Heartwood
Investment Management

May 2019

Three-year performance update

Now is the time for sustainable investment

Sustainable investment is the most important financial sector trend in evidence today. Against a backdrop of growing concerns over environmental challenges, social inequalities, and poor corporate practices, we believe investors can make a tangible difference to the world simply by putting their capital to work sustainably. Importantly, they do not need to compromise on their investment goals to do so.

Investing sustainably does not limit portfolio performance

The performance of our Sustainable strategies since inception suggests that taking a responsible approach does not harm performance. Indeed, three-year track records (to 31 March 2019) for our Sustainable Balanced and Sustainable Growth models show performance slightly ahead of our core Balanced and Growth multi asset strategies.

Our sustainable approach works for investors

Three-year performance track record - 31 March 2016 to 31 March 2019

	Model – Balanced Sustainable	Model - Balanced	UK Equity	UK Government Bonds - Conventional
Total Return	23.1%	20.6%	32.8%	11.6%
Maximum drawdown	-8.2%	-8.3%	-14.3%	-9.2%

	Model – Growth Sustainable	Model - Growth	UK Equity	UK Government Bonds - Conventional
Total Return	30.0%	28.0%	32.8%	11.6%
Maximum drawdown	-10.9%	-11.3%	-14.3%	-9.2%

Past performance is not a reliable indicator of future results. Source: Heartwood

Calculation basis: Sterling, total return, net of ongoing charges.

While past results should not be relied upon as a guide for future performance, we have high conviction in the credentials of our robust sustainable approach.

A sustainable approach does not cost more

Just as a sustainable approach can be achieved without compromising on performance, sustainable portfolios can be managed without heightening the risk and cost of underlying investments. This is especially true as the investment space evolves to include ever more cost-effective portfolio building blocks.

Importantly, underlying portfolio holdings can be profitable whilst also being sustainably managed – indeed, one factor can inform the other. There are obvious parallels between prudent corporate behaviour and sustainable principles, and a growing body of evidence suggests that sustainable business practices can create a range of benefits. These could include lower borrowing costs, improved operational performance, and better risk management.

Taken together, this can also have a positive influence on share prices. In addition, for investors, sustainable credentials can offer a sense of assurance in the potential strength and longevity of their underlying portfolio investments.

The sustainable investment space has evolved

The evolution of products available within the sustainable investment universe is increasingly providing a greater range of options, and enabling cost effective solutions for today's sustainable portfolios. While there is still plenty of room for improvement (particularly in areas like 'alternative' assets), sustainable investors have many more choices than when our strategies began just three years ago.

Clear Thinking

> As we increasingly adopt more sustainable behaviours in our everyday life, choosing to invest our capital sustainably is the logical next step.
>
> **Benjamin Matthews**
> Investment Manager

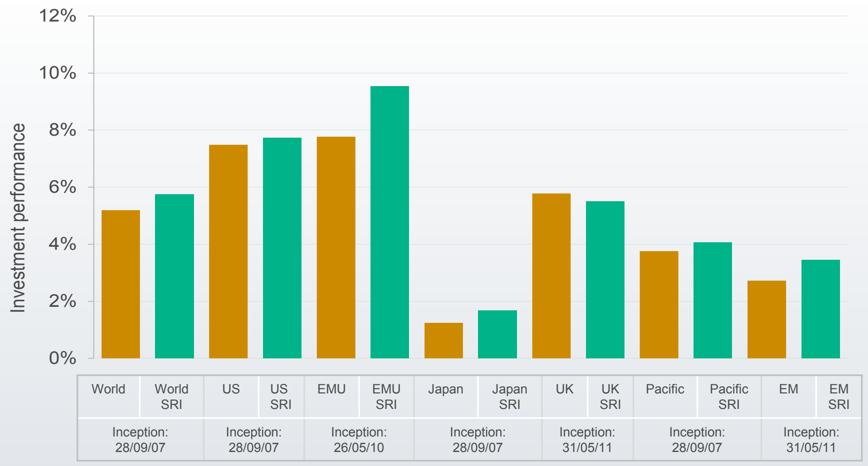
This is a movement which is expanding throughout the industry. The development of passive investment products (designed to track sectors or indices without manager interference) within the sustainable space has been especially important in this drive. These instruments allow us to replicate the cost structure of our original multi asset fund range within our Sustainable strategies.

Sustainable investment is working

Since inception, our Sustainable strategies have demonstrated a similar investment journey to our original multi asset strategies, without the need to sacrifice on performance. In the wider investment space, socially responsible investment indices have tended to reflect this too; since inception, socially responsible indices across the globe have largely outperformed - or performed similarly to - their standard counterparts.

Socially responsible market indices have performed well

Investment performance - absolute returns



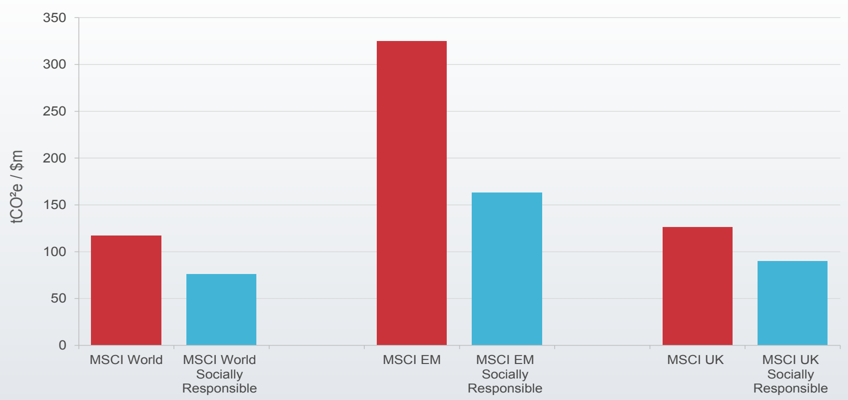
Past performance is not a reliable indicator of future results. Source: MSCI January 2019

There is also an increasing wealth of information to support the notion that sustainable investments are not only working for investors, but are also having their desired effects on society and the planet.

For example, a glance at major investment market indices and their sustainable counterparts demonstrates that the latter create a smaller carbon footprint. The chart below shows that the sets of companies making up socially responsible market indices have markedly lower carbon dioxide levels (measured as tonnes of carbon dioxide equivalent or 'tCO2e') per million dollars of investment than their standard index counterparts.

Socially responsible market indices have shown lower carbon dioxide levels

Tonnes of carbon dioxide (tCO2e) emissions per million dollars invested



Past performance is not a reliable indicator of future results. Source: UBS/MSCI November 2018

Put simply, just by investing sustainably, investors can make a very real and measurable difference to the world around them.

> Sustainable investors stand to gain twice over. First, through robust investment returns; second through the better world they help to create for their own and future generations.
>
> **Matthew Toms**
> Investment Manager

Happily, there is little doubt that sustainable investing has entered the mainstream. For example, the majority of companies in the US S&P 500 Index now report to their shareholders on sustainability issues. As part of a virtuous cycle, investors are able to look more closely at the direct and indirect impacts of their investments. Rightly, in our view, they also increasingly care about the goals to which they've added their capital.

What to look out for in our Sustainable strategies

When we select the holdings for our Sustainable strategies, we make sure they represent genuine sustainable principles.

The Sustainable Development Goals articulated by the UN have led the way in creating a framework for thinking about sustainable values, and we are able to map our strategy positions across these goals.

Mapping our holdings to UN Sustainable Development Goals

Representing genuine sustainable principles in our strategies

Source: United Nations

NextEnergy Solar Fund

What is it?
An investment company investing primarily in solar power plants within the UK.

What are its sustainable credentials?
One of the UN's Sustainable Development Goals focuses on the importance of investing in renewable energy sources, improving energy productivity, and ensuring energy provision for all. NextEnergy invests in renewable energy, supporting the drive towards developing infrastructure and improving technology to enable cleaner, more efficient energy solutions.

How has it performed?
NextEnergy has been among our top performers since the Sustainable strategies' inception, with a total return of over 28% (in the three years to 31 March 2019).

Biopharma Credit

What is it?
An investment trust formed to invest in debt and royalty instruments of life sciences companies.

What are its sustainable credentials?
One of the UN's Sustainable Development Goals is to "ensure healthy lives and promote well-being for all at all ages." Biopharma Credit supports and invests in the life science industry, contributing to medical innovation.

How has it performed?
Biopharma Credit has yet to pay off in performance terms, but is behaving precisely as expected in terms of its impact within the sector. We must remember that not everything succeeds in the short term; this is a long-term theme in which we have long-term conviction.

Contact

To find out more about the Heartwood Sustainable strategies, visit our website or contact your local representative.

About our Sustainable strategies

We provide our clients with four Sustainable strategies, each of which offers a different level of inflation-linked target return according to different risk preferences.

Our strategies are well diversified, with holdings spread across different asset types and global regions. The range also extends across a breadth of sectors and causes, from renewable energy and climate change to health and safety, education, infrastructure and community development.

Accounting for a variety of risk preferences

Our strategies span a spectrum of risk appetites and expected returns

Source: Heartwood

We use an active screening approach to select these potential investments. This not only eliminates exposure to some of the key sectors we know many investors wish to avoid (such as tobacco and gambling) but also identifies investments which score well on environmental, social and governance factors, as well as thematic investments like climate change or renewable energy. We also look for investments that will offer measurable impact, like smart materials and robotics, sustainable agriculture or social housing.

We firmly believe that the time to invest sustainably is here, and are happy to discuss our sustainable approach with any clients considering investing their capital in this way.

Important Information

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Registered Head Office: No.1 Kingsway, London, WC2B 6AN | Registered in England Number: 4132340
020 7045 2600 | heartwoodgroup.co.uk | Part of the Handelsbanken Group