree rise. That may seem a minimal variance, but the predicted impact would be huge and that has prompted more realistic dialogue on the climate change question in recent months.

Finally, we have also seen the emergence of a much stronger voice from civil society on these issues, with Extinction Rebellion leading the way. From Greta Thunberg stood alone outside her school in Sweden with a 'strike for the climate' banner in 2018, we saw four million schoolchildren strike last year. We need to consider the multiplier effect here: these issues are not going to disappear and that inter-generational anger is a driver we have never seen before.



Ultimately, however, whatever pressure we see from civil society, it will still depend on governments to reframe markets in order to drive the shift to lower carbon. There is still work ahead but the changing tenor of the debate is encouraging: people are increasingly realising they cannot ignore this situation and asking what can be done.

In terms of next steps, it is important to look beyond the more obvious sectors of energy and infrastructure: there is no area of human endeavour without a pipeline of innovation towards greater sustainability.

Take food and farming, for example, which are responsible for 25% of total global emissions. The livestock industry, primarily meat and dairy, make up a significant share of that and right at the heart of this sizable footprint is the feed industry, producing the food for the animals at the centre of many of our diets.

There is nothing like as much in the news about this as renewable energy but we feel addressing this situation can have a similar impact on the climate change picture.

Moving to the 'hard to abate' sectors of cement, chemicals and steel – so-called because the cost of cutting emissions is high and progress has been slow – the technology behind more sustainable steel and cement is underdeveloped and not sufficiently tested. There is huge space for innovation in an area that, combined with long distance road transport, shipping and aviation, is responsible for 30% of total global emissions.

Greta Thunberg has talked about the 'fairy tales of eternal growth' as a major factor behind the climate change crisis and the world must ultimately face that reckoning. For today's investors, however, there is a clear opportunity in the companies helping with the transition to a more sustainable, zero carbon world in the coming years, with massive growth required from many of these sectors as they work to overcome the embedded hurdles from the fossil fuel industry.

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. Some of the Funds managed by the Sustainable Future Equities team involve foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. Investment in Funds managed by the Sustainable Future Fixed Income team involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The value of fixed income securities will fall if the issuer is unable to repay its debt or has its credit rating reduced. Generally, the higher the perceived credit risk of the issuer, the higher the rate of interest. The Monthly Income Bond Fund has a Distribution Yield which is higher than the Underlying Yield because the fund distributes coupon income and the fund's expenses are charged to capital. This has the effect of increasing dividends while constraining the fund's capital appreciation. The Distribution Yield and the Underlying Yield is the same for the SF Corporate Bond Fund.

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