



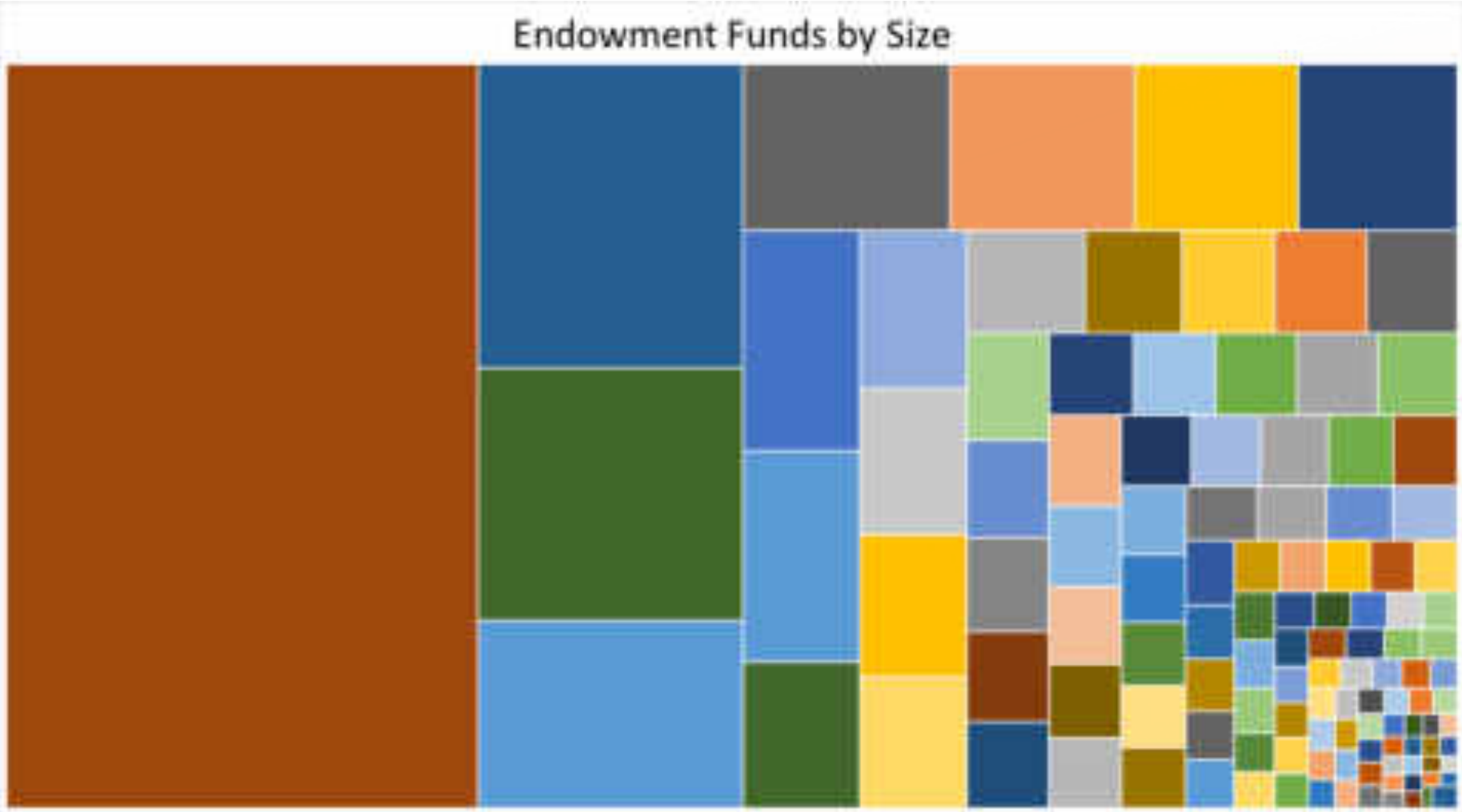
Foundation Scotland
Scotland's Community Foundation

Foundation Scotland's Journey to Impact Investment

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Endowment Landscape - 1



Endowment landscape 2 – Managers and Funds

Holdings by Investment Manager	Value		Number of Funds
Aberdeen Standard Capital Ltd	10.88	0%	1
Brewin Dolphin Ltd	21,009,635.18	41%	8
Carvetian	295,411.00	1%	1
Charles Stanley & Co Ltd	3,929,564.56	8%	3
EQ Investors Limited IMPACT FUND	22,516,247.62	44%	116
Foundation Scotland	8,800.69	0%	1
Rathbones (formerly Speirs and Jeffrey Ltd)	<u>3,350,625.60</u>	7%	<u>5</u>
Totals	<u>51,110,295.53</u>		<u>135</u>

Our Journey

- From traditional to positive social impact investment.
- The journey itself.
- Our portfolio mandate parameters.
- Why EQ Investors.
- Fees and other considerations.

From Traditional to Positive Social Impact Investment



The journey itself

- Asking our external fund managers to consider the role of ESG when investing (early 2019).
- Justifying use of impact funds from an investment performance perspective (late 2019 / early 2020).
- Internal search for one impact fund (early 2020).
- Four impact funds diversion (spring 2020).
- External assistance sought (summer 2020).
- Appointment of EQ Investors (autumn 2020).
- Investment in EQ impact funds portfolio (December 2020).

Why EQ Investors

- Focus on investing with a dual investment performance and social impact purpose.
- Five year record of selecting external impact funds.
- Evidence of in-depth research into underlying funds.
- Proof of active engagement with their selected fund managers.
- Encouragement of new impact fund managers.
- Robust operational systems able to cope with our detailed reporting requirements.
- Reasonable fee for services provided.
- Certified B Corporation status.

Portfolio mandate parameters

Impactful.

No investment performance trade-off.

Equity funds only.

No UK bias desired.

No income requirement, i.e. total return focus.

Fees and other considerations

Fee of proposed impact strategy significantly higher than for previously held mainstream fund.

Given its exclusive equity focus, investment performance likely to be much more volatile. Therefore, long-term horizon by holders essential.

Endowment Fund Holder Experience



Foundation Scotland EQ Positive Impact Portfolios



Maximise impact

Products and services that deliver a measurable social or environmental impact

Maximise returns

For each risk profile

Positive Impact – Investing for the goals



We invest in

- ✓ Financial inclusion
- ✓ Impact enablers
- ✓ Sustainable infrastructure

We avoid

- ✗ Armaments
- ✗ Gambling
- ✗ Political corruption
- ✗ Poor governance

- ✓ Healthcare
- ✓ Education
- ✓ Affordable housing
- ✓ Social care
- ✓ Sanitation
- ✓ Sustainable food

- ✗ Tobacco
- ✗ Alcohol
- ✗ Pornography
- ✗ Human rights abuses
- ✗ Poor labour standards
- ✗ High sugar/fat foods

- ✓ Clean energy
- ✓ Energy efficiency
- ✓ Circular economy
- ✓ Natural resource conservation
- ✓ Sustainable transport

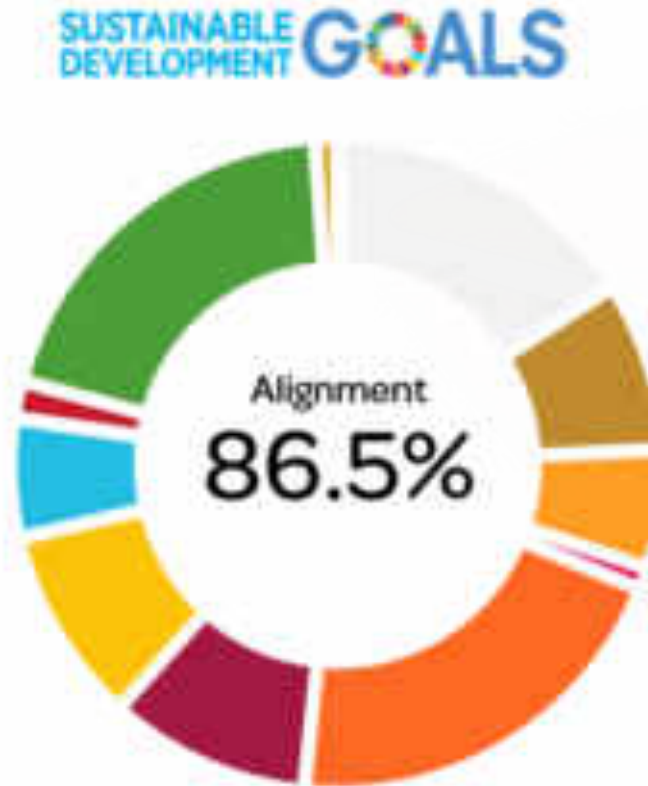
- ✗ Mining
- ✗ Coal
- ✗ Fossil fuel extraction
- ✗ Poor environmental practices

Big picture framework for thinking about impact
\$5-7 trillion needed each year to achieve the goals

UNSDG X-ray

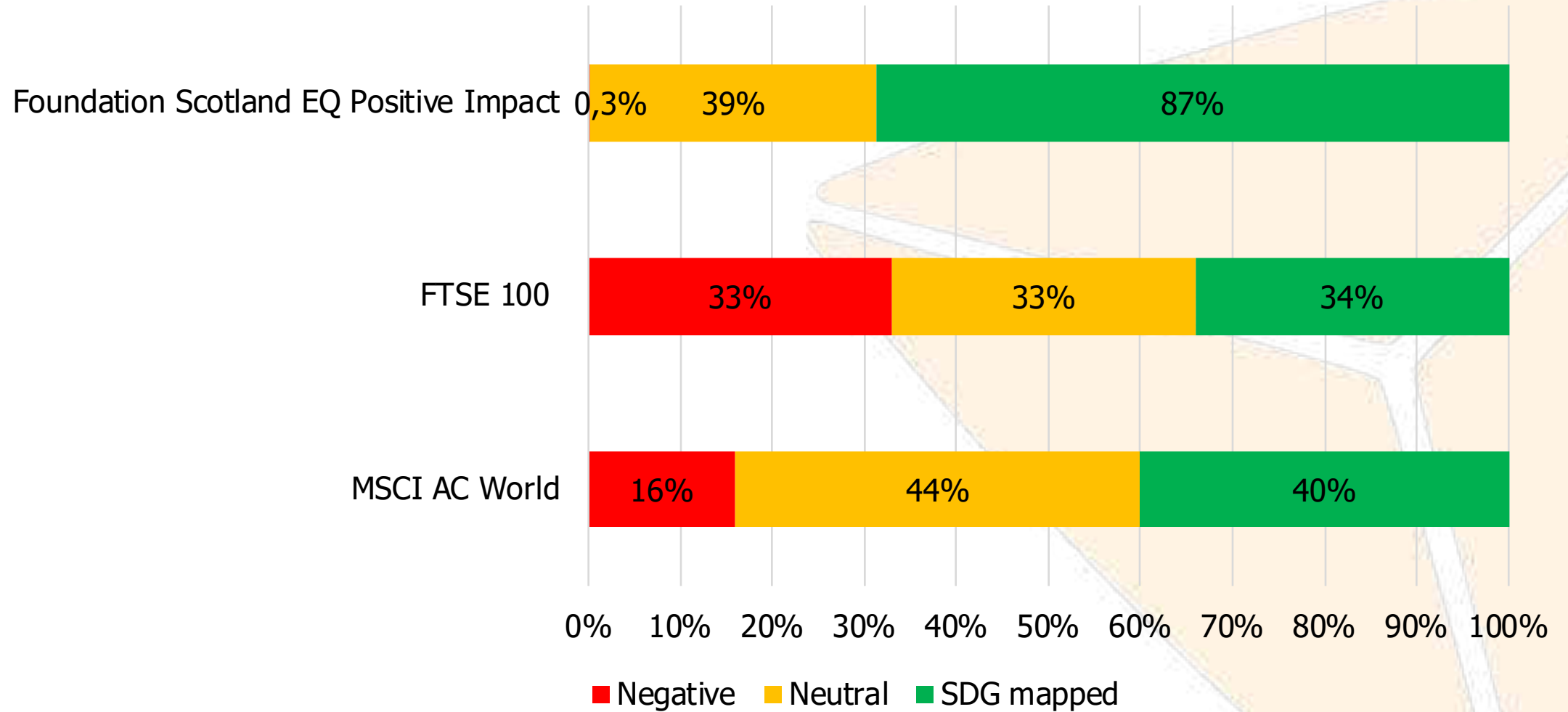
Portfolio alignment with the UN Sustainable Development Goals

1	NO POVERTY	
2	ZERO HUNGER	1.5%
3	GOOD HEALTH & WELL-BEING	21.5%
4	QUALITY EDUCATION	1.1%
5	GENDER EQUALITY	
6	CLEAN WATER & SANITATION	8.4%
7	AFFORDABLE & CLEAN ENERGY	8.7%
8	DECENT WORK & ECONOMIC GROWTH	7.9%
9	INDUSTRIAL INNOVATION & INFRASTRUCTURE	23.2%



10	REDUCED INEQUALITIES	
11	SUSTAINABLE CITIES & COMMUNITIES	4.0%
12	RESPONSIBLE CONSUMPTION & PRODUCTION	10.1%
13	CLIMATE ACTION	
14	LIFE BELOW WATER	0.1%
15	LIFE ON LAND	
16	PEACE, JUSTICE & STRONG INSTITUTIONS	
17	PARTNERSHIP FOR THE GOALS	
	NEUTRAL	13.2%
	NEGATIVE	0.3%

How do EQ compare?

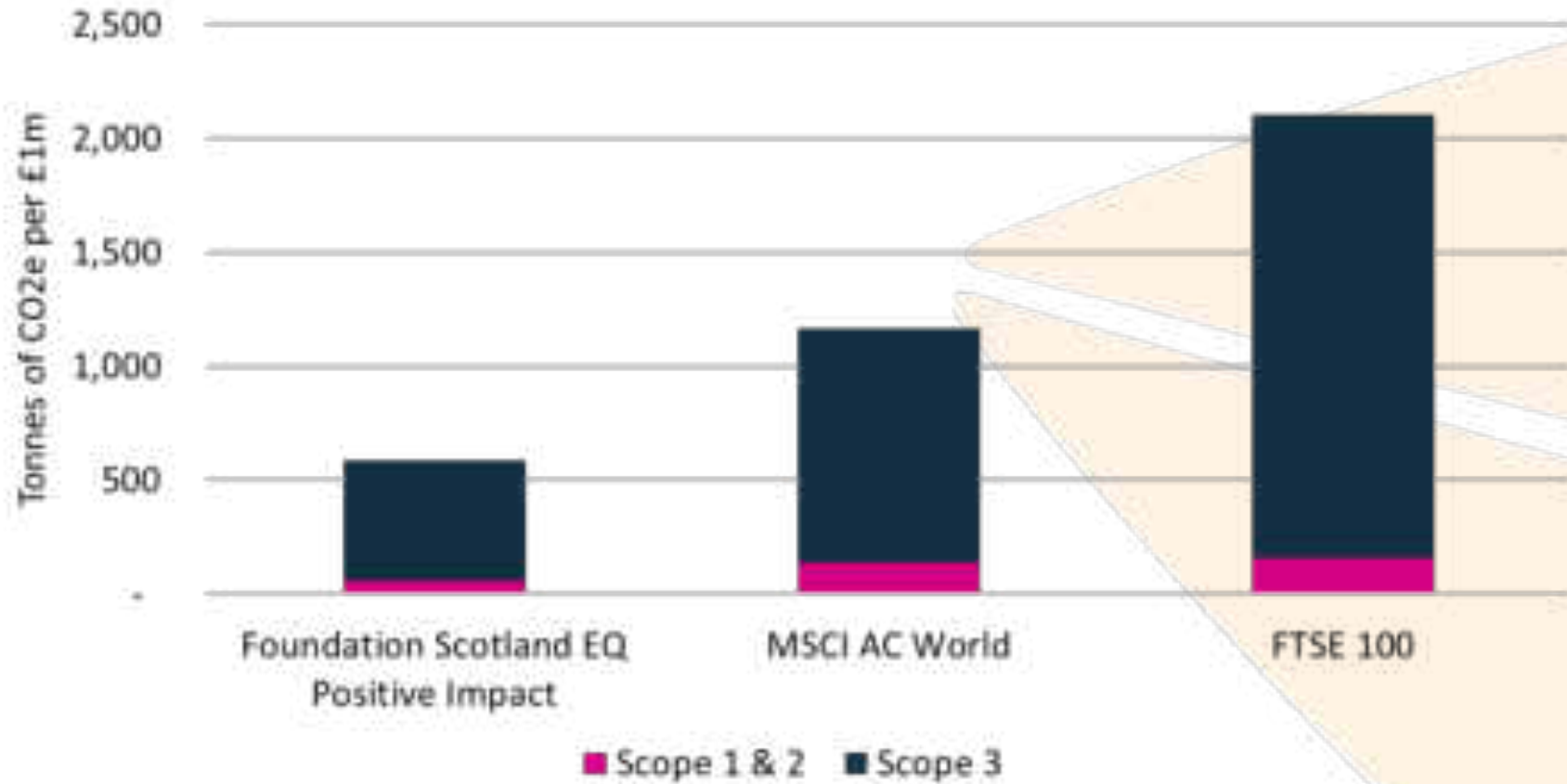


The Impact Achieved

£1 million invested in the Foundation Scotland EQ Positive Impact portfolio during 2020:



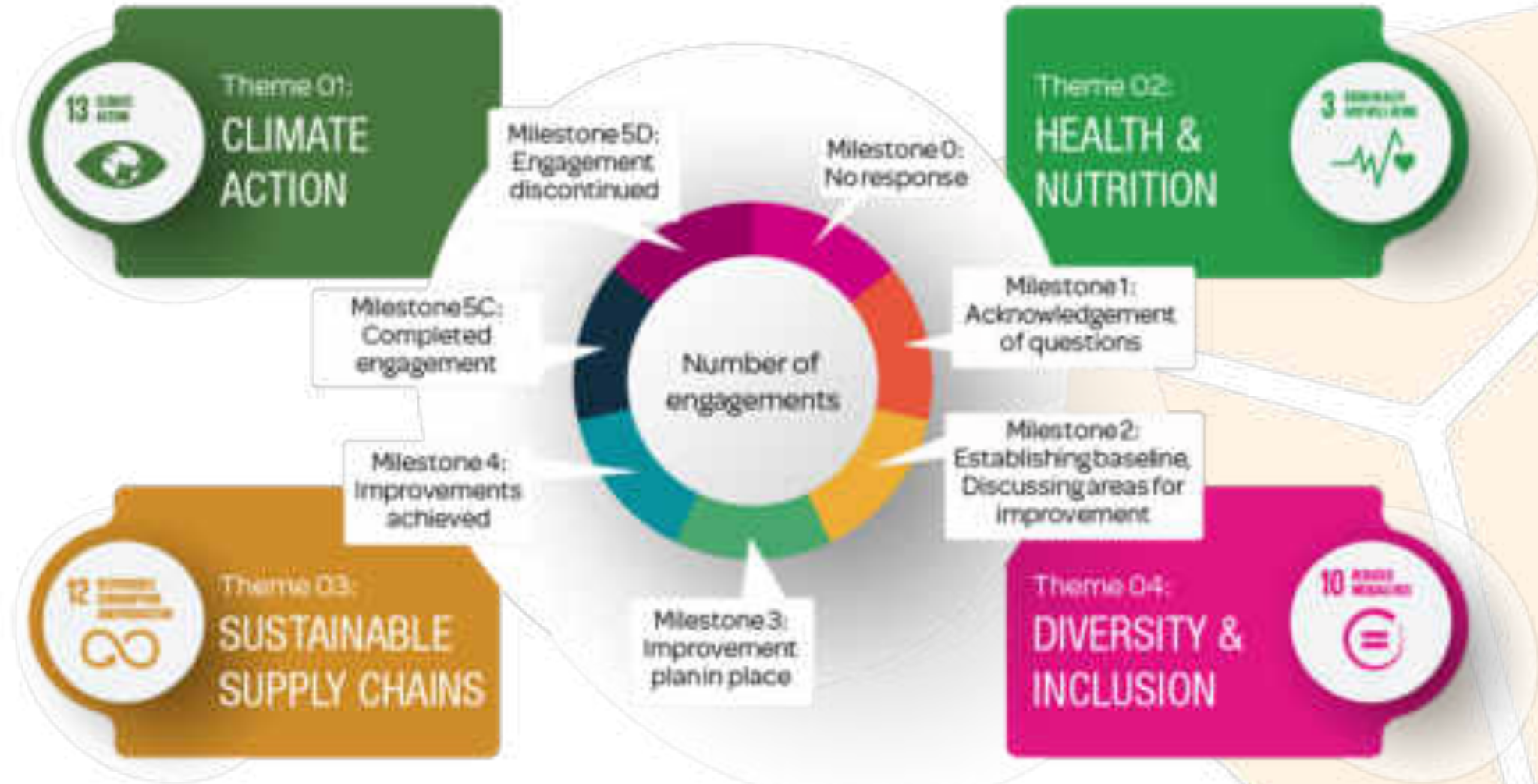
Portfolio carbon analysis



- ✓ 50% less than the MSCI AC World
- ✓ 70% less than the FTSE 100

Source: Urgentem, Dec 2020.

Engagement Activity



Pockets of Expertise



Environmental equity specialists

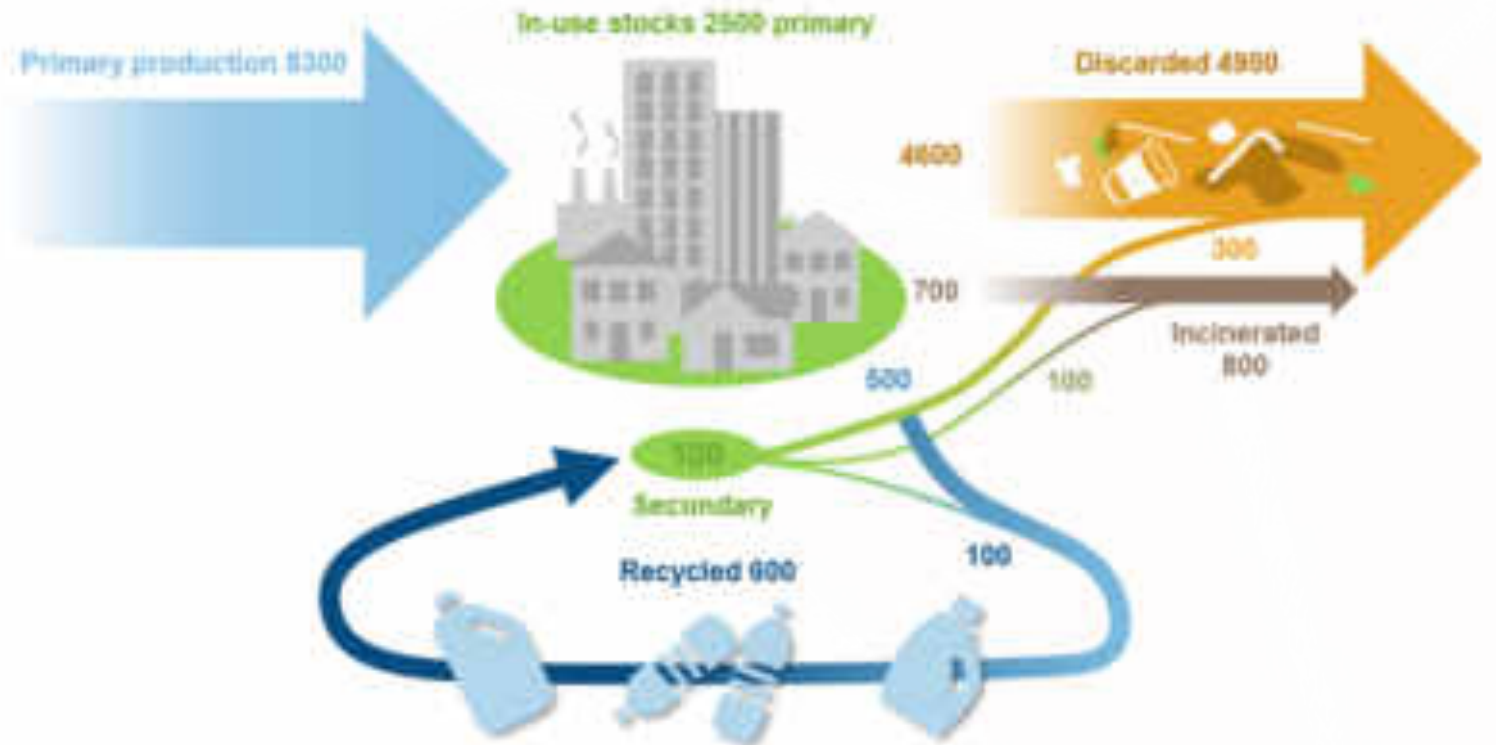


- ✓ Established in 1998 with seed capital from the International Finance Corporation, to invest in businesses solving environmental issues.
- ✓ Experience built across work with businesses from early stage through to listing.
- ✓ Proven track record and robust impact analysis and reporting.

Challenge

Single-use plastics and inefficient collection

(1950 to 2015; in million metric tons)



Current recycling rates are unsustainable

Deposit-return machines to maximise plastic recycling

- ✓ 75% market share of machines globally
- ✓ Well aligned with regulation and provides a proven method to help global plastic problem
- ✓ Other business segments also forward thinking: sorting sensors and food waste reduction



Lessons learnt

You need a champion at Board level and full involvement of those who will be operationalising at the outset.

It takes time, resource and commitment to undertake the research so piggy-back when you can.

Be prepared to adjust any strategy, as it is being developed, to suit the particular investment policy and operational requirements of the organisation.

Our extensive research gave us confidence in the long-term potential of introducing social impact into our investment policy without detracting from investment returns.

Choose your partner carefully – pay as much attention to their systems and reporting as to their performance.

Continuous communication with all stakeholders has certainly paid dividends.

The offering creates communication opportunities – be prepared for the increase in communications traffic!



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Questions and follow-up

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