Alliance Trust Investments

October 2015

Sustainable Future INSIGHTS

IN THIS ISSUE:

Global goals for sustainable development

It's time to change the world

September saw the launch of the Sustainable Development Goals (SDGs) by the UN. The goals are important because they are a globally agreed set of seventeen goals for all humanity for the next 15 years - www.globalgoals.org. They range from ending poverty and hunger, to reducing inequality and providing peace and justice. It is refreshing that development is described in terms other than a simple progression of GDP, because we all know that while the economy and business is important it is not all-encompassing. Nevertheless, the SDGs do recognise the important part that investors and companies have to play.

This fits with the ethos behind the Sustainable Future funds and we see clear parallels between them and our four themes of Climate Change, Sustainable Consumption, Quality of Life, and Resilience. Since the funds launched in 2001, we have held companies that are part of the solution to sustainable development and we highlight a few of these in our 'Five Companies to Watch', on page five.

We believe that companies providing products such as healthcare, energy efficiency, pollution control, and healthy nutrition will be successful and profitable, precisely because they are benefiting society. And that by providing capital to these companies, investors in the Sustainable Future funds are helping to accelerate the transition to a more sustainable economy.

The SDGs also explain why sustainable investing is such a successful investment strategy and we explore this further in our article, 'You do the maths', on page two. As a strategy, sustainable investing invests where the growth will be, not simply where it has been or is today (to paraphrase Wayne Gretsky).

A crucial element of sustainable development is energy and how we move from 80% dependency on fossil fuels over the coming decades. On page three, Rebecca Jones, Deputy Editor at Money Observer, looks to explore why renewable energy firms are set to boom as divestment grows.

In this issue we also highlight our Fund in Focus; the Sustainable Future European Growth Fund, and we include a few best bits from our Sustainable Future Hub from page six onward.

I hope you find this newsletter informative and enlightening. As always, we welcome any comments, suggestions or questions, so please feel free to get in touch.

Peter Michaelis, Head of Equities

Risk Warning

This newsletter is not intended as an investment recommendation and should not be treated as such. Instead it is intended as an example summary of the work we do looking at longer-term changes we anticipate happening in the markets we analyse to inform our investment decisions. This analysis forms only part of what is considered in making an investment decision.

The value of investments and any income from them can fall as well as rise. Your capital is at risk and you may not get back what you originally invested. If you are unsure about an investment decision, please speak to your financial adviser.

The information and opinions expressed in this newsletter represent our view at the date of publication and are subject to change without notice.

General Enquiries: 01382 321 000 **Broker support:** 0808 234 1888
Email: ati@alliancetrust.co.uk **www.alliancetrustinvestments.com**

Alliance Trust Investments

You do the maths...

the Sustainable Future performance really adds up

Peter Michaelis, Head of Equities

It's always been a common myth that sustainable funds underperform; however this myth is slowly being dispelled. A recent report (March 2015) from Morgan Stanley found that there is a positive relationship between corporate investment in sustainability and stock price and operational performance. We are not surprised by this result. We believe strongly that companies which take environmental, social and governance issues seriously are inherently in a better position to prosper than those that don't, because these factors can have a very real effect on the value of a stock.

Morgan Stanley's report focuses on the US market, and found that 64% of sustainable equity mutual funds had equal or higher median returns and equal or lower volatility than traditional funds over seven years. This reinforces our belief and provides evidence that integrating sustainability into the investment process does not hinder performance.

Year on year performance

	End Q3 2014 to end Q3 2015	End Q3 2013 to end Q3 2014	End Q3 2012 to end Q3 2013	End Q3 2011 to end Q3 2012	End Q3 2010 to end Q3 2011
AT SF Absolute Growth Fund	0.0%	3.9%	19.6%	19.1%	-8.1%
AT SF Corporate Bond Fund	2.8%	6.6%	3.4%	15.9%	-3.1%
AT SF European Growth Fund	6.3%	2.3%	23.9%	13.5%	-10.4%
AT SF Global Growth Fund	0.2%	5.9%	19.2%	18.8%	-4.5%
AT SF Managed Fund	3.9%	5.0%	16.9%	16.8%	-5.7%
AT SF UK Growth Fund	11.4%	1.5%	25.6%	18.4%	-5.3%
AT UK Ethical Fund	11.9%	1.0%	28.7%	16.5%	-5.0%

Source: FE, Share class 1, net discrete performance
Past performance is not a guide to future performance

So how do the Alliance Trust Sustainable Future funds compare?

We believe in comparing our funds to mainstream benchmarks – that includes mainstream Investment Association peer groups - in order to present our performance in a clear way, so that we can stand up to our bold claims.

We also take the long-term view. Investing should be done in a responsible way, and that means holding on for the long term. As you will see below, over three and five years the majority of our funds are in the top two quartiles.

Also, in the latest research from Investment Life & Pensions Moneyfacts, ATI's UK Ethical and Sustainable Future UK Growth funds were found to have enjoyed the two strongest performances in the past 12 months (as at July 2015) when compared to other sustainability-focused products, seeing 17.9% growth and 15.7% growth, respectively. The research showed that, overall, ethical/SRI funds beat returns generated by traditional funds in 14 out of the 20 (70%) different investment scenarios surveyed, with the average ethical fund returning 7.8%, compared with 6.5% from the average non-ethical fund, over the period.

Quartile Rankings to 30 September 2015	Peer Groups	1 year	3 years	5 years
Sustainable Future UK Growth	IA UK All Cos	1	2	2
UK Ethical	IA UK All Cos	1	1	2
Sustainable Future Pan European (SICAV)	Pan European Equity Funds	1	1	1
Sustainable Future Managed	IA Mixed 40% - 85% Equities	1	1	1
Sustainable Future Global Growth	IA Global	3	3	2
Sustainable Future Absolute Growth	IA Flexible	2	1	1
Sustainable Future Corporate Bond	IA £ Corporate Bond	3	2	3
Sustainable Future European ex UK	IA Europe ex UK	2	3	2

Please note The Sustainable Future Defensive Managed Fund and The Sustainable Future Cautious Managed Fund were launched in 2014.

Source: Financial Express, as at 30.09.2015
Past performance is not a guide to future performance

So, how is it that investing in companies with fewer impacts on the environment and products which improve quality of life yields better outcomes?

Surely there should be a trade-off between 'being good' and 'making money'?

We believe not. Indeed, companies which are better for society should experience greater support from society, either through buying more of their products or through government regulation or fiscal measures. Conversely, companies operating against the interests of society will face headwinds of regulation and consumer preference.

Of course, this is not the only metric that matters. This sustainability analysis has to be combined with rigorous analysis of business fundamentals and valuation. However, it is an important, and often overlooked, metric in identifying higher quality companies likely to experience strong growth.

Wealth generation for our clients can proceed hand in hand with generating broader sustainable prosperity. This is what the Sustainable Future fund range aims to achieve.

Renewable energy firms set to boom as divestment grows

Rebecca Jones, Deputy Editor, Money Observer

Over the past year divestment has become one of the hottest topics in sustainable investment, as institutions ranging from the governments of Norway and California, to the heirs of the Rockefeller Standard Oil fortune, have removed or pledged to remove huge swathes of money from the fossil fuel industry. According to a recent study by US based impact investment specialist Arabella Advisors, institutions and investors around the world have now pledged to remove a total of $2.6 trillion (£1.7 trillion) from fossil fuels, up from $50 billion in September 2014.

Arguably, even more encouraging is Arabella's finding that of this $2.6 trillion, $786 billion has been committed to investment in climate-friendly alternative energy sources. "Thanks to increasing commitments to invest and a proliferation of fossil free products, more capital is flowing toward climate solutions," claims Arabella in its report. It adds that investment in clean energy reached $310 billion in 2014: the world is now adding more renewable energy capacity than coal, natural gas, and oil combined, and in many places the price of wind and solar is equal to or cheaper than grid electricity (Arabella Advisors, 2015).

Renewable returns

This is good news as, according to scientists at University College London, between two-thirds and four-fifths of existing fossil fuel reserves must remain in the ground in order for the world to stay within a two degrees Celsius rise in global temperatures and avoid catastrophic climate change (Telegraph, 2015). Governments such as Germany, which met 75% of its electricity needs through renewable energy sources in 2014, and Denmark, which more recently generated 140% of its electricity needs through wind power, are leading the way (Guardian, 2015). At the same time hydropower is being increasingly considered in emerging nations such as Nepal, Indonesia and Cameroon.

"In terms of investment returns, renewable energy companies are also beginning to outperform oil and gas producers significantly."

The FTSE ET50 index, which tracks the performance of the 50 largest environmental technology companies in the world, has returned 54.4% over the three years to 31 August. This compares to a loss of nearly 10% from the MSCI World Energy index (Financial Express, 2015), which tracks the performance of traditional energy companies including Exxon Mobil, Royal Dutch Shell and BP, over the same period. While this is largely due to the spectacular tumble in the price of oil over the past year, as the direction of nations such as Germany and Denmark indicates, the trend looks set to continue.

Surmountable challenges

Unfortunately, not all is rosy is the garden of renewable energy, as many governments are not encouraging its development. The UK has made a particularly retrograde step here, with the Chancellor of the Exchequer, George Osborne, recently scrapping the Climate Change Levy exemption for renewable energy firms, which has severely harmed the industry and angered investors (Money Observer, 2015). A number of high-profile figures and institutions have also refused to divest from fossil fuels, including Harvard and Oxford universities and Microsoft billionaire Bill Gates.

Encouragingly, however, even among those who are not yet prepared to sacrifice short-term investment returns or – as in the case of the UK – foreign direct investment in nuclear power to protect the environment, there is recognition of change. For example, despite his non-divestment stance, Gates has pledged to invest $2 billion into renewable energy, while Harvard has launched a $20 million Climate Change Solutions Fund to spur research and innovation addressing climate change (Arabella Advisors, 2015) . Thus, while the oil and gas industry is in no short-term danger of collapse, the investment tide appears to be turning.

Rebecca Jones is Deputy Editor at Money Observer where she focuses on investment, economics and business news. Previous to that she was a staff journalist at Professional Adviser and What Investment. Rebecca has a first-class honours degree in English Literature from Queen Mary University of London and was recently short listed for Headline Money Investment Journalist of the Year 2015.

For a full list of references please visit our Sustainable Future Hub - http://www.alliancetrustinvestments.com/sri-hub/

Fund in focus: The Alliance Trust Sustainable Future European Growth Fund

Neil Brown,
Investment Manager

Peter Michaelis,
Head of Equities

Fund aim

- Long-term capital growth, investing in the shares of a broad range of European companies based on the Fund manager's view of their long-term return prospects. It will invest only in companies that meet our rules for environmental and social responsibility.

Why should I buy?

- Leading investment approach identifies companies that improve quality of life or reduce environmental impacts
- The Fund gives exposure to some of the world's leading sustainable companies in areas ranging from healthcare and healthy eating to pollution control and clean technology. A diversified portfolio across our themes, in this recovering economic region
- Process benefits from constructive dialogue with companies via active voting and engagement programmes

Launch Date: 19 February 2001
Fund Size: £131.3m as at 31/08/2015
No. Stocks: 40-60*
IMA Sector: Flexible Investment

* Please read the **fund factsheet** for the actual number of stocks held at the most recent quarter end.

Outlook

- The EU is slowly recovering after almost a decade of stagnation - this will support domestic demand for products and services that improve quality of life
- We see strong growth prospects for healthy eating, environmental technologies, healthcare and energy efficiency
- Europe has some of the toughest environmental regulation in the world, meaning that European companies have a global competitive advantage in this area

For further information about the Fund visit the Fund Centre on our website www.alliancetrustinvestments.com. Read on to find out why sustainable stocks can generate stronger returns.

The Fund has holdings which are denominated in currencies other than Sterling and may be affected by movements in exchange rates. Consequently the value of an investment may rise or fall in line with the exchange rates. Investments in emerging markets may involve a higher element of risk due to less well regulated markets and political and economic instability. The Fund can invest in derivatives. Derivatives are used to protect against currencies, credit and interests rates move or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions.

Five companies to watch in the Sustainable Future funds

Mike Appleby, Investment Manager

Below are five companies the team has identified which demonstrate our investment philosophy in practice. This is not a recommendation to buy or sell.

1 Acuity Brands Inc (B3)

Light Emitting Diode (LED) lighting cuts electricity bills by around 85%. They do not overheat, thus are perfect in temperature controlled environments (e.g. freezers in supermarkets), and last much longer, cutting the need for expensive maintenance (e.g. the signal at the top of a telecom mast). Acuity designs, produces and distributes a full range of indoor and outdoor lighting and control systems. It understood the LED opportunity and positioned itself away from the commoditised segment by focusing on the high quality and specification segment. It is now the US lighting market leader, with very good and diversified access to the market.

2 Cambian Group PLC (A2)

The company runs a facility in Lambeth that treats adults with complex behavioural difficulties. The company provides effective (in terms of patient outcomes) as well as cost effective care and rehabilitation for adult mental health and care for children with learning difficulties. We were impressed by its high success rate where 87% of patients do not relapse and its very proactive management approach. We believe these two aspects are closely linked. The company is held in our UK funds and is linked to our Quality of life investment theme.

3 Enel Green Power SpA (A3)

The company is dedicated to the development and management of power generation from renewable sources. It has operations in developed markets as well as some developing countries where renewables are particularly well suited. These include countries where there is not enough installed power, in growing populations where renewable resources are good (sunny or windy) and where many alternatives can be uneconomic. We believe renewables are set to benefit from continued demand as they substitute more carbon intensive traditional fossil fuel alternatives, particularly coal.

4 Chipotle Mexican Grill Inc (C3)

Within the restaurant space there is a trend towards fast casual; higher quality but still quick service food. Millennials care about the sources and health credentials of their food and we believe Chipotle's product focus on sustainably raised meats (non-intensive farming) and freshly prepared healthy foods is a positive. On the management side, its training and career development is exceptional and the company has excellent principles around supplier farming practices. Its firm stance on this was demonstrated with the recent suspension of a supplier for not meeting its standards.

5 Under Armour Inc (B4)

A US based sports brand, established in 1996 by a college football player called Kevin Plank. Kevin was unhappy with the quality of his cotton football t-shirts and decided to found his own company, designing moisture-wicking performance t-shirts. Over 19 years the company has grown its turnover from $17,000 to $3bn in 2014 and now designs, manufactures and sells a broad range of products from football boots and compression tops, to basketball trainers and shorts. Under Armour is focused on performance sportswear, enabling people of all levels of ability to become more active and improve their health and wellbeing. The company has ambitious growth targets and is taking significant market share in many regions.

How we identify sustainable companies

Our comprehensive 'Sustainability Matrix' helps us to pinpoint how well a company responds to our sustainability criteria and applies two evaluative criteria:

1. A product sustainability rating (rated from A to E): this assesses the extent to which a company's core business (the products or services it offers), helps or harms society and/or the environment. An 'A' rating indicates a company whose products or services provide solutions to sustainable development (e.g. renewable energy); an 'E' rating indicates a conflict with sustainable development (e.g. tobacco business).

2. A management quality rating (rated from 1 to 5): this assesses whether a company has appropriate structures, policies and practices in place for managing its environmental, social and governance risks. Management quality in relation to the impacts and opportunities represented by social, environmental and governance issues are graded from 1 (excellent) to 5 (poor).

Sustainability Matrix

PRODUCT SUSTAINABILITY \ MANAGEMENT QUALITY	1	2	3	4	5
A	✔	✔	✔	✔	✘
B	✔	✔	✔	✔	✘
C	✔	✔	✔	✘	✘
D	✘	✘	✘	✘	✘
E	✘	✘	✘	✘	✘

✔ suitable for investment
✘ not suitable for investment

Please note these companies are held in the Sustainable Future equity funds, but are not necessarily represented in all of the funds. For example, the non-UK listed companies will not be held in the UK fund. A full list of all holdings in the funds is available in our Fund Centre on our website www.alliancetrustinvestments.com

Japan's corporate awakening

Simon Clements, Investment Manager, Global Equities (Published 30 September 2015)

Japan has long been considered the basket case of global corporate governance. For Environmental, Social and Governance (ESG) investors it's been a market which is full of contradictions. The country has, for decades, been a global leader, in terms of energy efficiency and the environment, so the "E" from ESG has been well covered. Social harmony is also an important cultural component of Japanese society, so the "S" tends to do well when assessing Japanese companies. However, corporate governance in Japan has been nothing short of terrible, but that may be changing. A combination of pressure from foreign investors, and Prime Minister Shinzo Abe's desire to implement his third arrow of reform, have seen the initial steps towards a step change in Japan's Corporate Culture. The most encouraging sign is that companies themselves have started making changes to unlock the hidden value in Japanese equities, which has been held back for so long by poor treatment of shareholders.

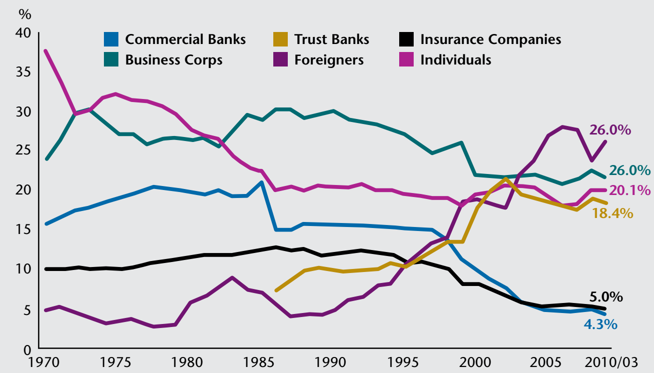
Japan's corporate managers have long viewed shareholders as the least important stakeholder in their businesses. The roots of poor treatment of shareholder's rights go all the way back to the Second World War, where the corporate laws were changed to free up companies to devote themselves to the war effort, without too much interference from shareholders. Since then, the powerful influence of the Japanese business lobby known as the "Keidanren" has held sway over the Ministry of Economy, Trade and Industry (METI), which has been responsible for corporate governance reform. The result has been a system which is not up to scratch for the modern global investor.

"Things are beginning to change now for the better, with pressure for change coming from multiple fronts."

Prime Minister Shinzo Abe's "third arrow" is structural reforms and one of the key pillars of these reforms is making the Japanese corporate sector more competitive. As part of his "Abenomics", the government has created the first ever corporate governance code. This was based on the UK Stewardship code, and encourages institutional shareholders to act and vote as owners of the business. It is effectively a set of principles which empowers shareholders to engage, a step change from history, where shareholders were expected to be passive passengers and supporters of management's decisions. Whilst signing the code is voluntary, it is telling that 191 companies had signed up by June this year, indicating a collective acceptance on the part of much of corporate Japan that the system needs to adapt and improve.

Foreign investors have been quick to act on the new Stewardship Code. Proxy voting giant ISS, which advises a large share of the vote for much of the Japanese market's foreign investors, recently announced it would vote against executives that fail a 5% Return on Equity (ROE) hurdle. This would entail voting against a quarter of Japan's 2,100 listed companies. Some large domestic Japanese institutional shareholders such as Nippon Life, are following ISS's lead and adopting the same policy. Shareholders (as seen in figure 1 below) are beginning to ensure their voice is heard, and the impact upon governance in Japan could be important.

Figure 1: Who holds Japans stocks?



Source: Tokyo Stock Exchange

One key issue in Japan is the lack of independent directors. In 2013 nearly half of the listed companies in Japan had no outside directors, lagging behind even those of many emerging markets. Shareholders have long been considered the least important of the stakeholders in a company, ranking well below management and employees. Seats on the board of Japanese companies have been considered a reward for loyal, long serving employees, and outsiders' opinions were not considered important. This fosters a culture which lacks dynamism, and sows the seeds for issues such as the Olympus scandal a few years ago. This does, however, also appear to be changing (as seen in figure 2 overleaf). An amendment to the Companies Act requires companies to "comply or explain", to the requirement to appoint at least one independent director. This is still a far cry from best practice in the West, where the expectation is that the majority of the board should be independent. Nonetheless, it's still another step in the right direction.

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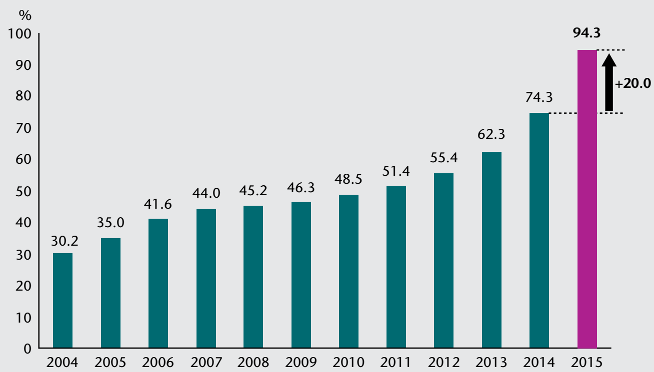
Best bits from the SF Hub

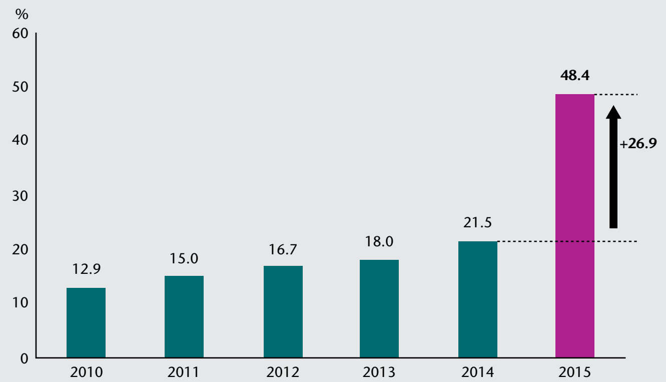
Japan's corporate awakening continued

Figure 2: % of Japanese listed companies with at least 1 independent director



Source: Tokyo Stock Exchange

Figure 3: % of Japanese companies with at least 2 independent directors



Source: Tokyo Stock Exchange

The Corporate Governance Code, or the Code for short, is another change that has been implemented in Japan. It has a variety of different aspects, designed to improve the quality of governance for Japanese companies and improve shareholder returns. It goes further than the Companies Act, in stating companies should appoint at least two independent directors, as seen in figure 3 opposite. It also requires management to set out a basic strategy for Capital Policy. This is an important factor, given low returns for the business (tackled through ROE targeting) and even lower returns for shareholders, which have been key detractors from Japanese share price performance over the last ten years. Part of the issue with capital policy in Japan is related to the problems the banking sector had during the "lost decade" in the 90s, where banks were unable to lend. Companies had to stockpile cash to ensure they could fund the company's needs, and despite having a banking sector that is open for business again, companies have been slow to allow shareholders to participate in the creation of cash flow by the company.

The Code also addresses another thorny issue for investors, that of cross-shareholdings. It requires management to disclose their policy on cross-shareholdings and examine the economic rationale. The truth is, economic rationale rarely exists for cross shareholdings, they are designed to strengthen alliances with other companies, and to help each other fend off interference from both potential acquirers and shareholders. It remains a hindrance to effective governance and a poor use of capital, and it is an important hurdle for corporate Japan to overcome and address. It is also a difficult strategy for management to justify and rationalise, as the Code now requires them to do.

The last angle by which the Japanese authorities are aiming to improve governance and corporate behaviour is the creation of

Continued overleaf >>

Best bits from the SF Hub

Japan's corporate awakening continued

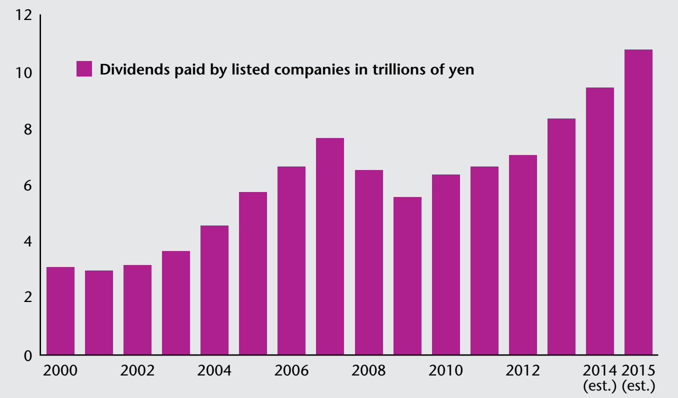
the JPX-Nikkei 400 index. This has been created by the Japanese stock exchange, and it selects the best 400 companies in Japan, according to those that are the most shareholder-friendly. It uses measures such as ROE, in order to incentivise companies to improve shareholder returns (as seen in figure 4) and it also scores companies based on governance factors, such as the existence of at least two independent directors. The Japanese Government Pension Fund (GPIF) announced last year that it was going to include an allocation to the JPX 400 ETF as part of its asset allocation mix. The index creates a reward for those companies which have better governance, and creates an incentive for those with weaker governance, to improve and gain inclusion in the index.

The measures discussed are both far-reaching and well-targeted, in terms of dealing with the endemic problem of Japan's poor corporate governance. Corporate governance reform and enforcement has been taken out of the hands of the METI, which is heavily influenced by the Keidanren, and now sits with the regulator. For there to be real change, the companies themselves need to embrace these changes, and strive to become more open and shareholder friendly. There is pressure for change, both from the government and from shareholders, but companies need to embrace this change. The early indications are very positive, with companies across the board beginning to take the required steps. Much more needs to be done; board structures and shareholders' rights are still a long way from where they need to be. The parallel probably best reflects the German and French governance systems in the early 2000s, where reform led to years of strong performance. Global investors and Shinzo Abe are both looking for Japan to follow the same path.

References

- UBS Q-Series: Kakusei: Is Corporate Japan Awakening?
- CLSA Benthos: Run Fatboy Run
- The Wall Street Joural: Japan Seeks to Lure Investors with Improved Corporate Governance June 37th, 2014

Figure 4: dividends are rising in Japan



Source: Nomura Securities

Volkswagen's **"Diesels Dupe"**

Alex Werbowy, Investment Manager (Published 29 September 2015)

Markets and consumers were left reeling when the US Environmental Protection Agency accused German carmaker Volkswagen of using a device to cheat emissions tests on diesel cars, leading VW to admit it had found "emissions discrepancies" in 11 million diesel cars. Scandalous as this appears, the impact will be much more real as the reputational damage done to a brand at the heart of German manufacturing, spreads to the country as a whole. It is concerning that BMW and Volvo have also been dragged into the scandal. The auto industry accounts for roughly 20% of Germany's exports, and employs 775,000 people. Investors with European funds could suffer from the share price fallout which has seen VW's share price fall by 28% in the last week (Factset, 2015).

The silver lining of what's rather a dark cloud is that the lessons learnt should result in better enforcement of, and adherence to, emissions regulations globally, and more responsible behaviour from the world's largest motor manufacturers.

Within our Sustainable Future funds, we do not hold any car motor manufacturers. We have preferred to invest in companies that support the sector. We expect that the relentless downward pressure on vehicle emissions should benefit companies such as Johnson Matthey, which is one of the ways in which the portfolios gain exposure to the sector.

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So you want your investments **to be fossil fuel free?**

Peter Michaelis, Head of Equities and Julius Huttunen, Investment Analyst
(Published 18 September 2015)

Peter Michaelis,
Head of Equities

Julius Huttunen,
Investment Analyst

The 'Fossil Free' movement calls for asset owners to end support for the fossil fuel industry by freezing new investment in fossil fuels (starting with coal and tar sands) and within five years, to sell any positions in public equities or corporate bonds. The investment rationale for this is very well articulated in the analysis by Carbon Tracker which concludes that if we are to stay below 2°C of global warming, 80% of known fossil fuel reserves need to stay in the ground.

At Alliance Trust Investments (ATI) we believe there is more that can be done, and in our Sustainable Future funds we have a three-pronged approach:

1) Avoid investment in coal, oil, tar sands and unconventional natural gas
2) Aim for a low exposure to carbon risk throughout the portfolio
3) Invest in companies helping to accelerate the decarbonisation of our economies

Furthermore, as we approach the UN Climate Change Conference, COP21, to be held in Paris this December, we believe minimising carbon risk makes sound business sense. At COP21, countries will discuss reduction targets (Intended Nationally Determined Contributions (INDC)) with the objective to reach a legally–binding, universal agreement on carbon reduction targets beyond 2020. We all know that the world needs very aggressive cuts in carbon in order to stay below 2°C. Therefore, we think that this conference can have large implications in the way we price carbon in the future and thus increase the risk of carbon exposure.

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So you want your investments **to be fossil fuel free?** continued

Recent analysis of our portfolios by MSCI ESG shows the benefits of the Sustainable Future funds' approach. For every £1 invested in our funds there are between 60% and 75% less associated carbon emissions than for £1 invested in the benchmark portfolio[1] (as seen in figure 1 opposite).

The research also highlights that between 21% and 34% of each fund is invested in companies offering clean technology solutions under the MSCI ESG methodology. According to the research provider, companies with clean technology solutions generate revenues from one of the following themes: energy efficiency (Kingspan, Schneider Electric), sustainable water, alternative energy (Gamesa, Sunpower, Enel, and Infinis), pollution prevention (Suez, Johnson Matthey, and Pennon) and green building (Crest Nicholson, Berkeley Group).

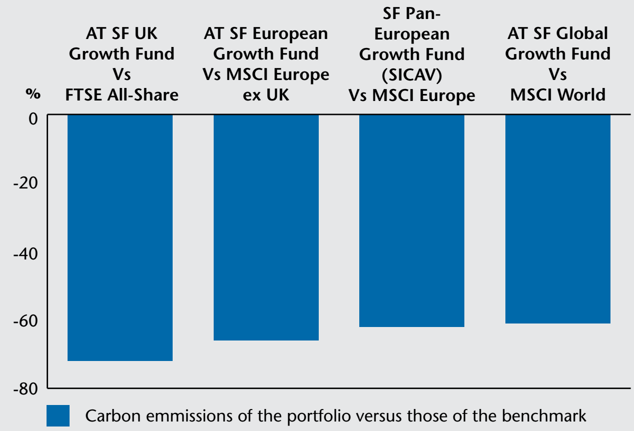
Meanwhile, the funds' direct exposure to fossil fuels ranges from zero to 2.5%. (The only exposure is in a natural gas producer whose product substitutes for coal production – see description of Oil Search below). In addition, these funds do not invest in many industries in the fossil supply chain where carbon risks are high. For example, the funds exclude car manufacturers (except for companies making components to increase fuel efficiency or safety) and exclude airlines.

If you believe, as we do, that our economies need to wean themselves off fossil fuels, then you should want your investments to mitigate the risk of exposure to fossil fuel reserves that will never be burnt, and also to maximise your exposure to companies benefiting from the move to a lower carbon future. We select investments for the Sustainable Future funds with this at the core of our thinking. The results from MSCI clearly demonstrate that the Sustainable Future funds achieve both aims.

It is also worth noting that the Sustainable Future funds have delivered strong investment returns while offering significantly less exposure to carbon risk than the benchmark (you can see our latest performance in the Fund Centre - www.alliancetrustinvestments.com/adviser/fund-centre).

Finally, in providing capital to companies that are leaders in their respective sectors in terms of sustainability and providing climate change solutions, we are promoting a credible pathway to a lower carbon economy – one of the key themes of COP21.

Figure 1: carbon emissions of our funds vs benchmark



Source: Internal, 2015

1 This result is based on MSCI ESG Research carbon analysis on our portfolios using the best possible data available. Carbon data is often subject to scrutiny and we understand that the estimation models are not perfect in the way carbon emissions are modelled, but recognise that they are widely used for the purposes of carbon analysis.

For a full list of references please visit our Sustainable Future Hub - http://www.alliancetrustinvestments.com/sri-hub

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Best bits from the SF Hub

Companies benefiting from the 'fossil-free' movement:

Kingspan derives 87% of revenues under the energy efficiency solutions by providing the most efficient building materials such as insulated panels and boards, access floors, timber and steel frame solutions in addition to environmental renewable fuel, water and hot water systems. We think Kingspan's products have relatively low environmental impact which is well managed through good product lifecycle assessment. The company will greatly benefit from energy saving and CO_2 mitigation potential, while it's well-placed for regulation to tighten even further.

Sunpower derives 100% of revenues under alternative energy solutions by manufacturing and selling high-performance solar power products and solutions. Sunpower is one of the largest global suppliers of integrated solar technology with a core business model that promotes the switch away from fossil fuels to renewable energy. We think the company will greatly benefit from the transition to larger scale renewable energy and providing solutions to help its customers reduce their environmental impact. The company is also looking to improve photovoltaic recycling technology, as solar cells have a significant environmental impact.

Suez Environnement derives 74% of revenues from pollution prevention solutions by offering equipment and services for drinkable water and waste collection and treatment, including water collection, treatment and distribution business in addition to waste collection, recycling and treatment of disposal of urban and industrial waste. The company is well-placed to benefit from pressures for economies to become more efficient in their recycling and re-use of resources, while the water business helps customers to manage and optimise their water cycle and supply better.

Crest Nicholson derives 59% of revenues from green building by developing sustainable housing. The homebuilder thinks its approach to sustainability is a differentiator, which can help it get consent for planning. The company will benefit from a growing UK housing market with a focus on energy efficient, modern affordable housing that improves people's quality of life.

Oil Search is the only exposure to a fossil fuel producer in the funds[2]. However, because it produces conventional natural gas (nearly 100% of reserves) for export to the Chinese market, we conclude that it is helping to offset far greater emissions from coal-fired generation.

2 Oil Search is held only in the Sustainable Future Global and Managed portfolios and is not held in any UK or European Sustainable Future fund.

SUSTAINABLE FUTURE FUND RANGE

We have nine funds in our Sustainable Future fund range - a comprehensive suite encompassing options for those seeking income, growth or a combination of the two from their investment. You can find further information on each fund in the Fund Centre at www.alliancetrustinvestments.com

Aim	Name	Invests in
Growth	Sustainable Future Absolute Growth	Global equities (biased towards the UK)
Income & Growth	Sustainable Future Cautious Managed Fund	Global and UK equity/corporate bonds
Income	Sustainable Future Corporate Bond	Corporate bonds
Income & Growth	Sustainable Future Defensive Managed Fund	Global and UK equity/corporate bonds
Growth	Sustainable Future European Growth	European equities
Growth	Sustainable Future Global Growth	Global equities
Income & Growth	Sustainable Future Managed Fund	Global and UK equity/corporate bonds
Growth	Sustainable Future UK Growth	UK equities
Growth	UK Ethical	UK equities

For further information on what we invest in, please see our document 'Position on Sustainability and Ethical Issues' which is available on our website www.alliancetrustinvestments.com