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REDEFINING RESPONSIBLE INVESTMENT AS A SOURCE OF ALPHA

Alquity Investment Management is on a mission to deliver a better approach to investment. As CHRIS WEHBÉ, Global Market Strategist and Chair of the Investment Committee, explains... it's really just good business.

Ask the average money manager for an honest view of "Responsible Investment", "Sustainable Investment" or "Environmental, Social, Governance (ESG)" and you'll get one of two responses.

In the first camp, you'll hear that these are niche markets for investors willing to sacrifice financial returns for ethical considerations; it's "hippy" stuff with no interest or value for real commercialists.

Alternatively, they will acknowledge a trend from some underlying investors for ethical consideration in their portfolios – for example, Norway's USD 860 billion sovereign wealth fund has divested from 49 companies over the last 12 months because of environmental and social issues. They may also say that their firm has signed up to the United Nations Principles for Responsible Investment (UNPRI), which now has USD 45 trillion of assets under management by signatories, up from USD 4 trillion in 2006. However, when it comes to their underlying investment process they will tell you, frankly, there has been little change. Perhaps negative screening to remove some "headline risk" sectors, or lip service during meetings. But, this hasn't become part of their core process, nor have they thought about it too deeply.

These managers are missing a trick.

The Problem with Active Investment

The truth of the active investment world is that very few firms or professionals add real value. Their marketing is a blur of "proprietary models", "deep fundamental analysis" and "decades of experience", but they will struggle to show you clear, logically laid out and repeatable process. A manager should be able to explain precisely how they generate their competitive advantage, leaving you with the certainty that they act predictably and with purpose. By definition, this requires a use of better or alternative information and analysis. So, let me put forward the case we make at Alquity for Environmental, Social, Governance (ESG) investing in this context.

Using ESG to Drive Value

At Alquity we believe that doing good is good business. So, using a rigorous analytical process powered by forward-looking ESG, we only put our investors' money into well run, responsible businesses. These can be huge multinationals or much smaller listed companies. What they all have in common is that they achieve success sustainably: by looking after their people, their communities and our environment.

Let me explain in more detail. A company's financial statements can give a snapshot of the financial health of that company. This is a prerequisite for investment, certainly but, in isolation, it is limited in predictive power. An understanding of the broader industry and business climate then helps to establish trends and whether the backdrop is one of head or tail winds. Finally, an understanding of management, strategy and execution allows a manager to identify value and upside potential. It is at this level that ESG operates.

Take, for example, the observation that the most efficient BMW factory produces just 30g of disposable waste per vehicle manufactured. That's not just an amazing stat – taken relative to the industry it is symptomatic of a highly efficient and well-managed company. Indeed, BMW are market leaders in resource efficiency

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Alquity LIFE CHANGING INVESTMENTS

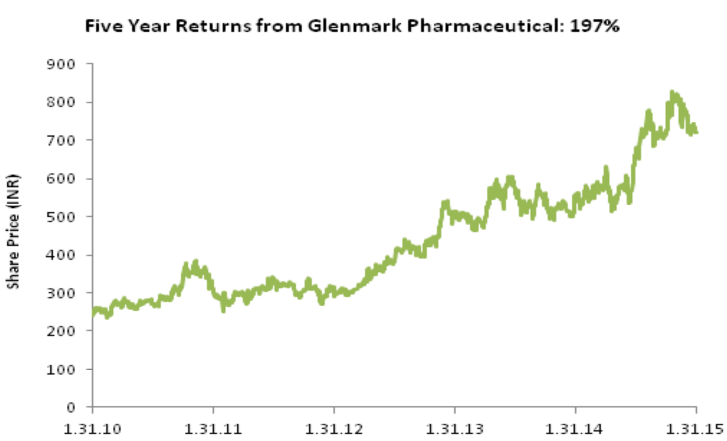
and the company is delivering consistent returns; their share price has outperformed broader European equities by 250% over the last 5 years. In short, strong environmental performance is a proxy for strong management.

Alternatively, consider the case of Abengoa, a Spanish conglomerate that saw its share price drop as much as 70% last year, as investors and ratings agencies established that the company was wrongly accounting for guaranteed debt from subsidiaries as "non-recourse". This misrepresentation had the effect of reducing the headline leverage of the group and its discovery created a panic that future refinancing could be a problem. Arguably, proper governance analysis might have seen this coming. In 2012, the company underwent a complex issue of new shares, which could be seen as having coerced investors into replacing their existing "A" shares for "B" shares with only 1/100th of the voting rights. It certainly didn't look like a company that put minority shareholders front and centre.

Similarly, it has been well documented since the Gulf of Mexico accident that BP's health and safety record was amongst the worst in the industry. In this sense, ESG is not just about value creation, but also about reducing the potential for volatility.

Forward-Looking ESG

Indeed, it is not just absolute standards of ESG - momentum and improvement in these variables will also lead to returns for stakeholders. Consider, Glenmark *(an Indian pharmaceutical company)*. For a long period, management had very aggressive accounting policies for research and development; it was all capitalised on the balance sheet and not expensed. The market woke up to this and the share price collapsed.



Fortunately, management realised that to generate value for themselves they could no longer shoot for quick P&L fixes, but needed to align their interests with external investors. The result, over time, was an evolution to the most conservative reporting standards of the peer group. Accounting policies now reflect R&D going through the P&L, sensible assumptions on depreciation and a high focus on anti-bribery. The share price has responded in kind.

Alternatively, consider Nutresa - a Colombian food and holding company. During the 90s, the firm was called Chocolates Nacionales with a very complex structure, with lots of subsidiaries and cross shareholdings – in short, a conglomerate mess. Management attention was focused on fending off takeovers as opposed to creating shareholder value.

They then began a simplification of the corporate structure, selling non-core assets and focusing on capital allocation resulting in an improvement in their focus on shareholder value. Concurrently, the firm went through a process of setting a vision for themselves to become the leading firm focusing on nutritional added value for their customers while considering all aspects of the product-distribution-customer chain. The firm has received the highest sustainability awards, and is one of only six Latin America firms in the global sustainable index. So, from not focusing on ESG values 15 years ago, to being a core part of their values, it has generated value for all stakeholders.

In short, environmental, social and governance factors offer an alternative, and currently under-considered, insight into the behaviours and standards of a firm. This awareness has such value because it helps judge the real dynamics of a business, not the static, backward looking story.

Integrating ESG

So, how to formalise these observations into a monetisable strategy? Firstly, ESG must be fully integrated into the investment process – not a peripheral screening but a fundamental way of thinking. It should be forward-looking, understanding where a firm is going, not just where it has been. In turn, managers need to show strategic engagement, pushing for change and learning with company management. In fact, learning is key – the approach systematic but constantly evolving – each useful experience added to the process going forward.

There are very few clear sources of informational advantage in financial markets, but ESG is one. Investors should embrace their ethics – it might just make them money.

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Transforming Lives: Meet Augustina Abagumbire, sole breadwinner for a family of seven and a successful entrepreneur who has built her sewing business using a microloan from Alquity.

Squaring the Virtuous Circle

Alquity founder and CEO, Paul Robinson, has always been an entrepreneur. He ran his first venture – a small software business – at the age of 15 and spent 20 years building successful ventures in the financial services and fund management sector globally. He is also a keen 'social entrepreneur', having helped build Global Ethics, an ethical goods company operating businesses under the One Brand, where 100% of the profit is given to charitable causes. Through selling bottled water in UK supermarkets, One has donated over $20m in the last 10 years to give more than two million people clean drinking water.

In Alquity, Paul and his global team have built a different kind of investment business that brings together both his expertise in business and finance, as well as his deep belief in a world where everyone has an opportunity to succeed. Alquity manages a range of daily dealing Emerging and Frontier UCITS funds. However, as Paul explains, the approach taken by the Alquity team allows the best elements of business and investment to combine with the best aspects of responsibility and philanthropy to make a powerful cocktail, offering clients better returns, communities a better future – and advisors a strong and compelling message to build a larger and stronger client base.

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"Did you know that 80% of ultra high net worth (UHNW) investors under the age of 40 want to invest responsibly? These are most businesses' favoured and future clients. Yet this market is massively underserved.

At Alquity, we believe that for too long, investment has been about grabbing a quick profit, while giving nothing back. We are here to change that, for good. Our mission is to transform how people invest, to achieve great returns while creating a better, fairer world for all. We base our approach on a 'Virtuous Circle' (see illustration on right) with three key pillars: a focus on Attractive Returns, alongside Responsible Investment, and a powerful commitment to Transforming Lives.

***Attractive Returns:** All the evidence shows that backing well-managed, responsible businesses in high growth regions delivers better returns in the long run. Investing for good isn't about sacrificing profits for principles. We're happy to be judged on how our funds perform.*

***Responsible Investment:** At Alquity we believe that doing good is good business. So, using a rigorous analytical process powered by forward-looking ESG, we only put our investors' money into well-run, responsible businesses. These can be huge multinationals or much smaller listed companies. What they all have in common is that they achieve success sustainably: by looking after their people, their communities and our environment.*

***Transforming Lives:** We believe that everyone deserves an equal opportunity to succeed. So, wherever in the world we pursue profit, we put something back, by donating up to 25% of our fee revenue to support local entrepreneurs in getting small businesses off the ground. As the donation comes from Alquity's fees, investors still get their full return. Transforming lives in this way doesn't just feel good; it's good for our investors – because, over time, giving a boost to local economies where we invest is sure to have a positive effect on how our funds perform.*

Our approach is all about delivering great investment returns. But, it is also about creating a fairer world for all, where everyone has an opportunity to succeed. We deliver great returns by not being benchmarked and by picking great companies. ESG helps us understand the character of the companies and management better and therefore mitigates risk. Then putting back helps build economies and communities futures. And, there is a market for this. Some 78% of Millennials want all their investments to be in Responsible Investments.

Those high net worth and ultra high net worth (UHNW) clients that I mentioned earlier often go down the route of traditional philanthropy. Philanthropy is great, of course. But, remember that a grant is an investment with a minus

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100% return. If UHNW clients want to find innovative ways to give – wouldn't they love to have their cake and eat it by getting great returns whilst putting something back?"

Alquity has a selection of five funds available to investors, covering the world's high-growth markets. The Alquity Africa, Asia, Indian Subcontinent, Latin America and Future World Funds all follow our innovative investment model, committed to delivering attractive, long-term returns to investors. To find out more about Alquity's range of funds, our people and our investment approach, please go to our website: www.alquity.com

PAUL ROBINSON

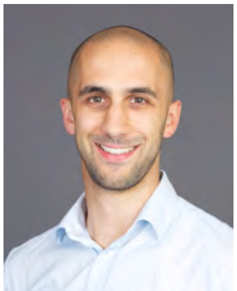
ALQUITY Founder & CEO

Paul passionately believes in a business model that sees companies interacting more closely with society to create real beneficial change, by ensuring everyone gets sufficient support to be able to make a positive contribution to their economic well being.

Paul has spent the last 20 years building businesses, mainly within the financial services and fund management sector globally, living in Asia for 10 years. He has founded and led fund management businesses since 1999, initiating development and change through building experienced teams. These businesses have ranged from traditional fund management businesses, to private equity funds that have commercialised UK Ministry of Defence Research IP. In between building businesses Paul has spent considerable time in Africa and in getting to know and understand the needs of developing communities. This has included spending time volunteer teaching in Tanzania and spending time with the Masai in their villages.

Paul is a keen social entrepreneur, having funded and helped build Global Ethics, an ethical goods company operating businesses under the One Brand, where 100% of the profit is given to charitable causes. Since 2005 they have donated over £10m and transformed more than 2 million lives. Paul realised that this model could be taken across to the fund management arena, where his career started, and he is now focused on building Alquity and its unique business model.

Alquity is already making an impact in the investment space. Its model is based on a Virtuous Circle which delivers attractive investment returns, enhanced by focusing on companies who respect Environmental, Social and Governance issues, and then builds up the economies from the grass roots by donating up to 25% of fee revenue to support microfinance projects and create jobs. So as well as delivering compelling returns to investors Alquity has also transformed more than 12,000 lives through its revenue donations to microfinance projects. With the launch of 4 new funds in 2014 Alquity is taking its innovative model global.



CHRIS WEHBÉ

Chair of Investment Committee & Global Market Strategist

Having been a Non-Executive Director at Alquity for 4 years, Chris is currently the Global Market Strategist and Chair of the Investment Committee.

Following a Masters in Quantitative Finance at Bocconi University in Milan, Chris started his career at Lehman Brothers as a Convertible Bond trader. In 2007, he joined Arrowgrass Capital Partners at its inception as a spin-out from Deutsche Bank. In his time with the firm he was a Senior Partner and Global Head of Relative Value, overseeing credit, capital structure, convertible bond, macro and volatility strategies for the multi-billion dollar multi-strategy firm.

In January 2014, Chris retired from full time portfolio management to pursue academic interests in the form of postgraduate research in Economics at Oxford University. Chris has spoken extensively on topics ranging from volatility and tail hedging to macro strategy, both at investor conferences and academic institutions including Harvard, Bocconi, Oxford and London Business School.

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