



worthstone  
inspiring impact investment

# MAPPING THE UK IMPACT INVESTMENT RETAIL MARKET

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Report to Advisory Group to UK Government  
on social impact investments

November 2017

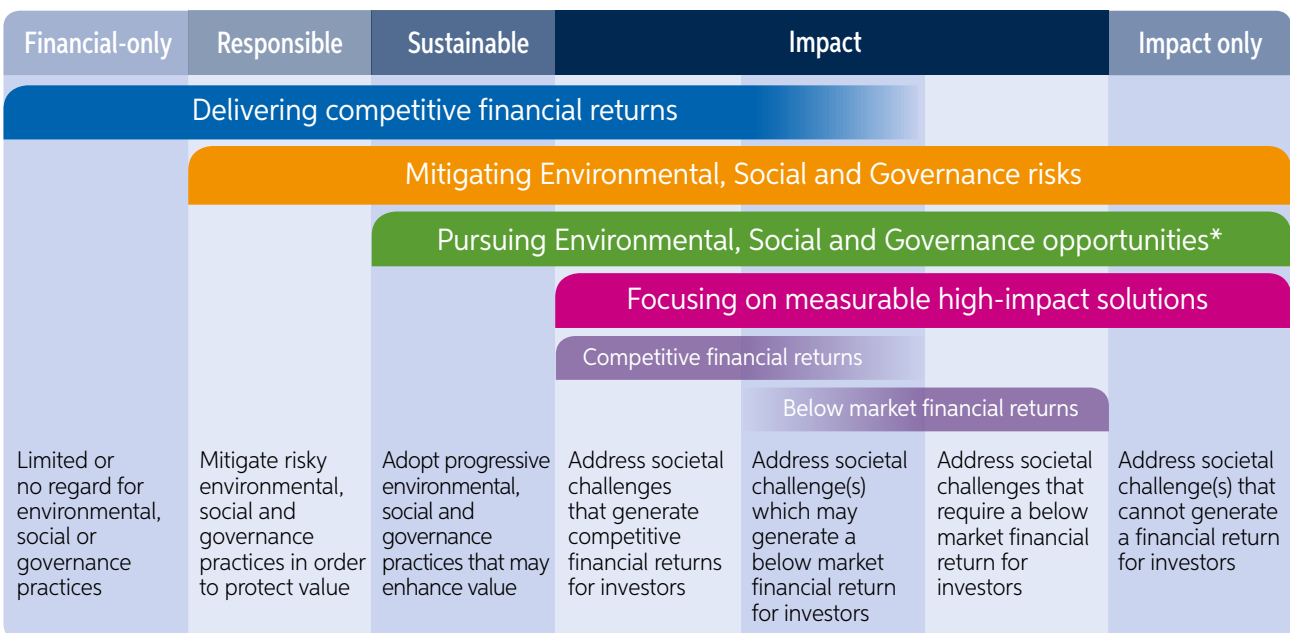
# Process for mapping impact market

Worthstone has been commissioned by the UK Government Inclusive Economy Unit to undertake the first mapping of the UK retail impact investing universe, in so doing we have utilised the following ‘building blocks’:

- We have started with the G8 ‘Spectrum of Capital’ framework (illustrated for reference below). This represents the most well known segmentation of the impact capital spectrum
- We have partnered with 3D Investing to produce this review of the existing universe for UK retail impact investments, alongside 3D Investing we have scoped the impact universe into the following categories:
  1. Ethically screened
  2. ESG leaders
  3. Thematic selection or
  4. Mixed
- In order for investments to be included in the universe, investments need to be liquid & registered for sale in the UK to general retail investors (with a focus on funds)
- We have included a range of assets range across equities, fixed income, infrastructure, real estate & alternatives.

We believe that it is helpful for the sector to utilise the G8 spectrum of capital graphic as a frame of reference as it presents the various impact categories on a continuum and uses familiar terms with descriptors of the identifying characteristics, which typically differentiate these strategies. The funds which map onto this range, between the book-ends of ‘financial only’ and ‘impact only’ (charity and philanthropy), we refer to as ‘impact investment’ funds.

## UK retail impact investing universe



\* This integration of sustainable practices across an organisation’s core business may also be termed Corporate Social Responsibility (CSR), although many organisations have a separate (often philanthropic) CSR ‘carve-out’ that is distinct from their approach to sustainability

## Impact universe



On the basis of the above criteria we have calculated that the total assets under management (AUM) for the UK retail impact investing universe are £87bn (as at 31st March 2017). This total, while still a relatively small proportion of the whole market, nevertheless remains a meaningful amount.

There are now 194 funds which map onto the impact spectrum. A fund qualifies under our assessment by meeting each of the following criteria:

1. Some form of sustainable/ethical mandate exists within the fund
2. It is registered for sale in the UK (not including Life and Pensions and offshore funds)
3. It is available to retail investors.

In addition to mapping across the spectrum, these funds have been categorised based on the following methodologies:

### Exclusion or Negative screening

– avoiding companies on the basis of pre-determined ethical criteria

### ESG leaders

– environmental, social and governance management within their sector

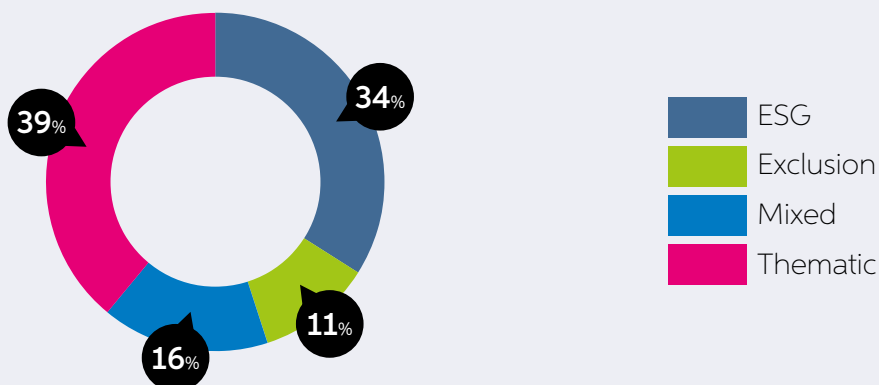
### Thematic

– focus on investment in environmental or social themes

### Mixed

– mix of the above approaches (i.e. Exclusion, ESG leaders, Thematic and Mixed).

Figure 1: Impact market by category (as percentage of total number of funds)

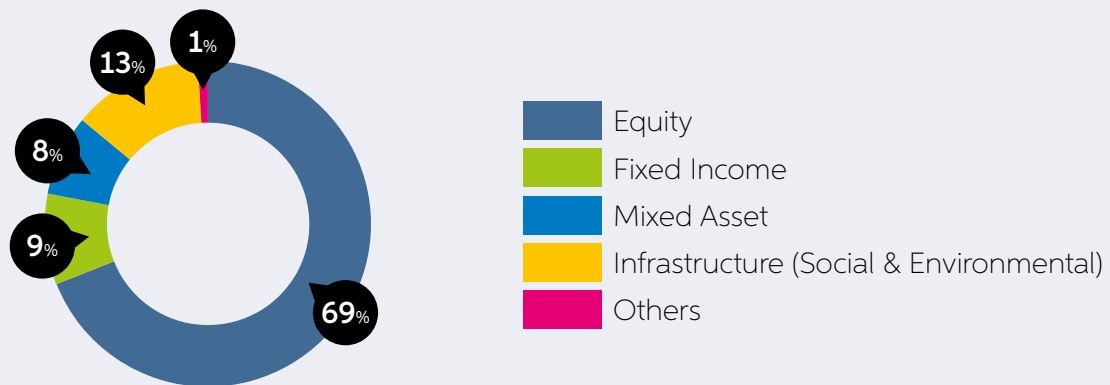


## Investors seeking impact don't have to compromise on coverage when constructing multi asset portfolios

It is important to note that analysis of the impact investment market shows that one of the fundamental components of portfolio construction can be achieved. In conversations with advisers when discussing how impact investment can be included as an option, a frequently raised requirement of advisers is the ability to have the potential to construct a well-diversified portfolio.

As can be seen from Figure 2 below, impact investment funds are represented across the main asset classes offering the potential to provide an impact investment portfolio and maintain the benefits of diversification with the potential to mirror a traditional asset allocation model.

Figure 2: Impact market by asset class (as percentage of total number of funds)

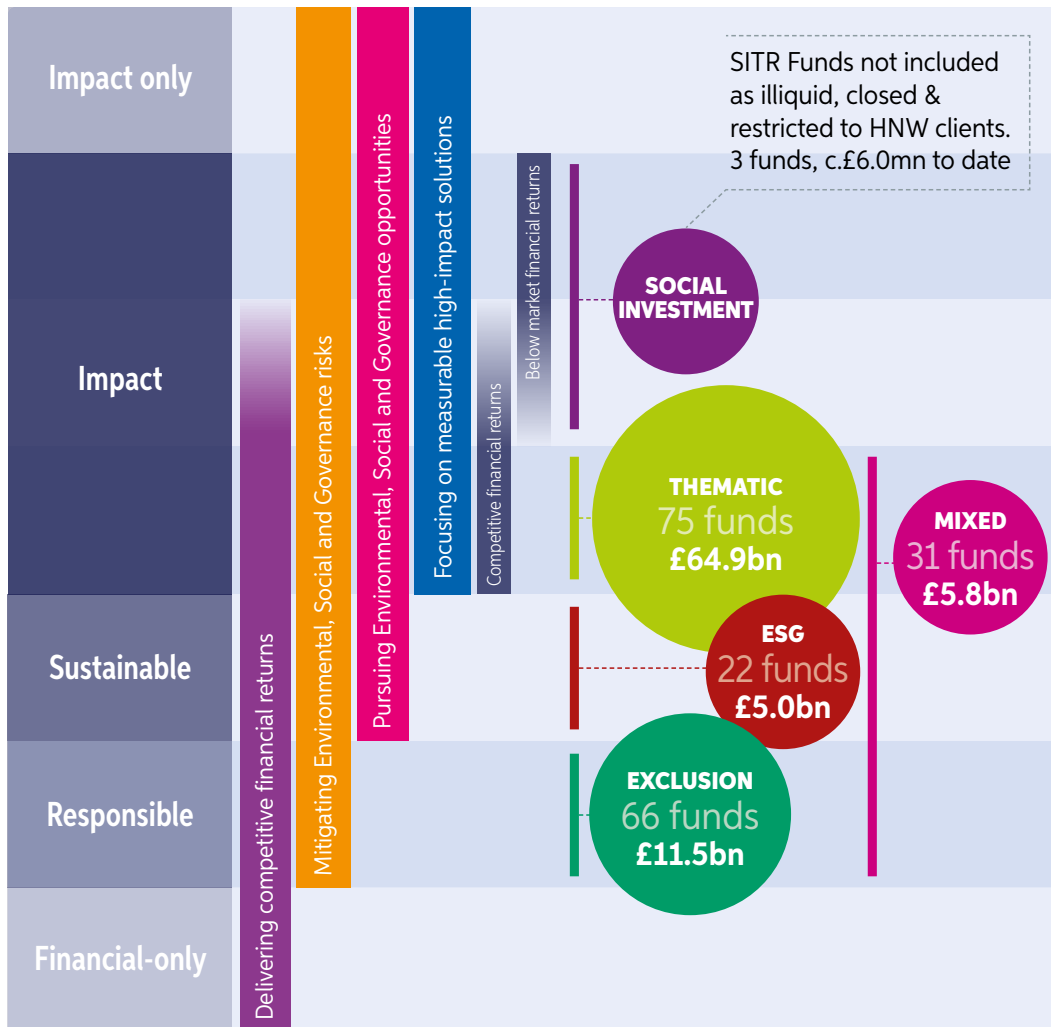


Most of the funds are invested in equity, but there are a significant number of fixed interest, property and infrastructure funds, as well as mixed asset funds (see Figure 2).

Most of the infrastructure funds are very specific types of fund and therefore it is appropriate to consider them separately to the non-infrastructure funds.

This overview of the impact market confirms a fundamental building block is in place for the market to breach the mainstream; it is now possible to build a multi-asset portfolio using funds which have a positive impact dimension.

## Impact universe mapped onto G8 Spectrum



The above graphic shows the spread of the universe across the impact categories when mapped on to the G8 Spectrum. It shows representation across the responsible to impact categories, with some notable points:

- Although the number of funds is reasonably spread across categories, the amounts invested are heavily skewed towards Thematic funds
- The skew towards Thematic funds is down to the presence of a number of sizeable infrastructure funds that are focussed on impact solutions
- All of the funds in the universe are marketed with competitive financial returns. Although financial performance varies across the universe (as would be expected), it is evident that financial returns do not have to be sacrificed in order to participate in the available universe of impact funds.

A more detailed breakdown of fund numbers and size across the impact categories, asset classes and regions of exposure is provided in Table 1.

**Table 1: Breakdown of fund numbers and size across impact categories, asset class & regions**

Asset Class	Region	Impact category									
		ESG		Exclusion		Mixed		Thematic		Totals	
		Funds	£mn size	Funds	£mn size	Funds	£mn size	Funds	£mn size	Funds	£mn size
Equity	Africa	1	29								
	Asia	7	124					2	45		
	Emerging Markets	9	2,413								
	Europe	12	2,409	1	148	2	223	1	116		
	Global	21	2,680	6	926	6	1,255	38	10,363		
	North America	4	453	9	1,531			1	1,177		
	UK	4	356			9	1,943				
	<b>Total</b>	<b>58</b>	<b>9,211</b>	<b>16</b>	<b>2,605</b>	<b>17</b>	<b>3,421</b>	<b>42</b>	<b>11,701</b>	<b>133</b>	<b>26,938</b>
Fixed Income	Europe	4	655	1	197						
	Global	2	943					2	551		
	UK			3	1,392	5	693	1	105		
	<b>Total</b>	<b>6</b>	<b>1,598</b>	<b>4</b>	<b>1,589</b>	<b>5</b>	<b>693</b>	<b>3</b>	<b>656</b>	<b>18</b>	<b>4,536</b>
Mixed Asset	Global	2	725			8	1,673	2	56		
	UK			2	782	1	59				
	<b>Total</b>	<b>2</b>	<b>725</b>	<b>2</b>	<b>782</b>	<b>9</b>	<b>1,732</b>	<b>2</b>	<b>56</b>	<b>15</b>	<b>3,294</b>
Infrastructure (Social & Environmental)	Global							5	12,426		
	North America							6	30,553		
	UK							14	9,176		
	<b>Total</b>							<b>25</b>	<b>52,155</b>	<b>25</b>	<b>52,155</b>
Others/Alternatives	Emerging Markets							1	287		
	Global							1	12		
	North America							1	47		
	<b>Total</b>							<b>3</b>	<b>346</b>	<b>3</b>	<b>346</b>
<b>Totals</b>		<b>66</b>	<b>11,534</b>	<b>22</b>	<b>4,976</b>	<b>31</b>	<b>846</b>	<b>75</b>	<b>64,914</b>	<b>194</b>	<b>87,270</b>

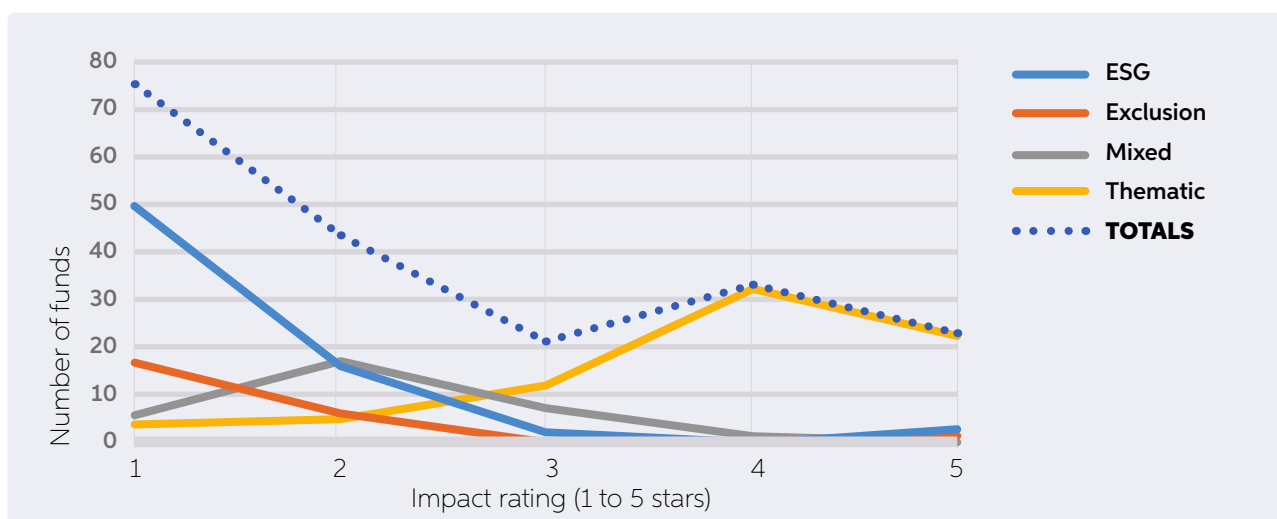
## 3D assessment of impact

3D Investing has developed an assessment of fund impact using the following methodology:

- Assess impact by calculating the proportion of the fund invested in different types of assets:
  - **Solutions** – Core products and services are of direct social or environmental benefit
  - **ESG leaders** – Social and/or environmental practices are amongst the best in its sector
  - **Limited impact** – Core activity confers few clear social or environmental benefits
- Provides practical, measurable means of analysing impact practices across funds.

Utilising this methodology, each of the funds in the impact universe has been assigned an impact rating from 1 to 5 stars. For information purposes the distribution of the impact ratings by number of funds and impact category is presented in the chart below. What this seeks to demonstrate is the relatively high number of funds with limited impact (based on their investment holdings) with over 60% of funds by number achieving a 1 or 2 star rating.

**Figure 3: Distribution of impact rating across impact categories**



We believe transparency on holdings is of paramount importance as each client will have their own ethical profile and strength of opinion as to what areas their investment portfolio has exposure to.

















Worthstone believes that the best way to assist advisers in this process is to provide full transparency on areas of potential concern. This will provide advisers with the means to tailor investments according to each individual's concerns and profile. Our impact funds listing will enable advisers to do this via a thorough and transparent process.

Of the funds within the UK equity sector, most have exposure to banks and other financial companies that have no meaningful restrictions on lending in terms of the sectors to which they lend. With only a few exceptions, the funds allow investment in healthcare companies that test products on animals, although the better funds only invest in companies that have a policy of reducing, replacing and refinement. Many of the funds hold potentially controversial stocks including mining, oil and gas.

Each stock held by the funds is classified as follows in order to determine which funds have the most positive impact overall:

- **Solutions** – Core products and services are of direct social or environmental benefit
- **ESG leaders** – Social and/or environmental practices are amongst the best in its sector
- **Limited impact** – Core activity confers few clear social or environmental benefits

‘Solutions’ include clean energy, resource efficiency, clean air and water, healthcare, education, public transport, safety, sustainable food and agriculture, social housing and inclusive finance. These are cross referenced with the United Nations’ Sustainable Development Goals (below).

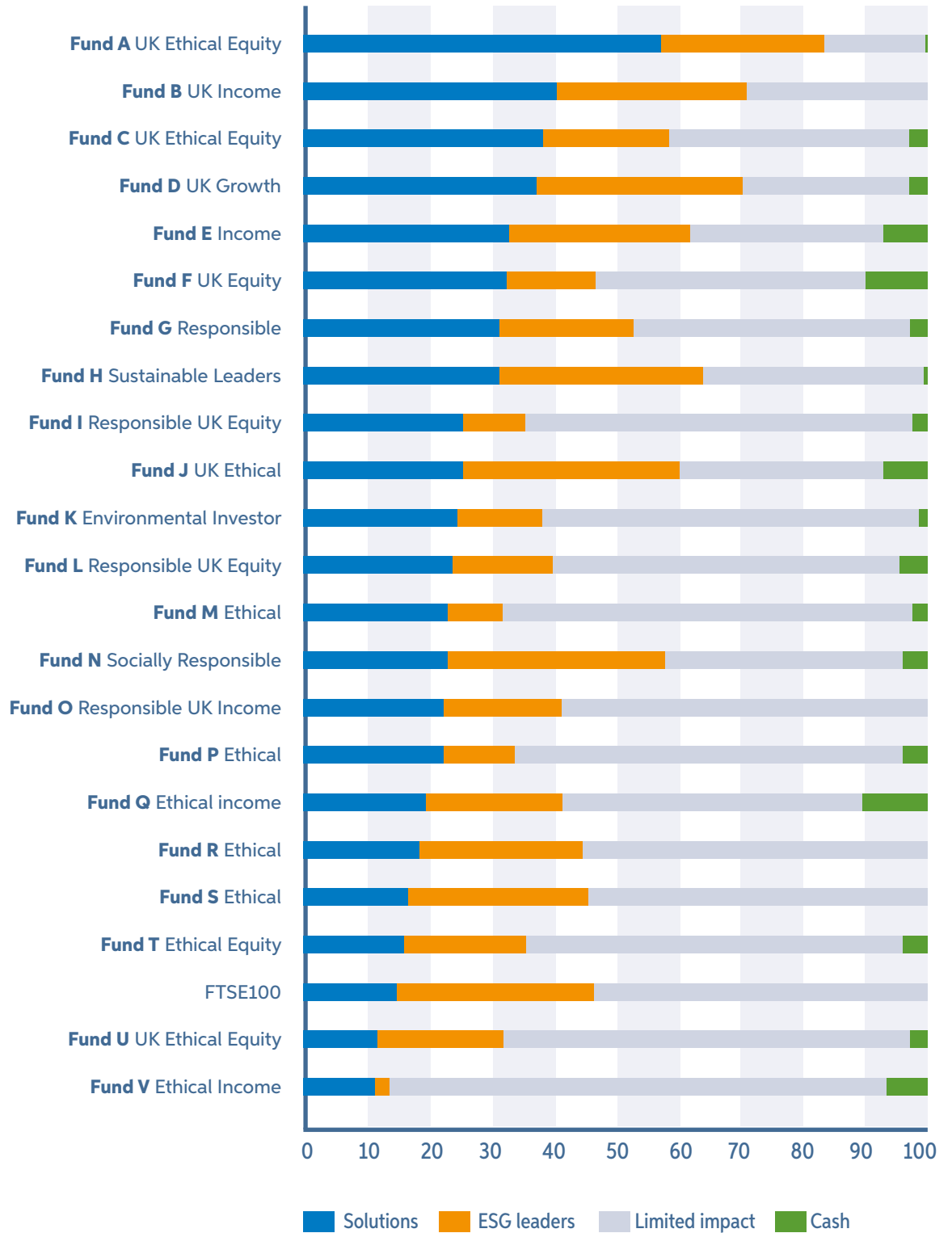
SOLUTION	SUSTAINABLE DEVELOPMENT GOAL
Clean energy	 AFFORDABLE AND CLEAN ENERGY
Education & learning	 QUALITY EDUCATION
Enabling infrastructure	 SUSTAINABLE CITIES AND COMMUNITIES
Environmental services	 RESPONSIBLE CONSUMPTION AND PRODUCTION
Healthcare	 GOOD HEALTH AND WELL-BEING
Inclusive & ethical finance	 INDUSTRY, INNOVATION AND INFRASTRUCTURE  NO POVERTY
Low carbon transport	 SUSTAINABLE CITIES AND COMMUNITIES
Natural capital (clean air, water & forests)	 CLEAN WATER AND SANITATION  GOOD HEALTH AND WELL-BEING  LIFE ON LAND
Resource efficiency	 RESPONSIBLE CONSUMPTION AND PRODUCTION
Safety	 SUSTAINABLE CITIES AND COMMUNITIES  PEACE, JUSTICE AND STRONG INSTITUTIONS
Social infrastructure (e.g. schools, hospitals, social housing)	 INDUSTRY, INNOVATION AND INFRASTRUCTURE  SUSTAINABLE CITIES AND COMMUNITIES
Sustainable food	 ZERO HUNGER

To illustrate the importance of reviewing the underlying holdings of funds, from the perspective of the nature of business or products and their outcomes, as opposed to making a recommendation based purely on the stated objective of the fund we have also compared with the FTSE100 Index from an impact perspective, the results are shown in Figure 4 below. It’s interesting to see that nearly all the funds have a higher percentage in solutions to social and environmental challenges than the FTSE100, which also contains a high percentage in stocks that 3D Investing considers to be unsustainable. It is, however, concerning that some ‘ethical’ funds have a lower impact rating than the FTSE100 based on the allocation of their holdings. Such a finding highlights the need for thorough research into the underlying investment activities of ‘impact’ funds in order for the sector to maintain customer confidence and alignment of customer objectives (ethical & social) with investment outcomes.

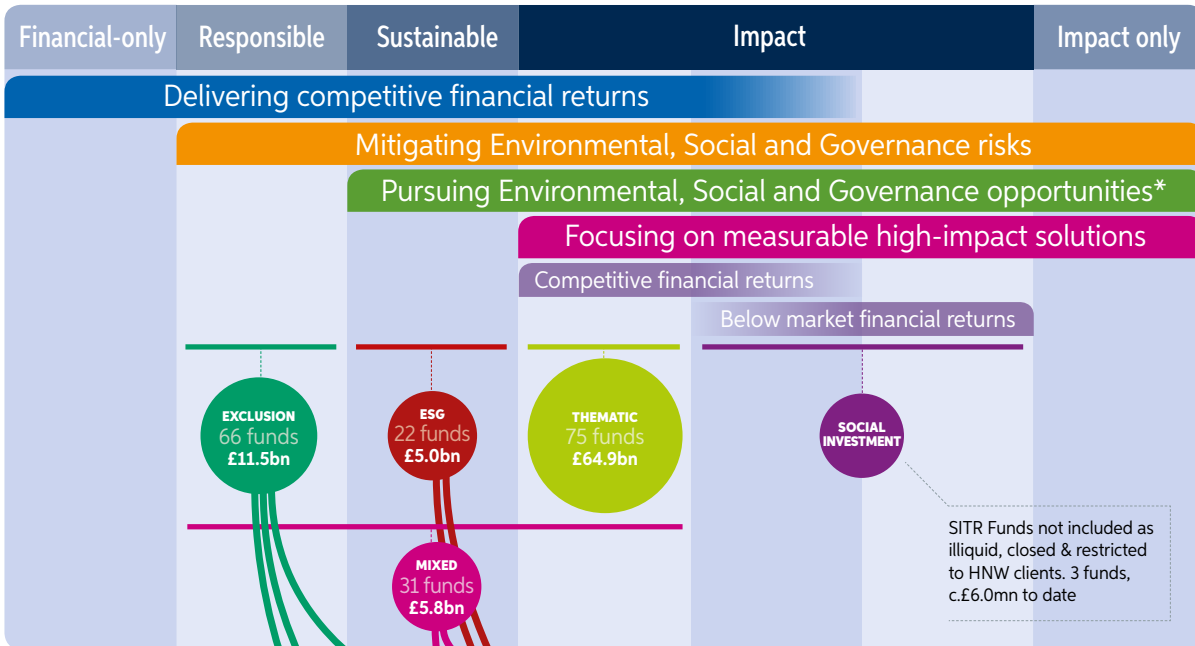


This investment allocation is illustrated in the figure below (names have been removed to anonymise data):

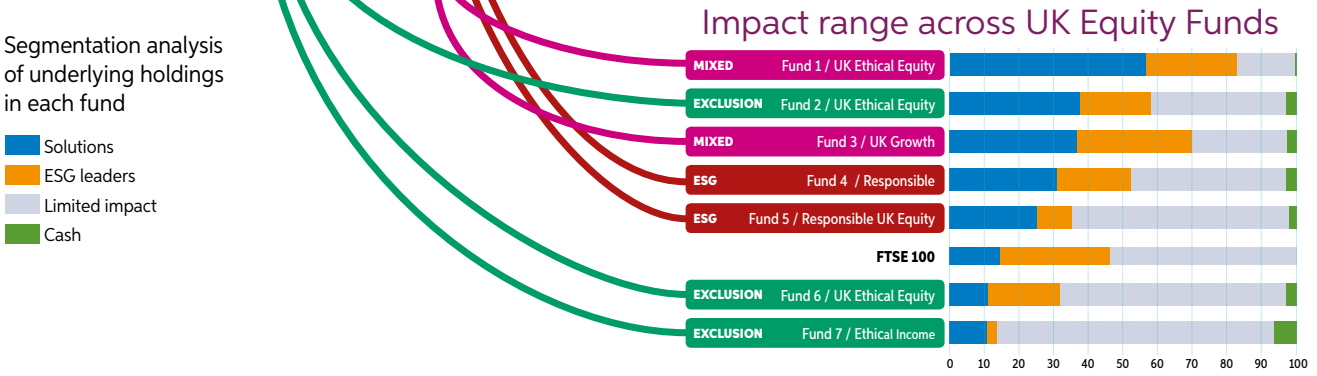
**Figure 4: Comparison of Solutions component of UK Equity funds vs FTSE 100**



# Conclusion



\* This integration of sustainable practices across an organisation's core business may also be termed Corporate Social Responsibility (CSR), although many organisations have a separate (often philanthropic) CSR 'carve-out' that is distinct from their approach to sustainability



This is the first mapping of the UK retail impact investing funds universe and is a tangible output of use to those looking to understand the composition of the impact investing landscape and funds available to UK retail investors. For those involved with portfolio construction and considering where this preference fits in a retail investor proposition, it provides a breakdown of fund numbers and size across impact categories, asset class & regions. We would highlight the following four points:

- Selection of UK Equity impact funds demonstrates significant variance in applying ethical/ impact mandates
- Critical to look through funds to assess potential impact
- All funds generally holding large/mid cap UK stocks
- Impact investment funds are represented across the main asset classes enabling the potential to offer an impact investment portfolio and maintain the benefits of diversification with the ability to mirror a traditional asset allocation model.

This document has given an overview of the key components of the UK retail impact investing funds universe, including the availability, type and concentration of funds across the spectrum of capital. We encourage the reader to use this as a platform to further explore aspects of the market and develop a more detailed understanding of the opportunities that present themselves in this exciting area of investment.

**Worthstone** is the market leading expert on social impact investment for the retail investment adviser. We offer a service to financial planners and wealth managers that includes access to a database of the retail impact investing fund universe and detailed profiles to help advisers identify the most impactful funds.

For further information on the benefits of these services please email [gavin.francis@worthstone.co.uk](mailto:gavin.francis@worthstone.co.uk) or go to [www.worthstone.co.uk](http://www.worthstone.co.uk)

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